



A night view of the Badra oil field, operated by Gazprom Neft. (Gazprom Neft)

Record production continues in 2019

In light of an OPEC quota agreement, Iraq has made steep cuts at state-run fields, but those reductions are being offset by long-planned increases at IOC-operated projects.

Iraq sustained record-high oil production to begin the year, despite efforts to begin limiting output in accordance with an OPEC agreement including a steep curtailment at Majnoon.

The federal government and the autonomous Kurdistan Regional Government (KRG) together produced about 4.90 million barrels per day (bpd) in January - slightly below the country's overall output in December - according to an Iraq Oil Report analysis based on data gathered from each producing field.

The Oil Ministry faces a difficult challenge in adhering to an OPEC mandate, agreed to in November, which called on Iraq to begin the new year by cutting 139,000 bpd of oil production compared to an October 2018 benchmark.

The ministry has limited flexibility to cut, because the vast majority of its output comes from fields governed by technical service contracts, which enable operators to charge fees when the government orders production to be shut in.

"We are seeking as much as possible to reduce the impact of any production reductions on the investment fields," said Ahmed Fadhil Adhayam, deputy director general of Basra Oil Company, in a recent interview with Iraq Oil Report. "The production reduction will affect the national efforts fields. Reducing these fields now will protect the oil wealth within in those fields, which can be used when necessary."

Consistent with this strategy, the five major state-run fields in Basra - Majnoon, Luhais, Ratawi, Nahr bin Omar, and Tuba

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New Bashiqa drilling touches a political nerve

DNO has begun a drilling campaign in the heart of Iraq's disputed territories, after the Norwegian company took over as operator from ExxonMobil.

Of all the oil projects in Iraq, the Bashiqa exploration block - which straddles the line of control between the autonomous Kurdistan region and the federal government - is perhaps the most laden with political and geological complexity.

Those daunting factors caused Exxon-Mobil to farm out half of its stake in the project in 2017. Now, Norway's DNO has taken over as operator, under a contract with the Kurdistan Regional Government (KRG), and is beginning a fraught new chapter of oil development in the area.

The first exploration well at Bashiqa is ready for testing, which is expected to be completed in March after weather delays, and a second exploration well has been spudded. A third is expected to begin drilling on a different part of the block this year as well.

DNO is one of the earliest entrants into Kurdistan's oil patch, and one of the largest by volume of output at a combined 130,000

Kirkuk oil smuggling rings thrive amidst corruption

Security forces have disrupted several operations stealing thousands of barrels of oil per day, but perpetrators with powerful connections defy justice and the smuggling continues.

Authorities in the Iraqi government and the autonomous Kurdistan region are struggling to address the worsening problem of endemic smuggling from Kirkuk oil fields, where thousands of barrels are stolen every day.

At least two sets of operations have been uncovered in and around Kirkuk in recent months. One elaborate plot targeted a pipeline through Erbil province, and another series of schemes has involved stealing oil from eastern Kirkuk fields and trucking it into Sulaimaniya.

The illicit trade appears to have attracted the scrutiny of U.S. government authorities seeking to crack down on energy commerce that might benefit Iran.

The challenges of stopping the theft are especially difficult, however, because many of the smugglers are directly connected to powerful political parties, paramilitary groups, and other elements of security forces that are theoretically responsible for guarding against smuggling.

"When a criminal case is related to some partisan officials, it is hard to get enough information about it," said Qadr Razagayee, a spokesperson for the Kurdistan regional Parliament's Committee for Interior Affairs, which is investigating the Erbil smuggling ring. "I have many questions about each detail of the case, but the investigative committee members do not talk about it. I think they consider the partisan and political positions of the people who are involved."

While there have been some high-profile busts, the Iraqi government has largely failed to stop smuggling in Kirkuk because – in many cases – security forces that are sent to enforce the law instead use their power to negotiate a stake in long-running operations, according to several local government, security, and intelligence officials.

In other cases, where security forces have not been co-opted and smuggling operations have been successfully stopped, high-profile arrests have not led to prosecutions,

seemingly because the perpetrators are protected by political connections. As a result, there is little to deter powerful officials from abusing their positions.

"We have had oil smuggling and looting in Kirkuk since 2005," said Najat Hussein Hassan, the deputy chairman of the Kirkuk Provincial Council's Energy Committee. "A group of gangsters have been and are still involved in looting oil. Are these ordinary people? No. They are influential officials who have connection within the security facilities and backed by certain political parties."

Hassan said he thinks security forces are now serious in tackling the issue.

President Donald Trump's recent public allegation that Syrian Kurds are smuggling oil to Iran – which appears to have been a misinterpretation of American intelligence assessments of smuggling activity across the border between Iran and Iraqi Kurdistan.

Millions of dollars' worth of oil theft also fuels some of Iraq's most pressing problems: it provides a major revenue source for criminal gangs; it encourages the kind of corruption that has previously undermined the effectiveness of Iraqi security forces; and it represents an alternative source of funding for elements of Kurdistan's politically divided security forces and



Tankers line up outside a refinery near Erbil.

The scale of the Kirkuk theft is relatively small - thousands or tens of thousands of barrels per day, compared with nearly 5 million bpd of nationwide production.

But the existence of a black-market oil trade near the Iranian border is getting attention from the U.S. government as it seeks to enforce sanctions designed to inflict pain on Iran's economy and energy sector. Those concerns were reflected in U.S.

paramilitary groups operating under the federal government's al-Hashid al-Shabi (Popular Mobilization) program, effectively weakening their ties to the state and their responsiveness to the chain of command.

In an area where territorial boundaries are contested and the ground is filled with oil, the presence of so many atomized armed groups is already destabilizing. As those groups gain financial independence

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through their smuggling operations, lawlessness is likely to increase.

Stealing from Kirkuk

Oil smugglers have long targeted Iraq's northern oil fields, and current operations are active around the Jambur field, in eastern Kirkuk, and - to a lesser extent - the Bai Hassan field in the western part of the province.

Transporting thousands of barrels per day of stolen oil requires the complicity of a number of forces in the area, including Kurdish security forces affiliated with the Patriotic Union of Kurdistan (PUK) political party and federal Hashid paramilitary groups, according to nearly a dozen security and government officials in both the Kurdistan Regional Government (KRG) and federal government.

While low-level smuggling has long been rampant throughout Iraq, the current operation at Jambur began in November 2017, according to a Kirkuk provincial government official. At its peak, smugglers were filling more than 20 tankers of oil per night, stealing more than 4,000 barrels per day (bpd), according to security and government officials - about 10 percent of the field's output.

Officials familiar with the smuggling operations say that almost all of the truck drivers involved are Kurds who drive their cargos into Sulaimaniya. On the way, security forces take a cut amounting to about \$3,000 per tanker.

Once in Sulaimaniya, smugglers can sell it to any number of grey-market refineries. Some local government officials also say that some smuggled crude - as well as fuel and refining byproducts - was crossing the border into Iran.

In mid-February, the KRG Ministry of Natural Resources (MNR) issued orders that restricted the flow of oil and refined products across the KRG's three main border crossing points with Iran, in an apparent attempt to deter any illicit trade.

The existence of the Kirkuk smuggling rings is common knowledge in Baghdad, according to intelligence and government officials.

"Hashid groups now have oil wells in the north, oil and fuel smuggling," a senior Interior Ministry official said. "They can pay [their expenses] from their own revenues."

The federal government has made sporadic efforts to interrupt the operations, often by sending new forces to the area.

One such redeployment around Jambur, in September, succeeded in reducing - but not eliminating - the theft.

At present, according to several government and security officials, at least five trucks' worth of oil is stolen from southern Jambur each night, under an operation controlled by Hashid leaders in the area, and about seven trucks' worth of oil is smuggled from northern Jambur, under the oversight of PUK-affiliated forces.

Mala Karim Shukur, the head of the PUK's headquarters in Tuz Khurmatu - which other officials allege is a key transit point for smuggling - denied that his party is involved in such operations.

"The PUK does not tolerate involvement of its members in such an operation," Shukur said. "It is not acceptable at all. I have not heard of or noticed any PUK members getting involved in oil smuggling operations, and if some individuals do get involved, it will not be acceptable for us."

But Mala Bakhtiar, chief executive of the PUK's politburo, recently published an op-ed in a local newspaper claiming that about 30,000 bpd of oil is stolen every day from Jambur. Bakhtiar has recently fallen out of favor with several factions within the PUK after he voiced opposition to the party's nomination of Barham Salih for the Iraqi presidency.

"The stolen oil has been trucked to Sulaimaniya, and it has been traded according to special deals," he wrote.

An official at the federal government's North Oil Company (NOC), which operates all of Kirkuk's oil fields, confirmed that oil is stolen from Jambur but said Bakhtiar's numbers were overblown.

"With the pumps they have been using, you can fill a truck in two hours," the NOC official said. "We are talking about 2,000 barrels per night, at maximum capacity."

Erbil smuggling bust

Smuggling has also proven to be a problem in territory controlled by security forces loyal to the Kurdistan Democratic Party (KDP), the primary ruling party in the KRG.

In October 2018, KRG authorities uncovered an elaborate smuggling operation that siphoned oil from a pipeline carrying crude from the Khurmala Dome of the

Kirkuk field up to a refinery in Erbil.

A senior Erbil police official said the smugglers had drilled multiple holes into the pipeline, and the theft was conducted at a rate of 25 to 30 tankers per day, or roughly 6,000 barrels per day (bpd). The official said the operation had been active at least 16 months.

Various security and local government officials have offered differing - and sometimes partially conflicting - details about the operation and its discovery. But they agree it was located near the village of A'wenat, along the highway between Gwer and Erbil.

According to one set of accounts, the smugglers had rented a gas station for a fee of \$5,000 per month - a steep price for such a remote area. Smugglers often use gas stations as cover, because it reduces the potential for anyone to grow suspicious about frequent tanker truck traffic.

Problems arose when the station's owner decided not to renew the lease for a second year. The smugglers pushed back, reportedly prompting the owner to complain to the office of Massoud Barzani, the former president of the KRG and the head of the KDP.

According to a second set of accounts, the smuggling operations were headquartered on a farm owned or controlled by a colonel in a KDP-controlled unit of the KRG's Asayesh intelligence service.

Because the pipeline ran through the farm, smugglers were able to dig up sections of the pipeline and tap it without arousing too much suspicion.

The crime was uncovered, according to an official in the KRG Ministry of Natural Resources (MNR), because the volumes of crude received at the refinery were consistently lower than the volumes that went into the pipeline. A second oil industry official familiar with the pipeline said no such problem had been reported, however.

"We still do not have complete information about the whole process," said Razagayee, of the KRG Parliament's Interior Affairs Committee. "The relevant institutions intentionally do not share their information with us.... It's not easy to put holes in oil pipelines and steal crude oil by tankers. There must be very big entities involved in trading the oil with these thieves, and very big officials facilitated the job."



Impounded tankers are suspected of smuggling near the border with Iran.

An investigation by a special committee tasked to look into the case did lead to the temporary detention of high-ranking Asayesh and government officials. But the most high-profile officials have been released, and no charges are known to have been filed.

It is unclear how many arrests have been made. Some police officials said dozens of suspects were investigated or detained, while a senior Kurdish security official said fewer than 10 people had been arrested.

The Kurdish security official said the most senior person arrested was a mid-level Asayesh officer who was subsequently released, but fired from his post in January. It is unclear whether he faces further prosecution.

Kurdistan's Integrity Board is investigating the case, according to Ahmad Anwar, the body's head. He said the file would be sent to the court once their work was complete.

The KRG Parliament has also set up a special committee to investigate, Razagayee said.

"This oil-stealing case was supported by very high officials, but the investigative committee has not uncovered names of the officials," Razagayee said. "This is an ambiguous case, and it is going to take on a partisan dimension. Therefore, I expect justice will not be fully implemented."

One step forward, two steps back

Incidents of smuggling around Kirkuk appear to be on the rise, despite attempts by Iraqi authorities to clamp down on the activity.

In a Dec. 26 police statement, Iraqi authorities described how security forces in Kirkuk discovered a tap on a condensate pipeline running from Jambur field, south of Kirkuk, to an NOC storage facility.

A 20-meter-long tube, two inches wide, was found tapped to the pipeline that was connected to a network of hidden tie-ins under the main street leading to a fuel station still under construction.

Technical teams were called to fix the hole in the pipeline and remove the tubes, which caused production delays at Jabel Bor station.

"The attempt was exposed, but the smugglers involved remain unknown and weren't arrested," a senior NOC official said. "Jabel Bor station production is about 12,000 bpd, and was stopped for more than 30 days to fix and rehabilitate the pipeline."

This was one of several incidents over the past few months when smuggling activity affected field production in Jambur and led to the temporary shutdown of the station.

Security officials say that smugglers are managing to tap a network of underground pipelines that run for tens of kilometers between Jabel Bor and Shoro stations, west of Kirkuk.

Smuggling in this area led to more temporary halts in production, according to the NOC official, on two separate occasions - on Oct. 30 and Nov. 13 of last year.

"Smugglers broke the pipe and connected a tube to it underground, among the

bile and trash and rubble," the NOC official said, in an interview in late October. "The first site was discovered near Raheem Awa cemetery, the second near the entrance to Kirkuk from Sulaimaniya province."

A smuggling operation was also allegedly uncovered at wells near the Daoud Gurka station in the Bai Hassan field, where an illegal tap on a well head was used to pump oil into tankers, according to the NOC official. The production facility is one of three in the field and was producing about 50,000 bpd.

The involvement of intimidating armed groups in smuggling operations has prevented fearful local police forces from arresting the perpetrators. Most busts to date consist of authorities dismantling the machinery used to pilfer crude, but stops short of detaining suspects.

On Nov. 18, Iraqi Oil Police and Federal Police seized a gas station on the Kirkuk-Baghdad road, near the town of Tuz Khurmatu, which was functioning as a smuggling point for crude from Jambur, according to a local police official. Police made no arrests but closed the gas station.

Past attempts to stop smuggling have also been unsuccessful because security forces that are sent to stop the smuggling instead become involved in the operations.

In mid-October, for example, Iraqi forces from outside of Kirkuk briefly disrupted smuggling operations at Jambur, according to a security official in the area. But the various groups soon reached a revenue-sharing deal, which enabled the smuggling operations to resume.

That conspiracy appeared to last until December, when a mixed security force from Baghdad - including units from the venerated Counter Terrorism Service (CTS) - deployed to Kirkuk to stop the smuggling activity.

"[They] managed to seize all the places where the smugglers extract oil on the Kirkuk-Baghdad road," said a PUK official in the area.

But no arrests were made. And now, the military forces in Kirkuk are again changing; in late January, Prime Minister Adil Abdul-Mahdi ordered the CTS out of Kirkuk, to be replaced by other Iraqi Army units. ♦

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New Bashiqa drilling touches a political nerve

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

barrels per day (bpd) from its Tawke and Peshkabir fields.

The challenges that DNO faces in Bashiqa, however, are evident on the streets.

The town itself is patrolled by security forces answering to the federal government in Baghdad; but, from almost every vantage point in town, one can see Bashiqa Mountain to the north, where DNO is operating, which is firmly under KRG control. Residents say they feel profoundly disconnected from the oil project just up the hill.

"As much as we can see, we will get nothing from them except smoke - the smoke from factories, and the degradation of our agricultural lands," said Dasen Savo, the head of Bashiqa's municipal council.

The Bashiqa contract was first signed in 2011, when the KRG exerted more expansive control over Iraq's disputed territories. Since then, the KRG's geopolitical fortunes have waxed and waned, the self-proclaimed Islamic State (IS) militant group seized control and was driven out, and ExxonMobil decided to reduce its exposure.

In the aftermath, DNO now has responsibility for developing a swath of territory whose legal status is formally ambiguous, and which is only partially controlled by the government counter-party to its contract. To succeed, DNO will have to negotiate layers of difficult geology and contentious history.

Disputed territory

Bashiqa is part of the disputed territories, a belt of land that stretches across northern Iraq that has long been subject to competing claims by various ethnic and religious identity groups, tribes, and government authorities.

Article 140 of Iraq's 2005 Constitution outlines steps for resolving these disputes and drawing authoritative borders, but the underlying controversies are so sensitive that no government has ever moved forward with that process. In the absence of a legal settlement, various sides have tried to shape the facts on the ground to their advantage.

One such initiative came in 2011, when

the KRG signed oil contracts with Exxon, granting exploration rights in six different areas, including Bashiqa and two other blocks - Al-Qosh and Qara Hanjeer - that were within the KRG's area of influence but beyond its undisputed borders.

It sparked a national crisis. Then-Prime Minister Nouri al-Maliki deployed the Iraqi Army to the line of control between federal and KRG territory, initiating a months-long military standoff and vowing that any oil drilling by Exxon would be dealt with as an act of civil insurrection.

Exxon ultimately weathered the storm,

logical studies that suggested there might not be enough oil underground to justify the above-ground risks. Such results prompted Exxon to relinquish three of its blocks- Betwata in 2015, and Qara Hanjeer and Arbat East in 2016.

Of Exxon's original six blocks, Bashiqa may be the most promising. According to internal memos between Exxon and the Turkish Energy Company (TEC), which holds a 20 percent stake in Exxon's blocks, the total P2 reserves were estimated at 580 million oil-equivalent barrels.

In 2017, Exxon reached a deal for Bashiqa that transferred half of its 80 per-



The town of Bashiqa, in Ninewa province, stands at the foothills of Bashiqa Mountain.

in part by addressing the controversy on a sub-national level while publicly ignoring the complaints from Baghdad. By dealing with provincial and district-level leaders - most importantly, Ninewa province's then-governor, Atheel Nujaifi - Exxon and the KRG were able to calm tensions that might have impeded operations by assuring local stakeholders they would see direct benefit from the projects' success.

But development work came to a halt in 2014 with the onslaught of the IS militant group. Exxon had conducted geological studies and constructed a concrete drilling pad, which was later converted to a military base for Kurdistan's Peshmerga forces.

Even before that, Exxon had conducted geo-

cent interest in the block - along with operatorship - to DNO. The Turkish Energy Company (TEC) retains a 20 percent stake.

Industry observers have speculated the arrangement made sense for Exxon both because it was a way to hedge financial risk, and because DNO can operate less expensively and with a lower political profile than the American super-major.

Now, DNO is looking to succeed where Exxon feared to tread.

Political flashpoint

The situation in Bashiqa might be more challenging now than it was when Exxon signed the contract. In the aftermath of IS,

de facto control of the Bashiqa exploration block is now divided between the federal government and the KRG.

Iraq's territorial disputes have also remained volatile. The federal government launched a military operation in October 2017 to reclaim many contested areas from the KRG, and as recently as November 2017, federal and KRG forces in Ninewa engaged in hours-long battles with each other, resulting in dozens of casualties.

Relations between Baghdad and Erbil have improved since Prime Minister Adil Abd al-Mahdi took office, in October 2018. But the new status quo is the product of a temporary and informal accommodation.

"The Kurdish forces maintained a presence in some parts of the disputed territories based on some sort of mutual understanding with the Iraqi government," said a member of the Ninewa Provincial Council, who did not want to be identified by name. "I believe the Iraqi government has diverted attention on this issue because of other significant issues on the top of its priority list."

Rather than press the issue with Baghdad, the KRG appears to be forging ahead with oil development in Bashiqa by acting as if the exploration block is under the legal authority of a neighboring district that is under Kurdish control.

Sardar Yahya, the mayor of Shaikan - which is adjacent to the Hamdaniya dis-

trict that contains the town of Bashiqa and most of the exploration block - said he has been appointed to lead an "administrative unit" responsible for Bashiqa oil development, under the authority of the KRG Ministry of Natural Resources (MNR) and the governorate of Dohuk.

"The head of the administrative units relay the demands of the local communities to the oil companies," Yahya said. "The administrative units are playing the role of a connection bridge."

But local leaders in Bashiqa say that arrangement is not tenable. According to Savo, the head of the Bashiqa municipal council, they want to interact directly with DNO, both to request employment opportunities for residents and to air concerns about the impact of oil operations on the environment and agricultural lands.

"If they communicated with us, we could give them names, candidates for employment, guards for security," Savo said. "But they don't communicate with us. They want us to shut up. So they will hire a few - of 200 to 300 employees, what will they give us? Ten? Twenty?"

Sheikh Amir Elias, a Bashiqa political leader who is aligned with the Patriotic Union of Kurdistan (PUK) party, said the KRG's policy in Bashiqa reflects a strategy by the Kurdistan Democratic Party (KDP) to try to extend control over the disputed territories by ex-

panding the geographical mandate of governance structures in KRG-controlled areas.

"The problem is that [the KDP] isn't just asking Bashiqis" to be treated as stakeholders in the oil development, Elias said. "They are also asking people from Bardarash and Shaikan, though the land belongs to Bashiqa. This is wrong."

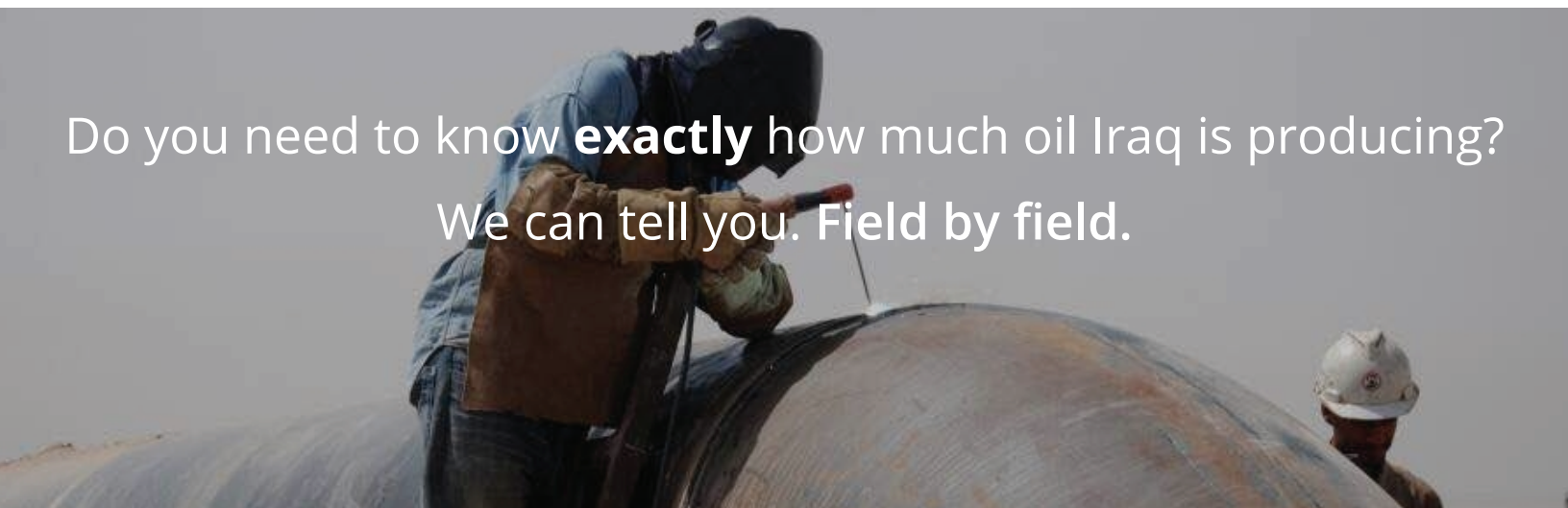
As with oil projects throughout the Kurdistan region and federal Iraq, the arrival of an international oil company has been attracting both job-seekers and complaints. But in Bashiqa, the political barriers mean that locals have not been able to interact directly with DNO, resulting in an extra level of frustration.

Savo said he did not want to see local discontent boil over into disruptive protests, but he feared that would happen.

Thirty-one farmers have signed a petition demanding that DNO compensate them for obstructing access to their lands and only source of revenue, said Salim Saleem Kuchani, head of the farmer's syndicate.

Absent some kind of negotiation, Kuchani said, "We will cause issues with them.... If nothing happens, I guess the next step is that I will take all the people, I will take all the tractors, and I will go up the mountain. And if they shoot us, then so be it." ♦

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Record production continues in 2019

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

- have cut production dramatically. As recently as October, they were together producing over 500,000 bpd; by December, their output had dropped to 369,000 bpd; and in January, they were down to 292,000 bpd. By February, Majnoon's production was cut in half from its previous average of 220,000 bpd.

But other fields governed by contracts with international oil companies (IOCs) have risen to fill the gap.

The most recent major additions have come from the Halfaya field, in southern Iraq's Missan province, operated by the China National Petroleum Corporation (CNPC).

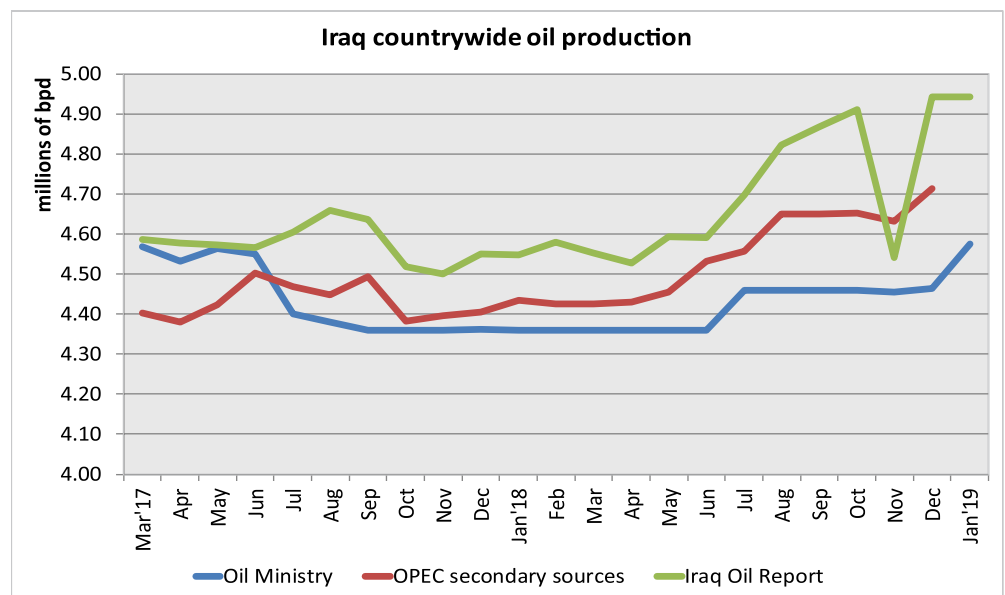
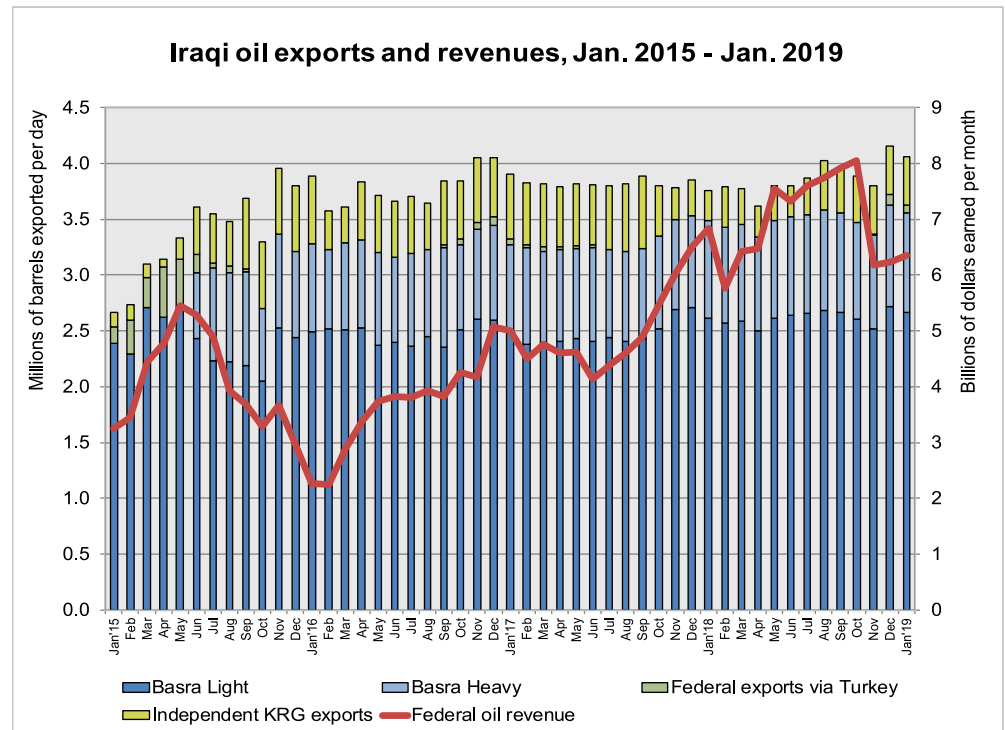
Production has risen rapidly as newly drilled wells are connected to a central processing facility that came online in December. Before that, the field had been averaging about 250,000 bpd; but in December, output jumped to about 290,000 bpd, and in January it kept rising to an average of 305,000 bpd for the month.

Aside from Basra, the country's other major cluster of state-run fields is in Kirkuk. But officials at the federal government's North Oil Company (NOC) say they are not being asked to cut.

"NOC did not reduce production [in January], and OPEC's decision does not have an impact on NOC in Kirkuk," a senior NOC official said.

A second senior NOC official said the state company's overall production in January fluctuated between 370,000 and 380,000 bpd, a slight increase compared to December.

Unlike Iraq's southern oil fields, where production has recently been constrained by export and refining bottlenecks, there is no shortage of viable destinations for Kirkuk crude. In addition to feeding refineries around northern Iraq and the Kurdistan region, NOC fields are also pumping roughly 100,000 bpd into the KRG-controlled export system to Tur-



key - a pipeline with almost 500,000 bpd of spare capacity - under a temporary political deal between leaders in Baghdad and Erbil.

BP is conducting a review of Kirkuk area fields under contract with the North Oil Company, part of an effort to repair previous damage and optimize management of the fields. Current output is a fraction of what the fields are projected to be capable

of producing, once the review is completed, potentially followed by a development contract with BP.

KRG-operated fields combined for about 473,000 bpd of production, consistent with output levels in recent months.♦

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No either-or : Iraq wants both Siemens and GE for fast-track power boost

Electricity Minister Luay al-Khatteeb is prioritizing short-term supply gains, seeking to combine elements of two larger proposals from rival multinationals.

Iraq is significantly narrowing the scope of impending deals with two international companies that had been competing for massive, long-term contracts, as the Electricity Ministry sharpens its focus on the short-term goal of improving power service in time for summer.

"At the moment, our priority is very much on focusing on the fast-track solutions, to survive the next two years and the heat of summer," said Electricity Minister Luay al-Khatteeb.

The new Iraqi government's electricity plans represent a shift from the administration of former Prime Minister Haider al-Abadi, which signed high-profile memoranda of understanding (MOUs) with Siemens and GE in 2018, outlining tens of billions of dollars' worth of electricity projects to be implemented over several years.

Khatteeb said he is still intent on pursuing longer-term "plans to improve the power sector more broadly, within the scope of the four-year government program," but that he wants to decouple the bigger, more complicated deals from short-term contracts. That way, fast-track plans won't get bogged down in larger negotiations.

The initial MOUs that were signed under Abadi raised some controversy. When the Siemens deal was announced, the Trump administration privately expressed displeasure that Iraq was preparing to give so much business to a German company instead of GE - an American rival with extensive involvement in Iraq's power sector - and pressured the Iraqi government to endorse a similarly holistic electricity road map from GE, resulting in a second, multi-billion-dollar strategic plan.

It was unclear how Iraq planned to pursue two different strategic road maps simultaneously, but that dilemma didn't survive the Abadi government. Shortly after Prime Minister Adil Abd al-Mahdi took

office in October, he cancelled all Cabinet decisions that had been made during the prior government's caretaker period, when the Siemens and GE MOUs were signed.

increases, so too does the time required to negotiate a final contract - and the Ministry of Electricity is running out of time to deliver improved service in time for summer.



A worker is seen walking at a power station in Basra, Iraq December 22, 2018.

According to several senior Iraqi government and private sector officials, this sweeping action effectively undid Iraq's formal adoption of a new electricity roadmap - which had been based on the Siemens plan - and walked the government back from the cusp of making long-term deals with both companies.

"Everything signed by the previous administration after July 1 is non-binding," Khatteeb said. "Having said that, when it comes to the initial proposals by Siemens and GE, all proposals are under review, and at this moment in time we are very much focusing on the fast track."

Khatteeb emphasized that Iraq is still interested in discussing the longer-term aspects of the Siemens and GE proposals, but he is also keenly aware that, as the overall cost of a deal

There is political pressure to do so.

In the summer of 2018, protesters took to the streets to express a variety of grievances over high unemployment, pervasive corruption, and the government's failure to provide basic services, like potable water and reliable electricity. The demonstrations helped turn the tide of public opinion and politics decisively against Abadi, who had been hoping to secure a second term as prime minister.

Abd al-Mahdi's fractious political partners in the new government have already begun suggesting he has a tight deadline to show progress, though it won't be easy.

"If things move the right direction, we're talking about 10 to 20 percent improvement compared to last summer," Khatteeb said. "But there are so many conditions that

need to be satisfied. If the EPCs [engineering, procurement, and construction contractors] commit to deliver for the multinationals. If the financing is not hindered.... There are a lot of 'if' conditions that need to be satisfied."

The short-term component of the initial Siemens plan proposed to add 1.2 gigawatts of electricity supply in time for summer, according to Siemens Iraq CEO Musab Alkateeb, while the GE plan would add between 1.5 and 2.0 gigawatts, according to Joseph Anis, the CEO of GE Power Middle East.

Iraq's peak generation capacity is currently around 16 to 17 gigawatts, according to Khatteeb, and peak demand is estimated at 22 or 23 gigawatts.

The actual scope of each contract, however, will depend on ongoing negotiations aimed at "removing the overlap between the two [plans], and having them both work, in light of what's been agreed in the [2019 Iraqi national] budget," Khatteeb said.

To realize the quickest gains, the ministry seems to be focusing less on new generation and more on making Iraq's existing infrastructure work better.

"You can't go wrong with increasing efficiency in any country, but especially this one," said Alkateeb, of Siemens. "The 800 megawatts of our offer is almost entirely about efficiency and improving the current state of the operating plants around the country. The remainder... is new generation, and transmission equipment to go with that."

Similar sentiments were echoed by Anis, who said the first element of their short-term plan involves performing maintenance and upgrades on existing GE equipment in Iraq, which is responsible for generating about 60 percent of the country's electricity.

"There's a very big focus on ensuring that we are keeping our equipment up to speed and available," Anis said. "So there are upgrades to some of the older turbines, and we can go in and refurbish them and have them produce more power."

The second major element of GE's short-term offer involves deploying trailer-

mounted gas turbines around the country.

"It's essentially a power plant on wheels," Anis said. "So what that requires is understanding where you can place them, which requires a lot of understanding of the market and where there is gas available and where there is evacuation of electricity. So we have done quite a bit working with the ministry to pinpoint where those areas are that we can add that power."

It's not entirely clear to what extent the Siemens and GE proposals are complementary, or how much they are competing to win business in the areas of overlap. But executives from both firms say there is enough opportunity to go around.

"Iraq is a big country, and is going to need all the multinationals to participate in its rebuilding," Alkateeb said.

Iraq's electricity minister, who spoke with Iraq Oil Report shortly after U.S. En-

Even so, Khatteeb acknowledged that - while Iraq's electricity needs are massive - its budget to fix them is limited. Even if Siemens and GE can bring financing to the table, their prospective deals with Iraq are still likely to be constrained by the spending allowed by the 2019 national budget.

"We are very limited at this time with the draft budget law that we inherited from the past government," Khatteeb said. "Even these financial arrangements [proposed by the companies] are limited, so it all depends on how much we can accommodate [in the budget] for next year."

In the longer term, Khatteeb said, the Electricity Ministry is likely to return to the road maps proposed by both Siemens and GE to inform its plans for fixing Iraq's transmission networks, capitalizing on under-exploited gas resources, and building new generation capacity.



Electricity Minister Luay al-Khatteeb visits a power plant in Fallujah. (Ministry of Electricity)

ergy Secretary Rick Perry's visit to Iraq, also pushed back against the narrative that the Trump administration is lobbying for GE.

"There is no such thing as pressure from governments," Khatteeb said. "Of course there is financial pressure because of market conditions and the financial position of Iraq. But politically speaking, I don't see this pressure as a reality, and certainly not what's been depicted in the media."

"It's not either-or. It's not like we're going to choose Siemens or GE," Khatteeb said. "We need both of them. The question is how to fit them in a roadmap for the fast-track - not to overlap - and to secure the best deal. Once we have this done, we'll focus on the mid term and the long term." ♦

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Q&A: Ahmed Fadhil Adhayam, deputy director general of Basra Oil Company

BOC is taking major steps to build capacity, even as it limits production in an era of OPEC constraints.

As Iraq sets new records for production and exports - and faces the challenge of adhering to a new OPEC quota - all eyes are on the state-run Basra Oil Company (BOC).

The vast majority of Iraq's production is under BOC's management, including most of the state-run fields that typically bear the brunt of Oil Ministry decisions to cut the country's overall production.

As the BOC's deputy director general for oil licensing, planning, and studies, Ahmed Fadhil Adhayam has direct insight into development plans for the so-called "national efforts" fields - those being operated directly by BOC - as well as the "investment fields" operated by foreign companies under contracts awarded in the Oil Ministry's licensing rounds over the past decade.

In an interview at his office in Basra, Adhayam discussed the management of "national efforts" fields in an era of constrained production, BOC's new engagement with Chevron, the future of Majnoon, and the status of negotiations with ExxonMobil and the China National Petroleum Corp. (CNPC) over the Southern Iraq Integrated Project (SIIP).

Now that Iraq has agreed to a new OPEC quota, what is happening to BOC's plans to increase production from the national efforts fields?

BOC is continuing to develop its fields in both categories - the investment fields, developed via the fields' operators, and the national efforts fields. The steps continue in all aspects of development: drilling, treatment units, additional pipelines for crude transport.

The best example is Majnoon field, which is now under BOC's management capacity after Shell requested to exit its contract at the end of 2017. We are continuing to develop the field and achieved good results in the last two quarters of 2018.

A production increase has already been achieved in the national efforts fields. It is barely noticeable, however,

since we are still in the beginning stages of building the facilities. Yet there is an actual production capacity increase, in Majnoon field.

This increase was achieved in the context of higher demand. But it has not yet resulted in increased production. It is ready now - if only OPEC regulations hadn't lowered the demand for production.

Which fields are you looking at for this?

We cannot say the matter has produced any clear results. It all depends on the financial and technical models the company will submit. As long as our deep, undeveloped fields have light crude and need specialized experience for development, we will try to benefit from Chevron company to develop those fields.



Ahmed Fadhil Adhayam, deputy director general of Basra Oil Company, in his office.

Can you give us a status update on the MOU with Chevron?

We signed a memorandum of understanding with Chevron. The signed letter is for dialogue on the development of some of the work Chevron can execute, given its specialized experience in the oil industry.

Now our main option is to prepare a development study for undeveloped assets, including deep reservoirs of existing fields and other areas that belong to BOC. Upon the completion of that study, we will review the models Chevron will suggest and make a decision on one of them.

We are looking to start with the deep reservoirs - the Yamama reservoir - in Majnoon field. We can add other national efforts fields, in addition to Majnoon.

What updates can you give on the contract with Petrofac to help develop Majnoon?

Petrofac is a secondary contractor, working to build a new treatment unit in Majnoon.

There are two old treatment units, DS1 and DS2, with capacities of 50,000 to 60,000 bpd. There is also a treatment unit, built by Shell, with a capacity of 100,000 bpd.

We currently have a contract with Petrofac to build a new treatment unit of 200,000 bpd, and we are hoping to have that operational, and contributing to the production capacity, by 2023. If we reach that goal, our expected production at Majnoon field will be 400,000 bpd - an increase of a little under 200,000 bpd.

At the same time, we are working to increase drilling of several wells in Majnoon, aiming to achieve new capacity as we also work on building a new pipeline to absorb

that amount.

What are the main ways you expect the OPEC quota will affect BOC?

Any production reduction required of the investment companies in the oil fields will cost the Oil Ministry fees, to be paid to those companies. So we are seeking as much as possible to reduce the impact of any production reductions on the investment fields.

The production reduction will affect the national efforts fields. Reducing these fields

now will protect the oil wealth within in those fields, which can be used when necessary.

Will decreased production affect the levels of feedstock BOC is providing to refineries and electricity stations?

No. These refineries and electricity stations receive crude from all the oil fields, and their shares are fixed - and a priority. ♦

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Q&A: Bassim Mohammed Khudair, director general of the IDC

Iraq's state-run drilling company is adding new rigs and expanding its footprint.

As the director general of the state-run Iraqi Drilling Company (IDC), Bassim Mohammed Khudair plays an understated but key role in the country's oil sector.

Not only does the IDC deploy rigs to fields throughout the country, but, Khudair says, the company also has an impact beyond the wells it drills - by establishing low pricing benchmarks that help keep costs down among its international competitors.

The IDC has recently expanded its stable of rigs, in part to enable the company to do more work in fields being developed by international oil companies under contracts awarded in the Oil Ministry's licensing rounds.

Khudair spoke with Iraq Oil Report in Basra about the company's expansion, its new scope of operations, and its plans for 2019.

How would you describe the Iraqi Drilling Company's role within Iraq's oil sector?

It has now become competitive with international companies, with operations spanning from the north to the south.

It has managed to take a large share of the drilling work, which helps to control the cost of drilling nationwide, because IDC competes with international companies of same specialty - drilling and reclamation.

What were some of the company's major accomplishments in 2018?

In 2018, we had an ambitious plan, and we managed to deploy 32 rigs. We also managed to get involved in both the national [state-operated] fields and the license round fields, including those operated by Petronas, ExxonMobil, Eni and BP. Our rigs work in those fields, as they are advanced and competitive, and this is a positive message - that our company now has reached the international arena.

How many rigs are working in the license round fields?

Four rigs with BP, three rigs with Petronas, four rigs with Eni, two rigs with ExxonMobil, and two in the Qayarah field, in Ninewa [province], with Sonangol.

How does this activity compare with



Iraqi Drilling Company Director General Bassim Mohammed Khudair in his Basra office.

previous years?

There's a big difference compared to previous years. Until 2015, we had fewer than 24 rigs. The company's work has now expanded, and the total number of rigs is up to 32. There are new, advanced rigs that work with the international oil companies in the license round oil fields.

Are there any new contracts with the license round companies?

During 2018, after the big victory against IS, the Iraqi Drilling Company restored its drilling operations with NOC [the Kirkuk-based, state-run North Oil Company] and worked to expand the work zones. There are two rigs active now with NOC, and a third will be soon.

In addition to that, we agreed to a new contract with the Angolan company Sonangol company, to drill 10 wells in the Qayarah field in Ninewa province.

To get contracts with the operators of license round fields, do you negotiate with the companies directly, or is it awarded through the Oil Ministry?

We compete with other other companies through the tenders. Our prices are competitive, as the work is based on two elements - the requirements imposed by the

companies, and the costs. The contracts take place between the two parties: our company and the international company. The ministry encourages the international companies to give priority to the Iraqi Drilling Company if rigs are available.

What are the IDC's plans for 2019?

A plan has been approved for IDC's activities in both national [state-operated] fields and license round fields, including the drilling of 40 wells in Majnoon field, which will be launched at the end of 2019.

There are no extra rigs are the present time; all active rigs are now deployed on the license round and national fields.

Does the company have any operations on Iraq's borders? Have you seen any problems with Iran or Kuwait?

The company does work in Sindbad field [on the Iranian border]. It has one rig there.

The company is also in some Missan border fields: we completed the drilling of several wells there. There is no conflict with Iran, and we work within our zone and according to the ministry's plan for the wells - our rigs within our borders. ♦

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Q&A: Frits Klap, Managing Director of the Basrah Gas Company

The Basrah Gas Company (BGC) closed out 2018 celebrating a milestone: five years of success turning wasted gas into valuable energy resources for Iraq.

"The more we capture gas and create those products, we reduce CO2 levels in the environment," says Frits Klap, the managing director of BGC, the joint venture between the Iraqi South Gas Company (SGC), Royal Dutch Shell and Mitsubishi. "It's one of the biggest flaring reduction initiatives in the world."

BGC is fully entrenched in Basrah, including social programs such as rebuilding schools, vocational training, and building up the skillsets of future Basrahwi workers.

In an exclusive interview, Klap discussed BGC's progress and upcoming work.

Gas flaring is bad for the environment. What has BGC accomplished to reduce this practice?

To this date BGC has prevented 70 MT of Co2 emission from entering the atmosphere. This is equivalent to the Co2 emission from 17 coal-fired power stations. Not only that, we have turned the flared gas into valuable products that benefits the Iraqi economy.

You also turned this poisonous gas into useful fuels. How much have you produced so far and what's your plan for the near term?

In 2013, BGC produced 250 million scf/d and Iraq was importing LPG. Since then our gas production has more than tripled, enough to power millions of homes in Iraq with a peak production record of 1.035 billion scf/d in Dec 2018. BGC is currently capturing approximately 60% of the available gas from License Round 1 fields North Rumaila, West Qurna 1 and Alzubair. The goal is to reach 1.4 billion scf/d by 2022.

BGC has helped Iraq become a net exporter of LPG, delivering 85 shipments of LPG and condensate (685 Kilo Tons), generating millions of dollars in 2018.



Frits Klap, Managing Director of the Basrah Gas Company.

The infrastructure to do this is costly. What have you built?

BGC inherited assets spread across 26 different locations. It has two major gas processing plants, more than a dozen compression stations, a marine and storage terminal, and an estimated 1,000 kilometers of pipelines. BGC is running two of the NGL processing trains in Khor al-Zubair and one NGL plant in North Rumaila.

What are some of the specific benchmarks for projects coming up over the next year?

We have many. The new Basrah NGL expansion project is a critical step for BGC to reduce gas flaring in Iraq and for enlarging our dry gas supply and NGL export capabilities. The new facility will have two gas processing trains, expandable to five, to process an additional 400 million scf/d. We will continue providing gas supply and energy to Iraqi consumers in the future, making the most of Iraq's natural resources as well as reducing the negative impact on environment.

We are also working on refrigeration train capacity to turn propane and butane into liquids at atmospheric pressure, which are then stored in cryogenic tanks. This enables transporting them through much bigger ships to more diverse and bigger markets.

During January 2019 BGC successfully and safely managed the loading of first semi refrigerated ship 'Gas Odyssey' at BGC jetty #3. This is another example of the excellent team work particularly the Umm Qasr Storage and Marine Terminal, the BGC Process team, the Production team, the Commercial and Marketing Team.

How would you describe the benefits of BGC to Iraqis?

Flaring costs the government of Iraq nearly \$2.5 billion in lost revenue each year. According to the World Bank, ending flaring could cover most of Iraq's unmet needs for gas-fired power generation. The Rumaila, Zubair, and West Qurna 1 fields under BGC's mandate produce about 60 percent of Iraq's crude production. Flaring in Basrah fields is equivalent to \$1.6 billion per year. BGC is very much focused on driving local content. Around 40% of all third party spend in 2018 were recorded with vendors registered in Iraq (in excess of \$500 million). BGC contributed to \$1.5 billion savings against alternative sources for the benefit of the Government of Iraq in 2017.

So far, through BGC's social performance strategy, the company was able to successfully relocate three schools to a safe area zone away from the hazardous pipelines. We built new and improved education facilities for the children.

We have also placed more than 750 unskilled persons from Basrah with work experience on our projects and vocational training programs. The second phase of the Skills Enhancement for Employment Development Vocational Training (SEED-2) program is specifically for unemployed youth will be launched in 2019. ♦