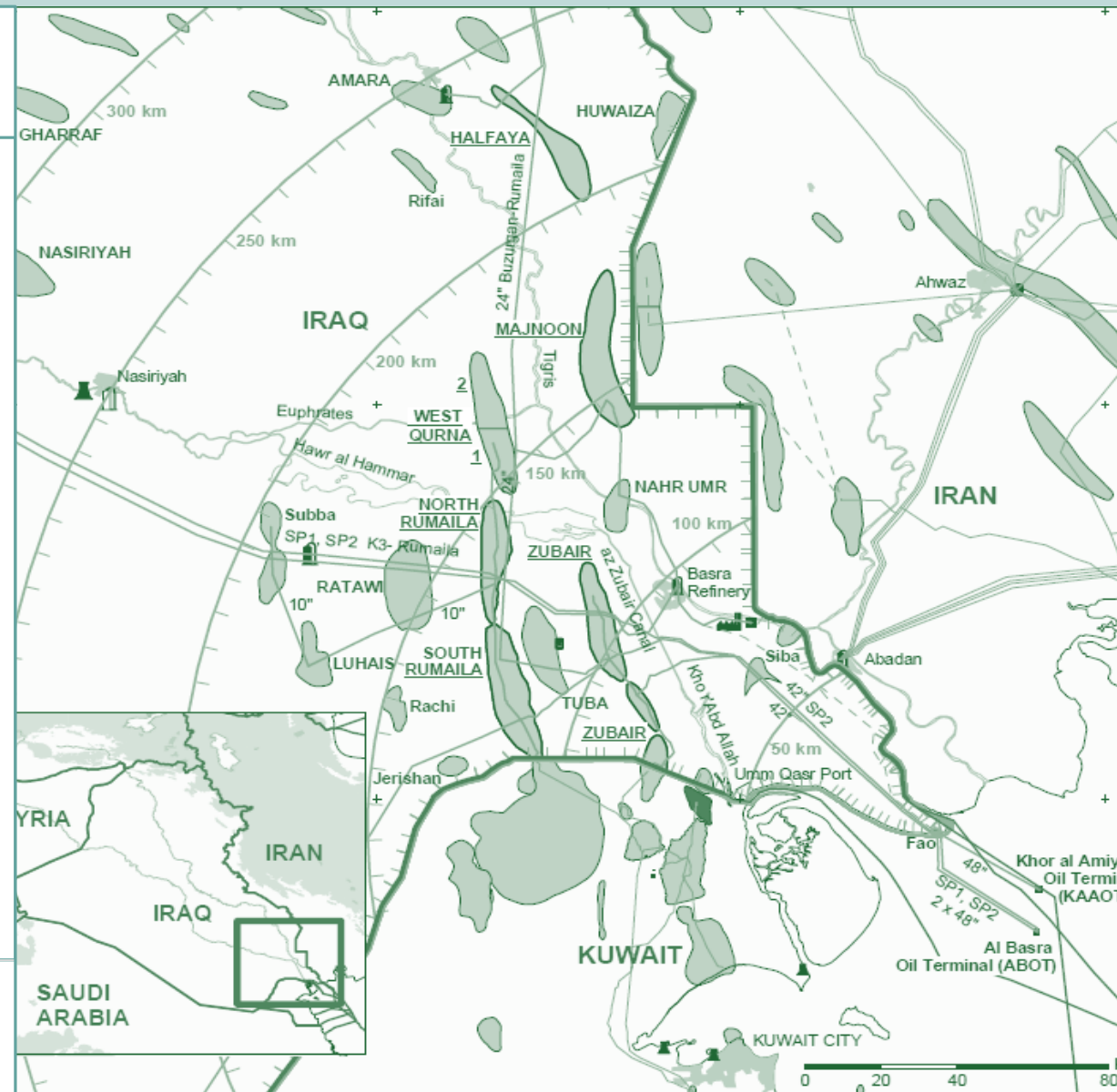
