
IRAQ IS TROUBLING THE OIL MAJORS

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The oil majors are heading in opposite directions when it comes to investing in oil in the war-torn country, a sign of how differently they view the relative risk.

Chevron said on Tuesday that it would return to Iraqi Kurdistan in the north, and begin drilling again. The fact that Chevron is willing to roll the dice on Kurdistan suggests that tension between the Kurdish Regional Government (KRG) and Baghdad has somewhat subsided since the independence vote last year, which set off serious confrontation between the two sides. The campaign for independence backfired on the KRG – the Iraqi government sent in its military to reclaim the oil fields in and around Kirkuk, which the Kurds had seized after ISIS burst onto the scene in 2014.

After Iraq took control over those fields, there was an interruption in oil exports through the Kurdish pipeline to Turkey, helping to push up global oil prices last October. The dispute seemed to wake up the oil market to the prospect of geopolitical risk, a factor that had been largely overlooked by the market over the last three years amid a supply glut.

Chevrons return to Kurdistan is a sign that the tensions have been dialed down in the past several months. Working in Chevrons favor is the mutual interest from both the KRG and Baghdad in resolving their differences. Kurdistan is struggling for cash, and the loss of the Kirkuk oil fields are squeezing the region. The Iraqi government, meanwhile, is trying to regain some level of control over the restive region, and might be willing to send more money to Kurdistan in exchange for the KRG acquiescing to exporting Kurdish oil under the auspices of the Iraqi government. Time will tell, but the fact that the two sides recently met for the first time since the independence referendum last fall bodes well for an ongoing thaw.

The American oil major has had drilling rights in Kurdistan since 2012, the WSJ notes, but has yet to produce any oil from the semiautonomous region.

Meanwhile, a day before Chevron announced its return to Kurdistan, Royal Dutch Shell said it would pull the plug on its oil assets in southern Iraq as it looks to more attractive projects elsewhere.

Shell said on Monday that it is selling its stake in the West Qurna 1 field to Itochu Corp., a Japanese company, for an undisclosed sum. On top of that, later this year Shell plans on disposing of its stake in the massive Majnoon oil field, also in southern Iraq.

The reasons for Shells withdrawal are mostly one of relative attractiveness in a market where oil companies, even the majors, simply dont have enough capital to go around. Iraq has some of the lowest production costs in the world, but the oil majors feel that the terms offered by the government — a fixed fee per barrel produced — make it less lucrative compared to elsewhere. The terms are too tight for Shell, Robin Mills, a former Shell executive and current CEO of Dubai-based Qamar Energy, told the WSJ. [I]t isnt worth the trouble.

Add to that the geopolitical risk (security concerns, political uncertainty from Baghdad) and Shell puts Iraq lower on its list of projects that make the cut.

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When completed, Shells assets in the Middle East will only produce about 220,000 bpd, according to the WSJ, and that will mostly come from its project in Oman. That is a far cry from the 450,000 bpd it produced from the region in 2003.

At the same time, Shell plans on holding onto most of its natural gas assets in the Middle East, which span Qatar, Oman, Egypt and Iraq. That is consistent with the Anglo-Dutch oil majors strategy to increasingly shift its portfolio towards gas. The \$50 billion purchase of BG Group made Shell one of the largest LNG exporters in the world, and it has made gas production a priority as it seeks to carve out market share in what it sees as a world shifting towards cleaner fuels.

All of that means that Iraq just doesnt fit into the picture for Shell.

Iraq, however, will shrug it off. The country is nearing 5 million barrels per day of production, Jabar al-Luaibi, the countrys oil minister, said a few days ago at a conference in Abu Dhabi. That comes despite widespread damage to oil infrastructure from ISIS. "They did a lot of damage, but... Iraq's oil industry is progressing very fast," he said. Iraq produced 4.41 mb/d in December, according to S&P Global Platts. Al-Luaibi offered reassurances that the country would remain compliant with the OPEC deal and not produce in excess of its cap.

Kaynak/Source: