IRAQ'S OIL INDUSTRY MUST STOP ITS SELF DESTRUCTION

- 28.03.2016

Gulf News, 27 March 2016

Thirteen years after the invasion and occupation of Iraq by the US, UK and their allies and clients, the country is no more liberated, democratic, free of corruption, peaceful or united, And certainly worried about its future and the fragmentation that may come as a result of failing governments to safeguard the well-being of Iraqis.

These are stories you hear about daily on television channels and read in newspapers. In all modesty, I am not eloquent enough to add all the details and paint this tragic picture, but I will stick to the development of my area of expertise and readers can judge the rest for themselves.

The oil industry the pride of the country, its engine of growth and one of the best in the region since the mid-1950s is now leaving a lot to be desired. The wars and sanctions prior to 2003 did a lot to put the industry back from its peak production of 3.5 million barrels a day (mbd) in 1979.

Yet in spite of the UN restrictions on exports and the deliberate delay in allowing services and materials to the industry, Iraqi production in 2001, just over a year before the occupation, was 2.583-mbd. The removal of all sanctions, availability of funds and the purported support from the occupying powers were not sufficient to reach the 2001 production until 2011.

Mere observers

In 2009, the cream of the Iraqi fields were taken away from the national companies, especially in the south, and awarded to foreign oil companies for development. In that move of three bid rounds, 94 billion barrels of a total of 150 of reserves were turned to the companies leaving the nationals with minor roles or mere observers in some cases.

In 2015, the average Iraq production is no more than 3.47-mbd, or about 1-mbd above that before the bid rounds though the December production was 4.13-mbd. But let us be fair because the bid rounds contributed to an increase of 1.55-mbd, which compensated for the loss of production from the northern fields due to Daesh occupation of some fields and the Peshmerga takeover of others.

The cost to Iraqis is enormous. By the end of 2015 the estimated foreign oil companies expenditure was close to $50 billion (Dh184 billion), excluding the cost of expanded pipelines, storage and terminal directly financed by Iraq. This makes the unitary capital and operating cost very high by historical experience, even if a global increase in costs is taken into consideration.

The drastic decline in crude oil prices is making it difficult for the ministry to meet payment to oil companies. If $50 billion has been spent so far, the question is how much more Iraq needs to reach its reduced target of 9-mbd by 2020. And what happened to the dream of 12-mbd by 2017 and those responsible for its propagation?

On the gas side, Iraqs production in December 2015 was 2,627 million cubic feet a day (mcfd) but the flared gas is 1,901-mcfd, according to the Ministrys website. Therefore the utilised gas is 728-mcfd.

Greatest loss

In 2004, the corresponding numbers were 1268, 610 and 658-mcfd. Over 11 years the utilised gas has increased by only 70-mcfd while the gas processing capacity in the country is over 2,000-mcfd.

However, especially in the south, the plants are not properly rehabilitated and maintained in spite of the establishment of Basra Gas Company (BGC) with Shell and Mitsubishi in 2010. The increase in gas production as a result of crude oil production was not met by new gas processing facilities by the Ministry or BGC.

The refineries suffered the greatest loss in mid-2014 when Daesh occupied Baiji and the refinery complex, the largest in Iraq with 290,000 barrels a day, became a battle ground with Iraqi forces and led to indiscriminate bombing. Great damage was done in the takeover of the refinery by Iraqi forces in October.

After that, the looting and theft of mobile equipment, engineering materials, spare parts and the dismantling of some equipment is now the talk of many, including responsible local government officials and parliamentarians. My two columns in this newspaper were among the first to raise an alarm.

Restricted consumption

The rehabilitation of this refinery is now made extremely difficult and more costly if the Ministry is ever serious in rebuilding the plant.

In any case the refineries since 2004 have never operated above 70 per cent of their capacity and, on average, Iraq had to import light products of between 90,000 and 100,000 barrels a day to meet restricted consumption. A new refinery in Karbala is unlikely to be on stream before 2019 if all goes well.

But what does all this matter if everything in Iraq is deteriorating and almost $1,000 billion squandered since 2003 and Iraqis are at each other throat?

Kaynak/Source: