



IRAQ OIL REPORT

10 YEARS OF INFORMING, ENGAGING AND EMPOWERING STAKEHOLDERS IN IRAQ | APRIL 2018



Workers at drilling rig No. 7 at the East Baghdad oil field on June 5, 2012.

Q&A: SOMO Director General Alaa al-Yassiri

Iraq's oil exports chief discusses Baghdad-Ankara-KRG oil negotiations and the possibility of a third grade of Basra crude.

What is the expected export average for 2018?

Currently, the real figure up to date, for the first two months, let me give you the exact accurate figure -- 3.459 [million bpd].

This issue depends on Ceyhan. The figure I just mention was from the south, Basra. If Ceyhan resumes, we have bigger export capacity, depending on the resuming of the work related to our deal with Iran.

The expected figure from Basra, south only, the average will be 3.6 [million bpd]. We have an amount available for exports from Kirkuk, about 250,000, ready for exports.

Do you think that the growth of the exports will put Iraq out of compliance with the OPEC quota agreement?

The OPEC commitment is related to the production, not to exports. We don't have any increase in the production. We have

see AL-YASSIRI, **page 4**

INSIDE

Zubair field set to kick off year-on-year growth 2

Parliament re-establishes Iraq National Oil Company 8

Q&A: Ibrahim Bahralolom, MP and former oil minister 10

ZhenHua expands China's role in Iraq's oil sector

The Chinese state-owned company is looking to form an oil trading joint venture with SOMO and develop the East Baghdad oil field.

The China ZhenHua Oil Company, a subsidiary of state-owned arms manufacturer Norinco, is poised to make two new investments in Iraq's oil sector.

The company is forming a new oil trading joint venture with the State Oil Marketing Organization (SOMO) and is negotiating the upstream development of the East Baghdad oil field.

The new deals would further enmesh China and its various state companies in the production and sale of Iraq's oil. ZhenHua is already working in the Ahdab oil field, in a joint venture with the China National Petroleum Corp. (CNPC), which is itself invested in several other major projects in Iraq.

see ZHENHUA, **page 6**

**NINEVEH
REFINERY**



DELIVERING THE FUELS THAT ENERGIZE PROSPERITY

Zubair field set to kick off year-on-year growth

New infrastructure is nearly complete, with more to come, and the Eni-operated field will start adding 100,000 bpd this year and next.

Iraq's second-largest producing oil field is wrapping up a 200,000 barrel per day (bpd) processing facility which, along with a drilling program, will enable it to increase production by 65 percent in four years.

Zubair, operated by Italy's Eni, produced an average of around 437,000 bpd in February, according to an Iraqi oil official in Basra, up from 425,000 bpd in January and second only to the BP-CNPC-operated Rumaila field, at 1.465 million bpd.

The new gas oil separation station, first contracted to Samsung in March 2014, will be ready to hand over to Eni in June, according to two senior officials involved in the project, one at Samsung and the other at the state-run Basra Oil Company, which owns the field.

The project is 80 percent complete, the Samsung official said, and when finished will facilitate 200,000 bpd of new output and 130 million standard cubic feet of

"The production was not determined based on the facility's operations; it is changed based on the need and due to the ministerial plan," Abbas said.

The field is expected to average 437,000 bpd in February.

Like all of the fields in southern Iraq, Zubair requires external water sources, so that water can be injected to boost reservoir pressure. The new production facility will add an additional 240,000 bpd of water treatment, increasing water injection at the field from the existing 450,000 bpd, according to the BOC.

Drake and Scull International is currently building a connection to Zubair from the Qarmat Ali water treatment plant, which primarily services Rumaila.

In December, Hossam Hussein Wali, director general of the South Refineries Company, said his company was nearing completion of a project with Eni and BOC for treating refinery water refuse for use at Zubair instead. The project's ultimate capacity is around 264,000 bpd of water.

Zubair is to reach a production plateau of 850,000 bpd, according to a 2013 change to the technical service contract agreed between the Oil Ministry and the consortium.

The original contract had the field reaching 1.2 million bpd. The consortium receives \$2 per barrel remuneration fee in addition to cost recovery. The plateau production timeframe was extended five years to 2035 as well.

In 2016, Occidental Petroleum withdrew from the consortium due to the company's pivot away from projects in the region. The Basra Oil Company took over Occidental's shares. Eni now has 41.56 percent, BOC has 29.69 percent, Korea's Kogas has 23.75 percent, and the Missan Oil Company holds a 5 percent stake. ♦



An engineer at the Zubair oil field on Jan. 21, 2010.

The Zubair field's producing well count has grown from 120 to 240 wells since the Zubair contract was signed in 2010, with another 36 wells to be drilled each year for the next four years, said Abdul-Jabbar Abbas, the head of the Zubair field commission.

"The target production by the end of 2022 is about 700,000 bpd," Abbas said. Gas production is "about 310 million standard cubic feet per day, and 77 percent of the production is sent to Basra Gas Company while the rest is used as fuel."

associated gas, eliminating flaring at least in the northern Hammar area of the field.

The station has four units each with 50,000 bpd capacity.

"The production at the beginning is 100,000 bpd and reaching 200,000 bpd one year after we complete the production lines," said a senior BOC official on the project.

Zubair's output has decreased from a peak of 450,000 bpd last fall, which Abbas cautioned was not a decline but rather the field adapting to instructions from Baghdad.

 **READ THE FULL STORY @**
www.iraqoilreport.com

TODAY. TOMORROW. TOGETHER.



We are regional energy leader, with downstream operations accounting for 30 percent of domestic fuel demands and utilities business which delivers enough electricity to power nearly three-quarters of a million homes. We have built on our energy leadership to become a key player in the construction and property industry in Kurdistan which supports critical infrastructure of national development.

www.qaiwangroup.com

Our energy business processes 40,000 barrels of crude oil per day and contributes 10% of the Iraq gasoline supply.

Our contribution is significant. Our impact is real.

HEAD OFFICE
4th Floor Sulaymaniyah Mall,
Sulaymaniyah Kurdistan
Region Iraq
T: +964 53 319 0248

DUBAI
1108, JBC 5, Cluster W, Jumeirah
Lakes Towers, Dubai, United Arab
Emirates PO Box 488 242, UAE
T: +971 4 450 4102



Q&A: SOMO Director General Alaa al-Yassiri

AL-YASSIRI, cont'd from **page 1**

amounts that are produced and we send them to the refineries. In fact, for Kirkuk amounts, we started to send them to the refineries in the middle and in the south. Despite that, we have amounts ready for exports, but we are not exporting them.

The level that Iraq is committed to, according to the OPEC deal, covers our exports from the south and from the north. Currently, we are only exporting from the south.

According to the recent press releases from the Oil Ministry, there has been a decrease in the exports from Basra terminals.

Yes, there was a technical problem in the pipe in the sea. That put us below our target exports, which was 3.6 [million bpd], and went to 3.459 [million bpd].

We have also heard, and seen with satellite imagery, there have been a few leaks in the Basra Gulf in the past few months. What is the reason for that?

I don't know about this. [The issue] is with Basra Oil Company. But I think it is the same problem I just mentioned.

What is the status of the Basra oil terminals' production capacity?

At the current export capacity, we could, through Basra, reach 3.7 [million bpd]. We already have exported this amount.

We are working to open new outlets. For example, one to Iran, another outlet to Aqaba, beside other outlets that we are thinking about. For Ceyhan, the work is ongoing to get it back, Inshallah, the Kirkuk-Ceyhan line.

What about Khor al-Amaya specifically?

Khor al-Amaya is an important outlet for exports. But its storage, depth, and pressure is different from al-Basra Oil Terminal. It has less [capacity].

The work is being carried out to develop it in order to receive bigger tankers, 1 million barrel loads, and some more. But now its capacity is able to receive tankers with 600,000 barrels or 700,000 barrels.

But it does have the capacity for more than that. Now we ask Basra Oil Company to be able to load more than 1 million barrels.

SOMO has had success with Basra Heavy - it's now about 25 percent of Basra exports. To what extent will the Basra Heavy to Basra Light ratio change in the next year or two?

For Basra Heavy, our exports from Basra currently are 800,000-850,000 bpd. The ratio will change according to the production [of heavier versus lighter oil]. According to the current production, it is stable now.

the exports capacity and the process of isolating of the oils.

What is SOMO's plan for expanding sales to different countries and regions?

This issue is related to [our efforts to increase] revenues. If we find out that there is a benefit from exporting a third type of oil called Basra medium, and if we will achieve more revenues than with the existing light, we will sell three oils. But if we have the capacity to isolate these three oils, and we are convinced, we will start with the first step, which is to offer it to the customers.



Alaa al-Yassiri, the director general of Iraq's State Oil Marketing Organization, at the Nov. 30, 2017, OPEC meeting in Vienna.

Now the Iraqi light is close in its characteristics to a medium grade. If we did separate the real light from it, which is API up to 34 degrees, then we will produce a new grade, the medium. This is under study, but there is no plan to implement it now. This is under study only. Now we have only two types of oil, Basra Heavy and Basra Light.

We have plans for the medium. It'll be at the expense of the current light. When we take [the lightest oil] from it, the current grade [light] will become medium. We are studying this with our customers to see if there is any interest for Iraq in exporting three types of oil, and it depends on

For any oil that is newly entering the market, it needs some time for the customers to know it. When we offer Basra Medium, maybe we will export it directly, until it finds its markets. But so far this issue depends on the export capacity, and whether we are convinced that it will bring more revenues to Iraq. The main aim of SOMO is to maximize revenues.

What about for existing grades?

Now the Iraqi heavy is competitive. It is the standard for the whole region. But according to increasing the amounts of exports and production, this is related to OPEC decisions.

Iraq is committed to OPEC decisions. If the OPEC deal ends, and OPEC decides the cut is stopped, Iraq will be like other OPEC members and will export and will have its [market] share from any increase. But if the countries under OPEC's umbrella agreed that we should continue being committed to the OPEC decisions for the general interest, to preserve the prices, Iraq and the Ministry of Oil will keep this commitment.

What is the timeline for tendering the reconstruction of the ITP, and which companies do you have in mind?

The tender is already up for bid, and about 96 companies have submitted offers to the North Oil Company, which owns the pipeline, in cooperation with SCOP, the State Company for Oil Projects. We have already received offers.

What is the timeline? When would you want rehabilitation to start?

It should start soon, after the award. It is going ahead according to procedure. But it should be preceded by an agreement with the Turks to return the whole system to Iraq.

Rebuilding this pipeline will obviously take time. In the short term, is it an option to use the pipeline that goes through Kurdistan, owned by Rosneft and KAR?

Everything is possible. We could do it now. This depends on political agreements. The issue is, we as technical experts are ready to use the system whenever we are told to do it. But this depends on political agreements.

It's a big issue. The budget was just passed, and the KRG has many debts. I met with Mr. Ashti, the KRG Minister of Natural Resources. He has no objection to us using the system, but he has certain issues, as there are heavy debts on the system - he wants Iraq to take on these debts. There has to be a political agreement first about how these debts should be repaid.

Do you foresee if there is a political deal, what role would Rosneft play in this? How would it work? What would be a per barrel fee, for example?

The agreement we have is that we pay a transit fee to the Turks - that's our

agreement with Turkey. If the KRG made an agreement with Rosneft, we need to be aware of that agreement's contents, of the amount that was paid to build the pipeline, of how that amount is to be repaid, and the profit margin of the investing company. You can't pay back the sums without knowing the basis on which these sums were derived. All of this would depend on receiving instructions from the state leadership to cooperate with this pipeline and to settle the matter.

But at present we've received no instructions in SOMO, no official instructions. There is talk in the media about Iraq agreeing with the KRG to use the system. But as SOMO, I have received no instruction to enter into talks with those concerned on the KRG side to figure out the details.

Is the only thing standing in the way of using this pipeline the debt issue vis-à-vis Kurdistan?

Actually, there are many obstacles, in my opinion. But what was announced publicly by the region is that the region has many debts.

What are the other obstacles that perhaps aren't being announced but that you feel are important?

That really isn't SOMO's job. SOMO is the implementing authority. When we get an instruction from the minister or the prime minister saying, "Use this system," we will use it right away.

Getting into the issue of what are the obstacles - that's a leadership-level discussion between the federal government and the KRG. It's discussed at that level really, not at the level of SOMO.

But from a SOMO level, what are the terms that you would require from Kurdistan and Turkey for exports to resume through the existing pipeline?

We will ask to receive possession of the system in its entirety.

All of it?

Yes. The Iraq-Turkey Pipeline agreement, signed by the highest authorities in each country, requires this. The whole system is supposed to be administered by SOMO. That's why Iraq has filed a lawsuit against Turkey, for violating the agreement.

What we've heard is that Baghdad believes Turkey is being a little bit unreasonable, promising to give SOMO authority only if this arbitration case is dropped and [if Iraq] pays Turkey the debts that Kurdistan owes. Would Iraq agree to such a thing?

That's what they've said in repeated meetings, and Iraq has rejected it. The violation of the agreement caused much damage to Iraq. We expect that the case may end with a verdict in Iraq's favor, with heavy damages that the Turkish government would be obligated to pay to Iraq. But if there is a political agreement between the two countries to drop the lawsuit, we are just technicians. The lawsuit was brought in the first place by the Ministry of Oil's legal department, not by SOMO.

But does it work in Baghdad's favor to wait for the ruling in this case? Or would it work better to reach a political agreement? What do you think is best for Iraq?

We have to talk about facts. I'm a technical expert, not a politician. My opinion is that experience has shown that our brothers in Turkey did not keep to the agreement. So dropping a lawsuit that could earn Iraq \$15 billion in damages payments, it could have implications. Dropping it based on a mutual interest however, to have the whole system turned over to Iraq, that could be good. First of all, we are neighbors with Turkey, and secondly, I need that outlet - the Ceyhan outlet is very important to us. It is the best commercial outlet to Europe for Kirkuk oil. So of course, I do not want to lose an outlet like that. But then there needs to be talk about the nature of the commitments being given on the other side.

If there is a political deal with Turkey, how would that affect the pipeline fees that you pay Turkey? Is that something you're discussing?

The fees must be paid in accordance with the [ITP] contract. The contract specifies how much Iraq pays per barrel. ♦

ZhenHua expands China's role in Iraq's oil sector

ZHENHUA, cont'd from **page 1**

Alaa al-Yassiri, the director general of Iraq's State Oil Marketing Organization (SOMO), said the ZhenHua joint venture would potentially give Iraq a competitive edge in selling to China, a major source of demand for Middle East crude.

The arrangement will have a similar structure to an existing joint venture between SOMO and Russia's Litasco, which was initially named Lima Energy but was renamed Iraq Petroleum Trading (IPT) earlier this year.

"We are sharing profits, training and exchanging experiences," Yassiri said, highlighting the similarities of both agreements. "The difference is Listasco has free destination. ZhenHua is only to China."

ZhenHua is also in talks with the Oil Ministry's Petroleum Contracts and Licensing Directorate (PCLD) and the state-run Midland Oil Company (MDOC) to develop the East Baghdad oil field, according to officials from the Oil Ministry and MDOC, which currently operates the field.

East Baghdad has an estimated 8 billion barrels in reserves, according to an MDOC official, but is only producing 10,000 barrels per day (bpd). The official said MDOC is hoping that ZhenHua will increase production to at least 40,000 bpd of crude and 20 million standard cubic feet per day (scf/d) of associated gas.

The Oil Ministry has signed a memorandum of understanding with ZhenHua for East Baghdad, according to the MDOC and ministry officials, and the details of a potential contract are currently being reviewed by the Cabinet.

"There is no contract right now - they just have an intention to develop the field," the MDOC official said. "We are discussing with them to reach an agreement, because both sides want to develop this field."

A representative of ZhenHua confirmed the contract was with Cabinet but declined to comment until its approval.

A senior Oil Ministry official said once the Cabinet signs off on the agreement,

"the Ministry of Oil will finalize and put to a final signature."