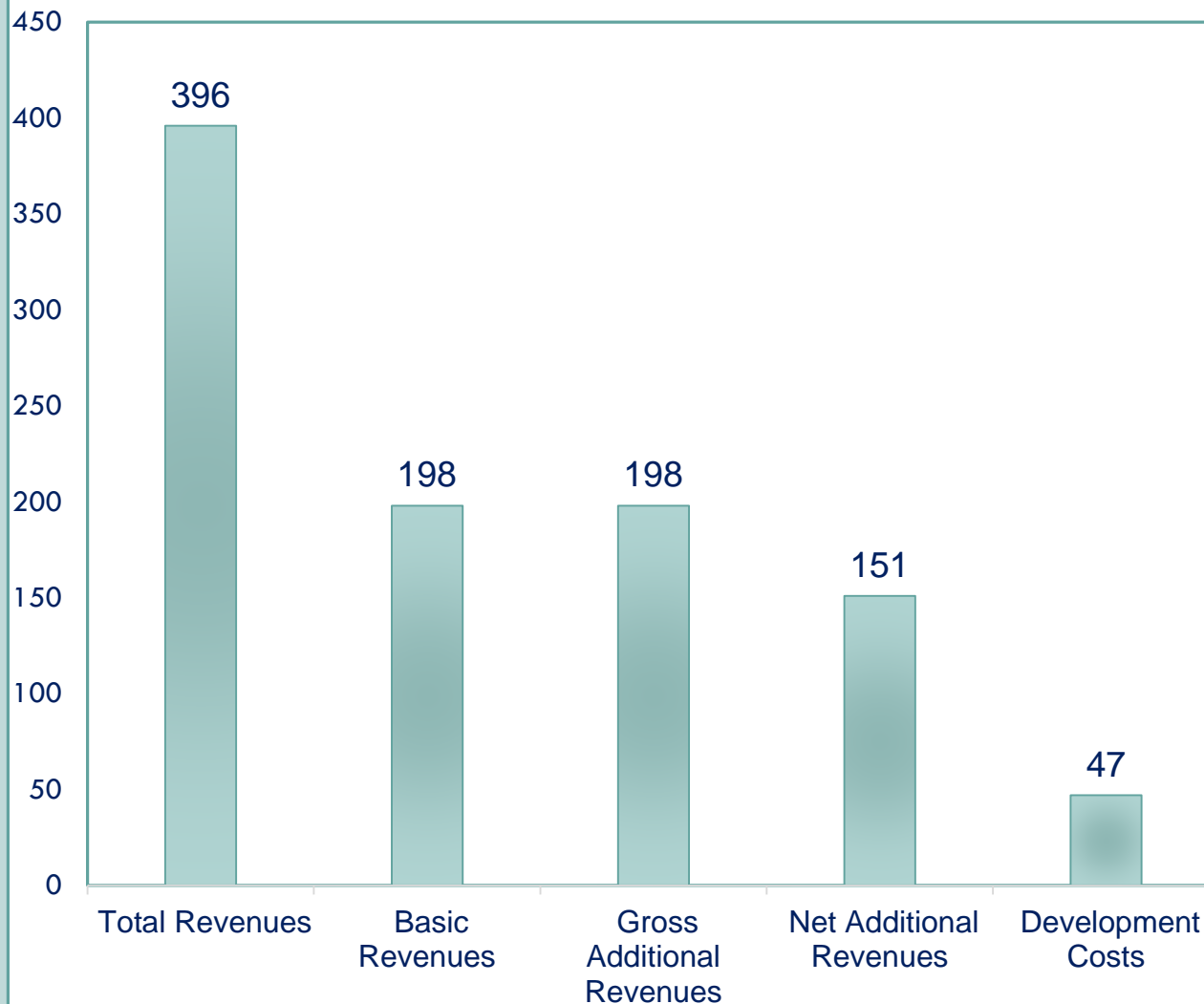


# Iraq License Contracts – Facts & Figures

Finance Summary of Iraq License Contracts 2011 – 2015 Billion Dollars



# Iraq License Contracts – Facts & Figures

A Study in The Economic Side of Southern Iraq Oil Field Development

*Asri Mousa*

*Oil Expert and a Member of the Ministry of Oil Team for the License Rounds 2009*

Basra

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## Introduction

Due to the importance of Southern Iraq's oil field development contracts to the Iraqi economy and the country's petroleum sector, it has become a political and media topic for speakers and politicians without trying seriously to understand the legal framework, the economic basis, and the oil professional essences of these contracts besides using incorrect and politicized information to throw all kinds of accusations at the contracts.

I am trying in this study – as an oil professional with more than 40 years experience in the industry - to arrive at the truth in a simplified manner through presenting the realities on the ground in facts and figures pertaining to Southern Iraq field development program since its launch early 2010, surrounded with concerns and skepticism, to the end of 2015 when Iraq surprised the world by adding two million barrels of new oil flowing every day from its southern fields to global markets.

The study addresses some key issues occupying the minds of many people, in and outside Iraq, such as the “cost of the barrel”, the money paid to foreign companies developing the fields, whether capital and operational costs or remuneration fees, and the gross and net revenues to Iraq from the additional oil produced within the license rounds projects.

The study summarizes the major economic achievements and other professional, social and environmental benefits of the development program.

It also identifies the obstacles and shortfalls of the program such as low pace of oil storage expansion, delay of water injection project, gas flaring, budget reduction, and government bureaucracy.

## Characteristics of Iraq Oil Contracts

Iraq's contracts present an unprecedented model of oil field development contracts, it is long term Technical Service Contracts based on a fixed fee per barrel produced making the developing companies contractors and investors

The contracts offer Iraq massive investment, up-to-date technology, and vast international expertise while giving the companies low investment risk and a good Rate of Return.

It is a Win – Win situation

The development program is based on drawing plans by both sides, approval of budget by Iraq and funding by the developers, and recouping all costs and paying remuneration fees from a maximum of 50% of the additional oil produced provided that a contractually specified level of First Production is achieved

The contracts have a remarkable significance to Iraq, the world, and the petroleum industry resulting from a massive size of contracted reserves, a huge production target, and a considerable variety of international participation in an unprecedented oil field development program.

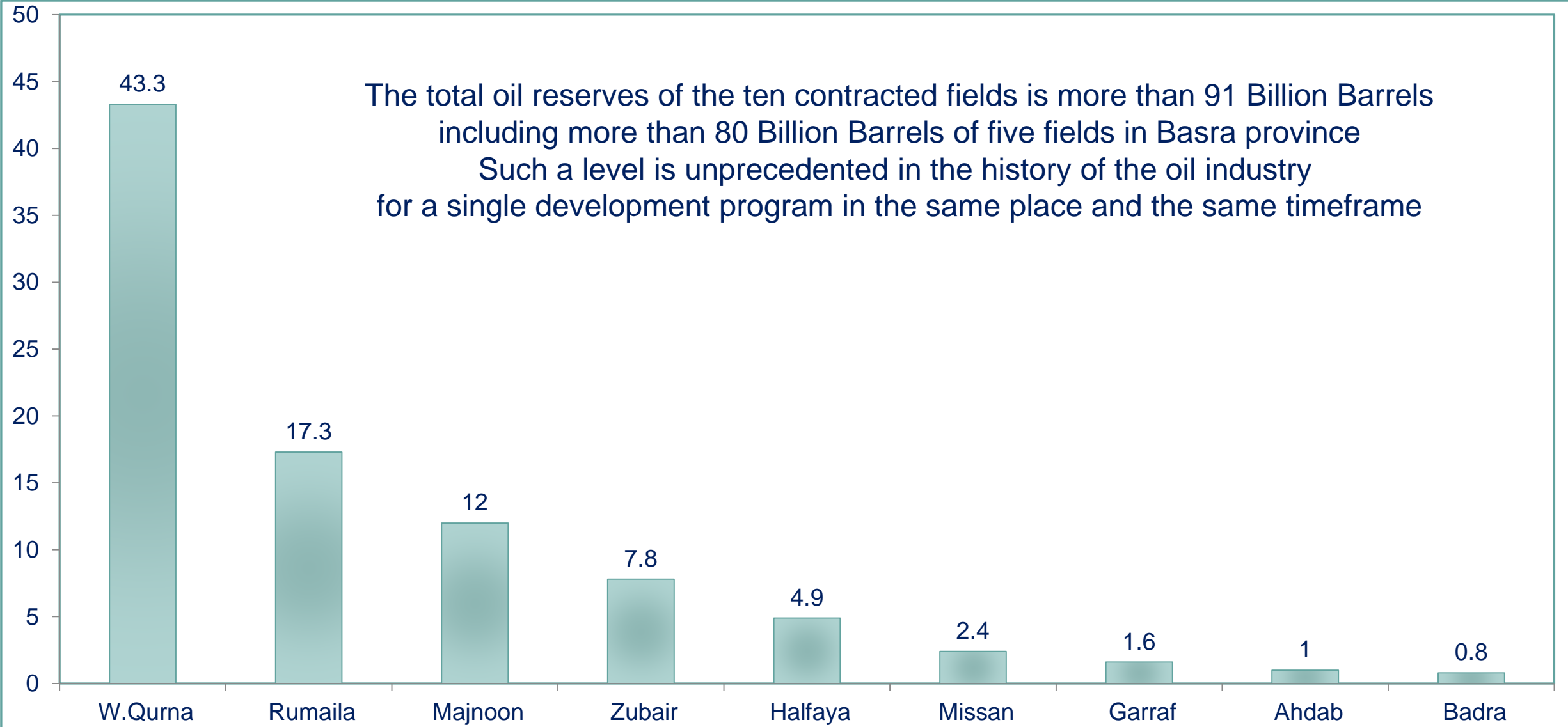
The produced oil will be a key component in the global energy security for many decades to come in the twenty first century.

