

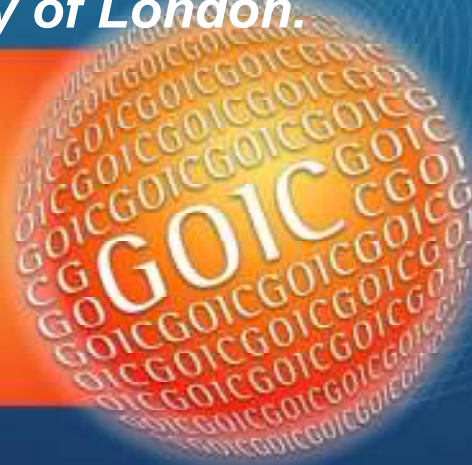


“Optimization Policies for the Management of the Iraqi Oil Extraction Industry”

A Research paper, delivered at the International Association of Contemporary Iraqi Studies, on the Oil and Gas Policies in Iraq. 3rd Annual Conference, 16-17 July, 08 SOAS, University of London.

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1. OBJECTIVES

- ❖ To investigate “best” ways to manage, or create the necessary and sufficient conditions to formulate rational policies for the management of the crude oil industry in Iraq, so as to achieve “*optimum development*” rather than “*maximum financial revenues*” from the exports of crude oil.

2. PECULIARITIES OF THE ECONOMICS OF THE IRAQI CRUDE OIL INDUSTRY

- ❖ **The early concessionary stage of crude oil exploration and production.**
- ❖ **Profit sharing stage and allocation of improved revenues for development.**
- ❖ **Role of the foreign concessions owners, (IPC), in oil discoveries and production, and, eventually, in generating revenues for the uses of the government; the conceded partner.**

PECULIARITIES OF THE ECONOMICS OF THE IRAQI CRUDE OIL INDUSTRY

- ❖ **The nationalization stage and the subsequent high expectations of accelerated development drives.**
- ❖ **The diversion of high oil exports revenues from development uses to wars and repressions.**
- ❖ **The loss of rationality in the use of a scarce and depleting natural resource; crude oil.**

3. THE *RATIONALE* FOR TRANSFORMING A “RENTIER” ECONOMY

- ❖ **Duality versus interdependence;**
- ❖ **Balanced versus and unbalanced economies;**
- ❖ ***Optimum development versus maximum financial revenues from crude oil exports;***

4. *RATIONAL CHOICES VERSUS LESS RATIONAL ONES*

- ❖ **There are three possible ways to deal with a scarce and depleting natural resource, like crude oil:**
 1. **Sell it out within a given time horizon, and consume away the accruing high revenues, due, largely, to the rent element in its market price; discounting the rights of future generations;**
 2. **Sell it out and save part of the revenues for investment in revenue generating financial assets, rather than commodity producing assets;**

RATIONAL CHOICES VERSUS LESS RATIONAL ONES

3. Sell it out in a programmed scheme, envisaged by an overall national strategy:

- ❖ **Allocate a calculated part of the revenues for general and private consumption;**
- ❖ **Invest another part in downstream industries and other non-oil activities;**

RATIONAL CHOICES VERSUS LESS RATIONAL ONES

- ❖ **Divert increasing quantities of crude oil to growing oil-base and energy using industries; this would lead to increasing interdependence between the oil extraction sector and other domestic industries.**

In other words ,you integrate the oil extraction sector with the rest of the economy.

- ❖ **To achieve an optimal balance between these various allocations, you need:**
 - A. A quantified directive plan based on well considered mathematical maximization models or forecasts;**

RATIONAL CHOICES VERSUS LESS RATIONAL ONES

- B. Criteria for equitable distribution of the hitherto generated incomes based on *per capita calculations*, not geographic or ethnic appropriations;**
- C. Develop growth of friendly social environment, through social coherence and national unity.**

5. WHICH IS THE “BEST” CHOICE?

- ❖ **The third choice seems to be most rational; why?**
- ❖ **Because you try to balance the economic needs of the present generations with those of the future ones;**
- ❖ **And because you would be attempting to deploy a depleting natural resource for the attainment of sustainable and just development.**

WHICH IS THE “BEST” CHOICE?