NEXT STEPS

The oil trading deal is already moving forward, according to Yassiri, who said SOMO is using the same two-phase approach to forming the joint venture that it followed with Litasco.

In the first stage, which Yassiri described as something of a trial period, SOMO and ZhenHua are agreeing to collaborate on oil sales and sharing associated profits.

"First we share profits with them," Yassiri said. "The next stage - if they are ready, we will assess their work and see if SOMO will buy shares from them... after a year, when we will be convinced, there will be an establishing of a company, and we will own shares in it."

For SOMO, Yassiri said, the partnership offers an opportunity to compete better with China's other crude suppliers, including Saudi Arabia and Iran, and with international oil companies (IOCs).

Yassiri said the same criteria and process used for regular SOMO customers apply to the joint ventures.

"When they came to SOMO, they opened a letter of credit and signed a contract. They pay using the same mechanisms that other customers use to pay. The difference with IPT is we give them free destination and we share profits," he said.

The two trading companies are part of a larger push by SOMO to participate in - and benefit from - the global crude trade. Yassiri said talks are underway with Chinese refining giant Sinopec's subsidiary Unipet, global commodities trader Gunvor, and unnamed firms in India, South Korea, Japan, the United States and Europe.

"These joint ventures won't take more than 10 percent of Iraqi exports," he said. "Currently it's only 3 percent - 1 percent to China [ZhenHua] and 2 percent to Litasco. This will benefit us by increasing experience of SOMO and we enter the global markets in a comfortable way."

The East Baghdad deal also appears to be moving forward, and MDOC in particular views the negotiations as time-sensitive because part of the field overlaps with an expanding urban capital.

People "are living there, so we try to go to areas where it doesn't affect them much, or maybe some of them," a senior MDOC official said. "If it affects some of them, maybe we give them some compensation as the Ministry of Oil."

Despite holding extensive reserves, the field is difficult and costly to develop because of its relatively low pressure.

The average well currently produces about 250 bpd, the MDOC official said, far lower than other fields whose wells often produce in the thousands. Japan's Japex conducted a study in 2006 that concluded 2,000 wells would be needed to produce 400,000 bpd.

If approved, the contract with ZhenHua would mark a shift from the traditional technical service contracts (TSC) that govern the Oil Ministry's relationship with most IOCs, according to the senior ministry and MDOC officials. Notably, the new contract links fees to oil prices, adjusting remuneration terms within a \$30 to \$70 per barrel price range.

"There is a link between the [remuneration] fee and the oil price," the ministry official said.

It remains unclear whether such a contract might serve as a template for future deals with other IOCs, or whether the special terms are a product of the expenses associated with developing East Baghdad and the Oil Ministry's multi-faceted relationship with ZhenHua.

Chinese state firms are operators or partners at a dozen oil fields and refineries throughout Iraq, involved in producing more than 3 million barrels of oil, including the Rumaila, West Qurna 1, Halfaya, Buzurgan, Fakka, Abu Gharib and Taq Taq oil fields. ♦

 **READ THE FULL STORY @**
www.iraqoilreport.com

Your job depends on being well informed about Iraq's energy, political and security developments.

Iraq Oil Report readers get more of the story before anyone else.

Get your access today.

www.iraqoilreport.com/subscribe



IRAQ OIL REPORT

For multi-user, corporate, academic and NGO rates, contact subscriptions@iraqoilreport.com.

Parliament re-establishes Iraq National Oil Company

New legislation could restructure the oil sector, creating a new executive body for field management and limiting the Oil Ministry to strategic policy and regulatory functions.

Three decades after the Iraq National Oil Company (INOC) was dismantled by Saddam Hussein, Iraq's Parliament has resurrected it with new legislation that could fundamentally restructure Iraq's oil sector.

INOC is slated to take over key operational responsibilities from the Oil Ministry, report directly to the Council of Ministers and, in an apparent rebuke of Kurdistan's oil autonomy, distribute a percentage of profits to citizens of provinces that hand over production to the federal government, according to a law approved by Parliament on March 3.

to be that the law passed by Parliament is calling for a significantly stronger and more independent INOC compared to the Cabinet's draft law, which did not clearly define which powers, if any, INOC would take away from the Oil Ministry.

"INOC will be attached to the Council of Ministers, not the Ministry of Oil," Maarij said, adding that the head of an INOC governing board will have a rank equivalent to a minister, with two deputies equivalent to deputy ministers.

"We put strict criteria for both the president [of INOC] and his two deputies," Maarij said. "Among them that the president

Still, it remains to be seen, on a practical level, how INOC will assume operatorship of oil fields from the Oil Ministry.

The new law passed by Parliament also differs significantly from the Cabinet draft in that it appears to commit billions of dollars in oil revenue to profit-sharing funds.

"The most important part of this law is that the oil has become, practically, the property of the Iraqi people," Maarij said.

Ten percent of INOC's profits will go to four funds. Maarij said one is a "citizens' fund... to be distributed to the people."

He said the profit-sharing includes one key condition.

"We added here an item that any region or province that doesn't deliver oil to the federal government will be deprived of the rights of this fund," Maarij said, an apparent reference to the Kurdistan region, which is locked in a decade-long dispute with Baghdad over how to draw the lines of authority over the country's oil sector.

Another fund is "the next generations fund," Maarij said. "It will be allocated for natural disasters, emergencies, and other issues that need urgent action in the future."

It remains unclear whether those provisions will be implemented, however, especially given Iraq's ongoing financial crisis. For example, a 2013 amendment to the Provincial Powers Law includes a "petrodollar" policy requiring that provinces should receive \$5 per barrel for their oil production, but subsequent national budget laws have never fully allocated such funds.

INOC was originally founded in 1964, at the start of Iraq's nationalization following decades of domination by foreign oil companies. It flourished during that time, until it began to be used as a political tool by Saddam Hussein, and finally dissolved in 1987. ♦



Iraqi South Oil Company engineers look toward the associated gas flares in the Zubair oil field on January 21, 2010.

"The Oil Ministry's role will still be to draw up strategic policies for Iraq's oil sector," said Ali al-Maarij, the chairman of the Parliament Oil and Energy Committee, who was director general of the state-run Missan Oil Company before his election to Parliament in 2010. "INOC will be the executive entity implementing those major oil activities."

The most important change appears

should have at least 25 years experience in the oil sector. His two deputies should have at least 20 years experience in the oil sector. Those should be chosen according to the professional and technical background, not political."

The Oil Ministry issued a statement praising the new law, and Maarij said the Parliament incorporated ministry perspectives into its draft.

 **READ THE FULL STORY @**
www.iraqoilreport.com

Your business needs information.
Our business is ground truth.



Iraq Oil Report's Custom Research Service has unparalleled access to information in Iraq. Our team includes seasoned industry experts, researchers with years of experience in Iraq, and a robust in-country data collection network. We speak daily with national and local leaders, security officials, executives in the private sector, and influential community figures. We get information nobody else can, and deliver it **straight to your inbox**.

INSIDER'S VIEW

Daily e-mail bulletins and monthly reports. Detailed updates and analysis on industry developments, political dynamics, and security incidents and trends. Tailored versions for IOCs and service companies operating in Kurdistan and southern Iraq, and financial services executives and analysts.

IRAQ OIL & FINANCIAL DATASET

Oil companies, analysts, traders and service providers get access to our proprietary Iraq and Kurdistan region economic and oil sector dataset. Over 120 datapoints are updated monthly. Subscribers also receive monthly analysis and back data for 2015 and 2016.

BESPOKE RESEARCH

Leverage our on-the-ground network to gather independent, unbiased information critical to your business decisions. Offerings include stakeholder mapping, detailed market analyses, and hyper-local security and political incident reporting.



IRAQ OIL REPORT
GROUND TRUTH CUSTOM RESEARCH

Request a sample of our reports.

Contact Jared Levy, Director of Custom Research, at jaredlevy@iraqoilreport.com.

Q&A: Ibrahim Bahralolom, MP and former oil minister

Following the passage of seminal legislation to resurrect the Iraq National Oil Company, one of the principal authors discusses how it will reshape the country's oil sector.

The Oil & Energy Committee in Parliament, of which you are deputy chairman, was not happy with the initial draft sent by the government of the INOC law.

In 2014, we were pushing the government. We were sending letters and letters. "If you don't send INOC law, we are going to propose one for you." Under our pressure, they sent us the law in April 2017. That one, it really went back to the old one we had in 1967. We looked at it, said, "No, we don't want that." But, there were two choices. One, return it back to government. We don't want that, and if we do that we lose the opportunity to work on it and pass this one. Two, let us accept it and modify it.



Ibrahim Bahralolom, who was Iraq's oil minister at the time, visits Tehran on July 16, 2005.

We spent nine months, since May [2017] until the end of February. We hosted more than 20 meetings. We formed a small [subcommittee] and I was heading that. We formed a small committee of the big committee of oil and gas. We worked hard. We hosted more than 20 meetings. With the oil minister

twice. With leaders of the oil sector. With deputies. With the DGs of upstream, north, south, Missan. And also experts. Not just in oil and finance, also economic. I think the people are happy with it because for the first time, after 40 years, this INOC... Iraq was the first country in the region to establish [a national oil company]. Then we didn't have it. Since 1987 'til yesterday, we were missing one of the vital elements and pillars for the oil industry, especially upstream.

We have an article in the law, we give six months' time to the government, for the Oil Ministry to prepare all of the requirements, as far as human resources, facilities, buildings, and also all the legal issues for the other companies that

elections. If it doesn't happen in October, then - differently, people will push it. Public opinion will have an impact on the coming Parliament and will push the government to be more active and to make it realize the law.

I think now, it's not only we who care about INOC. Now there is interest of people who are expecting some net profit of INOC to be distributed, as Alaska model. Well this is for the first time in the region, as well as in the country, we had an article that the net profit - maximum of that profit, no more than 90 percent will go to government. And minimum of 10 percent will go to funds.

One of the funds we call it the People's Fund. Each single one in Iraq will have one share. And that share cannot be transferred or sold, can't be inherited. That share, from Day 1, babies to old guy, and whatever profit goes to that, whatever percentage goes - because that will be decided by the board of INOC - will be divided, given to the people.

Now the region and the provinces who don't deliver the oil and gas to INOC, their people won't deserve their shares.

Can you give me an example?

Let's say Basra. If Basra decides for tomorrow to be independent and sell their oil and gas without INOC. INOC is a window for upstream and marketing, okay? If they decide that fine, it's your decision, but you will not get your share in that fund. Basra people will not [receive] it, because you are not delivering oil and gas to INOC.

I assume the same principle would apply to the KRG?

Yes, same thing. We make it general. Because these shares are based on oil sales and must be delivered to the Iraqi people - so the people will push.

The second fund is the future generations fund - part of it goes to future generation.

belong to INOC. We give them six months, so we have a limited time. Probably I can say by October we are supposed to see it realized.

What happens if six months pass and there is still no INOC?

Well, we should take into account that the coming month people are busy with

What are the other two funds?

One for supporting INOC - the capital for investment. Another for the reconstruction and projects for provinces where INOC works. This is strategic infrastructure projects for provinces in which INOC works. Well, in fact they work in all of Iraq. So this is an opportunity - like a reconstruction fund. It's a new idea.

Now of course there is a great concept behind that: The maximum profit the government can get is 90 percent of the net profit. And that has to be mentioned in the budget. But, what we expect, every year MPs will argue that that number has to be reduced, that that amount be decreased for the government and transferred to provinces and these four funds.

So probably next year we will argue 90 percent is too much for you - for the government. Maybe we will allow you 80 percent as a government. So the 20 percent would be distributed based on the need of those funds. It's very important. Because it's as if you are pushing the government to increase the productivity, to depend on themselves and not to depend on oil sales. Maybe 10 years from now we push it to 50 percent, 40 percent.

In the near term, how will INOC change the status quo in the oil sector? What powers will it take away from the Oil Ministry?

The Oil Ministry is totally separated from INOC. Oil Ministry is for policy. And the authority [supervising] INOC is the Cabinet, not the Oil Ministry. So it is independent. The umbrella of INOC is the Cabinet. It's connected to them, not to Oil Ministry.

But in the board of INOC are representatives from the ministry - they will be there and usually the deputy. Deputy for upstream, and a representative from KRG will be there, and those two will check - is INOC doing well to execute the policy of the country in the oil business? Check and balance. If no, they will put back, the oil minister will say, "This year INOC isn't doing well," he will report to the Cabinet.

What the Cabinet decides, we have to obey as INOC.

So it is an independent entity; that entity belongs to the Council of Ministers [with responsibility] only for upstream and marketing. Only. We don't reach other issues. Everything else is with Oil Ministry, for the time being. There are eight companies that will belong to INOC. SOMO will be with them. [Five] of them are upstream: Basra, Dhi Qar, Missan, [Midland], NOC... and the Iraqi Drilling Company and the Oil Exploration Company. So all of them will go under umbrella of INOC. So they have the tools. Upstream tools. Supporting companies and marketing companies. All licenses, all issues dealing with licenses will be shifted to INOC. INOC is the window for all upstream. It's a big change.

So if INOC is realized, what responsibilities will then fall under MoO?

Policy, and monitoring. And, instructions, something like that, as a regulator.

Effectively, INOC is taking power away from the Oil Ministry.

It is. That's right. So INOC will execute the Iraqi oil policy. Which is approved by Council of Ministers and the Ministry of Oil. And it is a tool for upstream. And that tool is independent. The board will be headed by someone who has qualifications for 25 years. And the same level as minister. Has two deputies, and in the law SOMO will connect to the head.

So INOC will operate the fields the same way the ministry is operating fields right now.

Yes. Any future contract, any current contract, has to be dealt with by INOC. So all foreign companies here will deal with INOC.

All IOCs report to INOC?

Yes, reporting to INOC. Nothing to do with the ministry. In that case because of the independence, because of the capital, because of the flexibility, because you are putting a lot of articles that give exceptional situation to INOC to go over the bureaucracy, that will help INOC to be more productive. And it will take the upstream, the export - at the same time,

they will manage oversight of the current service contracts. So BP, their business will be with INOC.

How will the current structure of the Ministry change?

We do have three deputies, one for upstream, one for distribution, one for gas - in the current [system]. INOC [will now be] in charge of upstreams of oil and gas. But it does not have any business to do with processing of the gas. For example, the Basra Gas Company doesn't have too much now to do with the current structure of INOC. Because it has more to do with the processing of the gas.

What are the problems in the current system that necessitate INOC, in your opinion?

Well, we were looking for a model like ARAMCO, Petronas. We were supposed to have it because we started early, but we did not continue that. If we started since 1987, when Saddam Hussein dissolved it, because he wanted to control it, grab it - why did he dissolve it? Because he didn't want an independent entity. If you compare INOC 1970 to 1979, they did a huge jump, they increased oil reserves by 3 times. They made a lot of projects. But after that change, the oil business has been down the drain.

It seems the articles you added to the Cabinet's initial draft function to make INOC stronger as an institution.

Yes. All the things, even social benefits it has in it. We are forcing INOC to use lands to make it productive. Agricultural, industrial, service. It will provide more jobs. We have two articles about how INOC will save societies. We tried to make it closer to people. If people see the benefit, they will feel the need to protect it. Now, if you look at budget of 2018, all the oil revenue goes to the salaries - \$70 billion dollars, all that we lost. Nothing left for investment. All the investment projects - \$22 billion planned for this year - will be covered by loans and borrowing money. The only reserve we have is in the central bank. Why is that? ♦

A New Era in Natural Gas Processing



Orion is a midstream natural gas company, helping Iraq eliminate the wasteful burning of associated gas.

Orion's investment is the first of its kind, delivering Condensate, LPG and Dry Gas with no upfront investment from the Iraq Government.

By working with SGC, we aim to end routine flaring and build a partnership that benefits the people of Iraq.



www.oriongaspro.com