
IRAQ IS FINALLY PUMPING ENOUGH OIL TO FLEX ITS MUSCLES IN OPEC

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Yamani, al-Naimi, al-Falih. These three men, all Saudi Arabian energy ministers, moved global oil markets for the past 50 [] sometimes with just an utterance. But the kingdom may be about to lose some of its power. Lurking in the shadows are oil sages in Iraq, which has quietly emerged as the worlds fourth-biggest oil producer. They want a bigger say in OPEC and the global energy game.

Hardly filled with household names, the ever-changing cast of Iraqi oil ministers has basically been relegated to observers in OPEC, the cartel founded in Baghdad in 1960. Iraq was exempted from OPEC production quotas for almost two decades, a concession granted because the country had been mired in conflict since 1980. Its delegations to cartel meetings in Vienna had nothing to offer, unable to tweak output to help prop up prices or fill shortages.

Iraqs doubling of crude output in the past decade has finally given the country a voice in oil debates and prompted its inclusion in the most recent round of cuts. It recently joined the committee that monitors compliance, though third-party data suggest that the country [flouts](#) the production curbs. (Iraqi officials say the country is complying with the cuts.)

Size is power in the oil markets. No one is as mighty as Saudi Arabia, the worlds biggest exporter, which has the capacity to pump about 12.5 [] barrels a day. But Iraqs ascent is posing an increasing threat to the kingdoms dominance. Former Iraqi oil minister Hussain al-Shahristani laid the groundwork early this decade by boosting the countrys crude reserves assessments and cementing partnerships with ExxonMobil, Russias Lukoil, BP, and other companies to develop long-neglected fields.

Those efforts have paid off. Capacity is now about 5 [] barrels a day, and Iraq plans to pump even more, targeting 7.5 [] barrels per day in 2025. Its likely to fall short, reaching 6 [] barrels by then, according to consultant Wood Mackenzie Ltd. But even if it fails to meet its target, that growing production capacity sends a clear message to OPEC: Iraq can swing global markets.

Increasing capacity means you can renegotiate your production quota within OPEC, says Riccardo Fabiani, an analyst with research consultant Energy Aspects Ltd. Iraq is basically trying to gradually position itself as the second-most-influential producer in the group.

Most economic indicators in Iraq beyond oil show little promise. Political tensions between the central government and the countrys semi-autonomous Kurds continue to simmer. Minority Sunnis feel marginalized, and the Shiite majority is discontent with unreliable public services. Oil prices

have almost doubled, to about \$60 to \$70 a barrel, since the depths of 2016, bolstering Iraqs finances, yet the countrys stock index is down 35 [] over the same period. Investment flows out of Iraq have exceeded foreign money pumped into it by more than \$32 [] over the past five years, according to United Nations data.

Surging oil production presents challenges. Iraq is under pressure in OPEC to sacrifice crucial income to help curb a global oil glut after years of pumping in just one mode: all-out. The country still needs to sell more crude to rebuild damaged infrastructure, provide adequate services to stave off growing domestic unrest, and keep the foreign companies running the fields happy. It also wants to maintain close ties to Saudi Arabias archrival Iran while seeking investments from the kingdom and hosting U.S. armed forces.

Juggling these priorities is a trio of officials well-versed in Iraqs energy industry. The government is led by Adel Abdul Mahdi, a former oil minister. Thamir Ghadhban, an old hand in the oil patch, was appointed to lead the ministry in October. And prominent energy analyst Luay al-Khateeb was appointed electricity minister, a sensitive role in a country that, for all its petro-wealth, lacks steady power supplies and has trouble keeping the lights on.

Al-Khateeb was critical of the Iraqi government during his analyst days. This is the last chance to fix Iraq, he wrote just weeks before being tapped as minister. The stakes are high for Iraq and the region.

None of the countrys lofty ambitions can be achieved if it doesnt keep the oil flowing, a task complicated by OPECs output cuts. The structure of Iraqs oil industry, which is far more reliant on investment from foreign operators than most other cartel members, makes production curbs more complicated than just turning off a spigot.

[Here's a breakdown of OPEC and its allies compliance with output cuts.](#)

Reducing output from fields that also produce gas is trickier still, because Iraq desperately needs the fuel to generate electricity. Most of the oil expansion with foreign partners has come from such fields. Operators that also produce gas may be shielded from OPEC cuts to a greater extent than those that dont, says Frits Klap, a former Royal Dutch Shell Plc executive whos now managing director of Basrah Gas Co., the companys gas joint venture in Iraq.

Iraq would also want to avoid trimming output from reservoirs run by international oil companies, which account for about two-thirds of production, to keep from incurring fines and potentially jeopardizing access to foreign capital and technology. The government may therefore choose to lean on domestic firms to comply with OPEC cuts rather than sap crude from foreign partners.

The pressure will be on the regional oil-company-operated fields to bear the brunt of any cuts Iraq makes, says Ian Thom, Wood Mackenzies principal analyst for Middle East upstream.

While many analysts and investors share at least some of the optimism of Iraqs energy officials, most have doubts beyond security concerns. Issues linger, including tight profit margins, political unrest, bureaucratic inertia, corruption, and insufficient export infrastructure. ExxonMobil, Total, Gazprom, and other majors sat out the latest auction for Iraqs oil and gas blocks in April 2018,

leaving the fields to smaller companies from the United Arab Emirates and China willing to take the risk.

Iraq's government is very unstable and has only lukewarm support from the main parties in parliament, Energy Aspects Fabiani says. If the government has any chance of maintaining power, it will need to hand out money to people and regional authorities rather than invest in oil and infrastructure. Short-term pressures could take over and undermine long-term ambitions, he says.

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