- ❖ Such a rational management policy targets **“optimum development”** growth rather than **“maximum financial revenues”**; ideally, this means that you may reach a stage when you do not export crude oil no matter how high is the surge in its price in the international market! * This is because your domestic industries have grown to be expanding consumers of your crude oil;
- ❖ Domestic non-oil industries are lasting producing assets, so you sacrifice high revenues from crude oil exports for the sake of sustaining domestic non-oil growth.

6. WHAT ARE THE CONDITIONS TO ACHIEVE ALL THIS IN AN OPTIMIZING WAY?

- ❖ We need a national consensus, not socio-political, ethnic, or religious strife;
- ❖ We need to maintain absolute national sovereignty over oil and other natural resources, because maximizing developmental benefits to all, necessitates full control on production and disposition of crude oil; giving up this sovereignty, is like failing to transform a rentier economy into a viable and sustainable one;

WHAT ARE THE CONDITIONS TO ACHIEVE ALL THIS IN AN OPTIMIZING WAY?

- ❖ **We need a directive strategic plan, based on cooperation, not coercion; transparency, top-bottom / bottom-top coordination, and sharing in policy decisions, taking, fully, into accounts vested regional and local interests in local development.**

WHAT ARE THE CONDITIONS TO ACHIEVE ALL THIS IN AN OPTIMIZING WAY?

- ❖ This necessitates, also, the setting-up of well designed institutional framework, like having a national federal council to manage and pursue oil policies; ranging from approving investment contracts for further development of oil production and disposition to upgrading of downstream and upstream productive links. Beside the federal council, regional and local offices for coordination of oil policies must, also, be set-up.

WHAT ARE THE CONDITIONS TO ACHIEVE ALL THIS IN AN OPTIMIZING WAY?

- ❖ Laws, regulations and criteria, based, purely, on economic efficiency considerations for policy management and procedures must be the blueprints for the working of those institutions. Political, ethnic or religious strife to grab as much as possible of the oil financial revenues will be *self-defeating*; because the aim is balanced development for all, not the accumulation of financial revenues to be squandered.

7. WHY DOES THE PRESENT DRAFT LAW OF THE OIL AND GAS FAILS TO ACHIEVE ANY GOAL FOR OPTIMUM AND JUST DEVELOPMENT

- ❖ The contradictory and vague legal provisions of both the constitution and the oil & gas law.**
- ❖ The concessionary articles which weaken or waive off the national sovereignty over oil policies.**
- ❖ Lack of safeguard articles in the draft law to guarantee the application of economic and financial feasibility principles to intended investment contracts.**

8. ARE THE PSAs THE BEST METHODS FOR REVIVING AND INVESTING IN THE IRAQI OIL EXTRACTION INDUSTRY?

- ❖ **In the case of Iraq these production sharing agreements (PSAs) are ill-suited because:**
 - ❖ **Iraqi oil reserves potentials are known to be of very low risk rate for any new investment;**
 - ❖ **PSAs IMPOSE A MONOPOLY ON OIL EXPLORATION, PRODUCTION AND DEVELOPMENT FOR A LONG PERIOD OF TIME; MIGHT BE FOR SEVERAL DECADES. This causes the loss of national sovereignty over oil resource management which is a necessary ingredient for attaining optimum development.**

ARE THE PSAs THE BEST METHODS FOR REVIVING AND INVESTING IN THE IRAQI OIL EXTRACTION INDUSTRY?

- ❖ **PSAs Impose high monopoly profits;**
- ❖ **Investment requirements to raise oil production level and productivity are not beyond the financial capabilities of the Iraqi economy, under stable conditions.**
- ❖ **There are several alternative modules to finance the oil extraction industry in Iraq to choose from. So why go to PSAs?**

ARE THE PSAs THE BEST METHODS FOR REVIVING AND INVESTING IN THE IRAQI OIL EXTRACTION INDUSTRY?

- ❖ **Some of those modules which must be studied in light of economic and financial feasibility principles are as follows:**
 - ❖ **Service contracts;**
 - ❖ **Technical service contracts;**
 - ❖ **Risk and service contracts (RSC);**
 - ❖ **Buy-back contracts;**
 - ❖ **Joint venture contracts;**
 - ❖ **Commercial borrowing;**
 - ❖ **Special contracts can also be tailored.**

9. WHAT ARE THE POSSIBLE OR AVAILABLE WAYS TO MOVE OUT OF THE IMPASSES?

- ❖ **Revise, amend and set-up conducive legal system;**
- ❖ **Set-up efficient, enterprising institutional framework.**

10. CONCLUSIONS AND RECOMMENDATIONS

- ❖ **Revisions of the relevant articles in the basic constitution and the federal oil and gas law in light of the strategic goals of the directive national development plan for optimum, balanced and sustainable development.**
- ❖ **Revision of the KRG oil and gas law, so as to make it complementary rather than competitive, or duplicative, or, virtually, dispersive to the goals of the national development strategy, as formulated by the federal oil & gas law; taking into accounts the vested interests, not only of the Kurds, but also all the Iraqis on equal parity and common welfare.**

CONCLUSIONS AND RECOMMENDATIONS

- ❖ **Setting up a new and vigorous national oil company (NOC) and regional branches, must be a priority; all relevant laws and regulations should be enacted, for this purpose, as soon as possible.**

CONCLUSIONS AND RECOMMENDATIONS

- ❖ Pooling and utilizing all Iraqi oil expertise which proved its worth through the various expert contributions to recent debates on all laws relating to the oil and gas resources. Iraqi oil experts and consultants, whether at home or in the Diaspora are *national assets* that should be attracted by the Iraqi patriotic government to support its knowledge-base for the rational operation and management of the depletable oil and gas resources. Otherwise, politically motivated policies and dispersing of expertise over regions would lead egregiously to depredation and defeat to all the partners of wealth and fate in Iraq.

Top World Oil Producers, Exporters, Consumers, and Importers, 2006

(millions of barrels per day)

Producers ¹	Total oil production	Exporters ²	Net oil exports	Consumers ³	Total oil consumption	Importers ⁴	Net oil imports
1. Saudi Arabia	10.72	1. Saudi Arabia	8.65	1. United States	20.59	1. United States	12.22
2. Russia	9.67	2. Russia	6.57	2. China	7.27	2. Japan	5.10
3. United States	8.37	3. Norway	2.54	3. Japan	5.22	3. China	3.44
4. Iran	4.12	4. Iran	2.52	4. Russia	3.10	4. Germany	2.48
5. Mexico	3.71	5. United Arab Emirates	2.52	5. Germany	2.63	5. South Korea	2.15
6. China	3.84	6. Venezuela	2.20	6. India	2.53	6. France	1.89
7. Canada	3.23	7. Kuwait	2.15	7. Canada	2.22	7. India	1.69
8. United Arab Emirates	2.94	8. Nigeria	2.15	8. Brazil	2.12	8. Italy	1.56
9. Venezuela	2.81	9. Algeria	1.85	9. South Korea	2.12	9. Spain	1.56
10. Norway	2.79	10. Mexico	1.68	10. Saudi Arabia	2.07	10. Taiwan	0.94
11. Kuwait	2.67	11. Libya	1.52	11. Mexico	2.03		
12. Nigeria	2.44	12. Iraq	1.43	12. France	1.97		
13. Brazil	2.16	13. Angola	1.36	13. United Kingdom	1.82		
14. Iraq	2.01	14. Kazakhstan	1.11	14. Italy	1.71		

NOTE: OPEC members in italics.

1. Table includes all countries with total oil production exceeding 2 million barrels per day in 2006. Includes crude oil, natural gas liquids, condensate, refinery gain, and other liquids.

2. Includes all countries with net exports exceeding 1 million barrels per day in 2006.

3. Includes all countries that consumed more than 2 million barrels per day in 2006.

4. Includes all countries that imported more than 1 million barrels per day in 2006.

Source: Energy Information Administration (EIA). http://www.eia.doe.gov/countries/topworldtables1_2.htm.



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