The remuneration fee per additional barrel produced vary by field but the average for the six giant fields is \$1.64 which is reduced to less than half of this figure after deducting 25% for the state-partner and paying 35% tax.

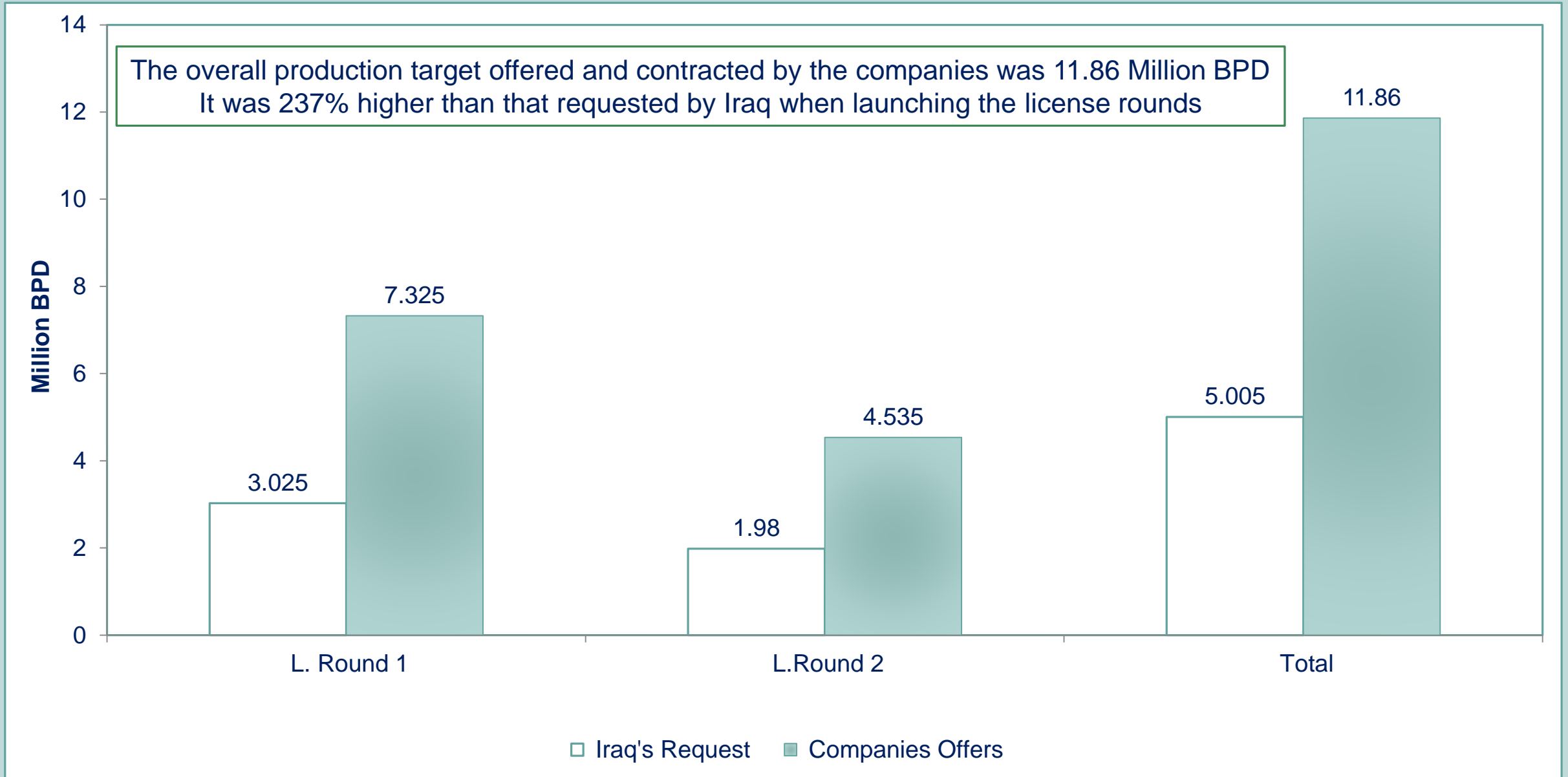
Payments of costs and remuneration fees are made on quarterly basis after achieving the first production target.

## Contracted Oil Reserves

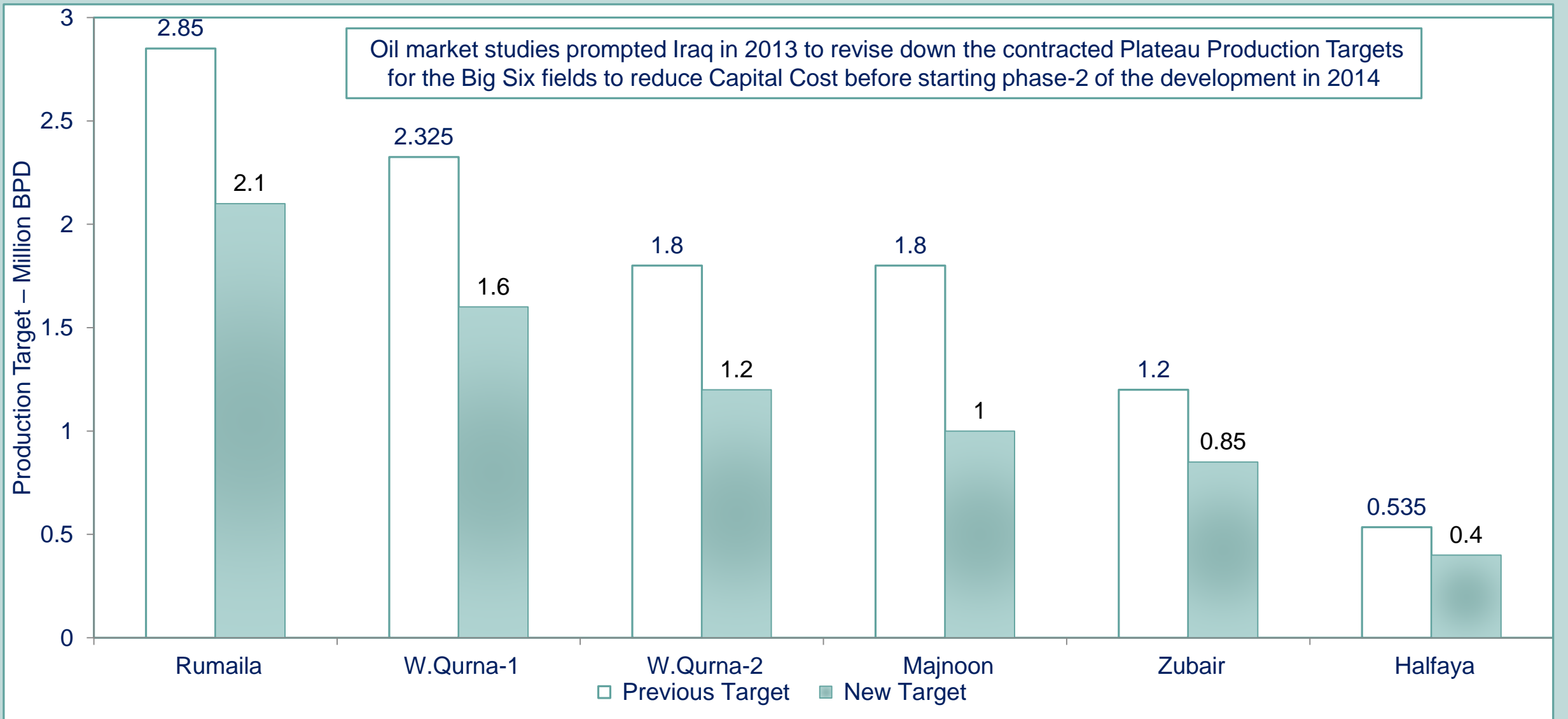
The total oil reserves of the ten contracted fields is more than 91 Billion Barrels including more than 80 Billion Barrels of five fields in Basra province  
Such a level is unprecedented in the history of the oil industry for a single development program in the same place and the same timeframe



# Production Target in Iraq's Contracts



# Revised Production Target



## *The Barrel Cost in Iraq Oil Contracts*

The economic model of Iraq License Contracts is of Accumulative character over the contract 25-year term

The cost of produced barrel is obtained by dividing the accumulative expenditure on the accumulative production

The cost of oil production is made up of three components:

1. Development Costs to drill wells and build facilities
2. Operation Costs including wages, supplies, and services
3. A fixed Remuneration Fee in dollars per barrel produced

The development models of the ten contracted fields indicate an accumulated oil production of 75 billion barrels and an accumulated spending of 300 billion dollars

This indicates a cost of \$4 per barrel produced

The cost per barrel is much higher in the first ten years due to the fact that most capital expenditure is made in these years

The cost will decrease with time as the ratio of accumulated expenditure to accumulated production decreases

Figures from the Ministry of Oil shows that accumulated production from the ten contracted fields over the years 2011-2015 is nearly 4.7 billion barrels while accumulated expenditure for the same period is 47 billion dollars

This indicates a cost per barrel of \$10 for these five years

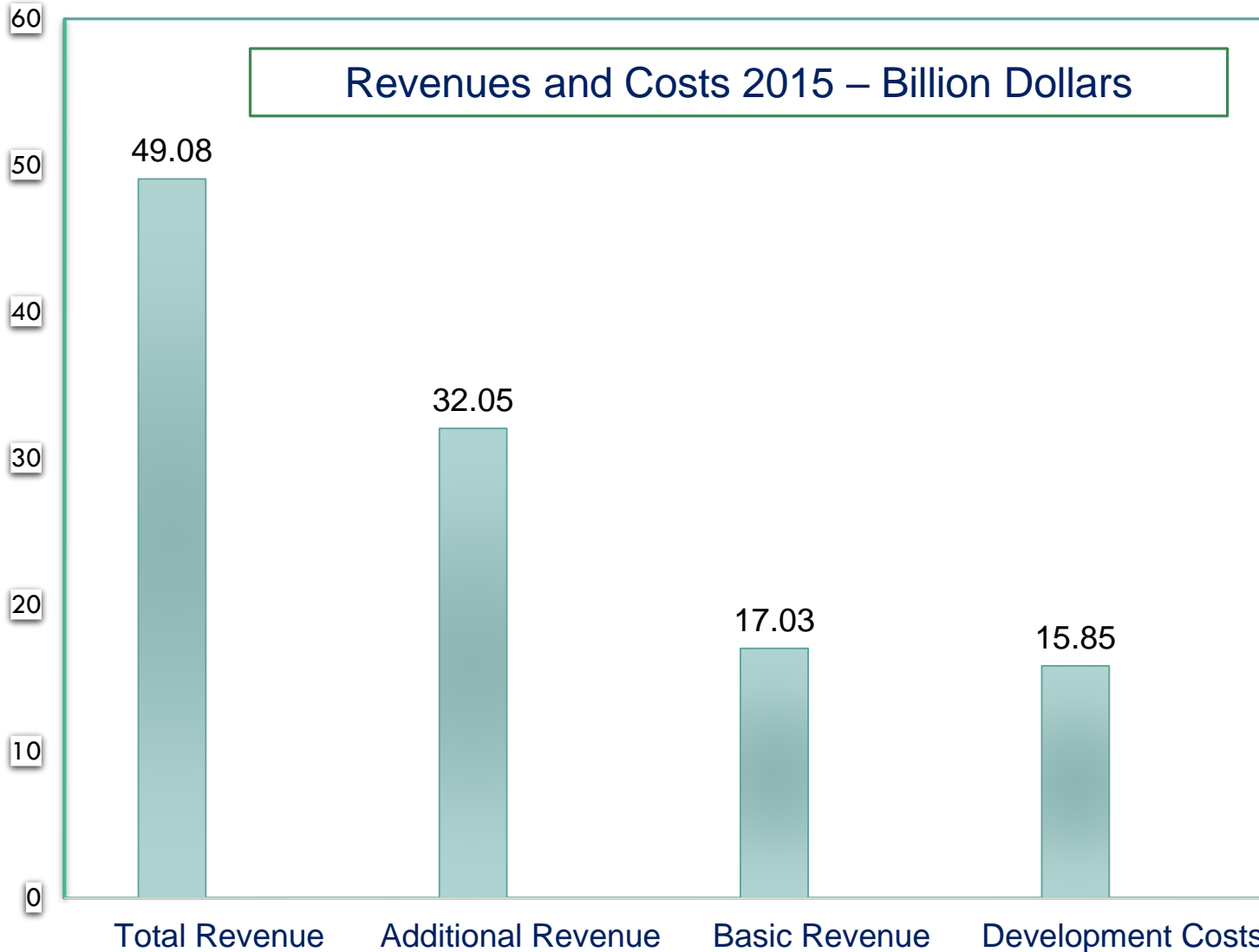


Additional Oil Production 2010 – 2015  
KBPD

Field	Production Q1 2010	Production Q4 2015	Additional Production
Rumaila	1060	1350	290
W.Qurna-1	244	450	206
Zubair	183	350	167
Missan	90	140	50
W.Qurna-2	-	450	450
Majnoon	45	220	175
Halfaya	10	210	200
Garraf	-	100	100
Ahdab	-	140	140
Badra	-	45	45
Total	1632	3455	1823
Additional Production to Offset 5% Annual Decline in LRI Fields			412
<b>Gross Additional Production</b>		<b>2.235 Million BPD</b>	

**2015 – A Year of Remarkable Achievements**  
**The Additional Production was Twice the Basic Production**  
**and The Overall Production passed the One Billion Barrels mark**

Revenues and Costs 2015 – Billion Dollars



Total Production 1097 Million Barrels  
 Basic Production 380.66 Million Barrels  
 Additional Production 716.34 Million Barrels

Basic Production	34.7 %
Additional Production	65.3 %

Basic Revenues	\$17.03 Billion
Additional Revenues	\$32.05 Billion
Total Revenues	\$49.079

Total 2015 Budget for the Ten Fields \$15.85

## *Oil Production in Iraq License Fields 2011 - 2015*

2.348 Billion Barrels  
Basic Production

2.321 Billion Barrels  
Additional Production

4.669 Billion Barrels  
Total Production

*- It is noted that the additional component is equal to the basic production for the overall five-year span*

## Revenues and Payments in Iraq License Projects 2011 - 2015

**\$396 Billion**

Overall Revenues  
including \$198 Billion  
from Basic Production

**\$198 Billion**

Additional Revenues

**\$46 Billion**

Total Payments to the  
Companies for  
Development and  
Production Costs

**\$2.257 Billion**

Total Payments for Remuneration Fees  
including \$1.214 returned to the  
government as taxes

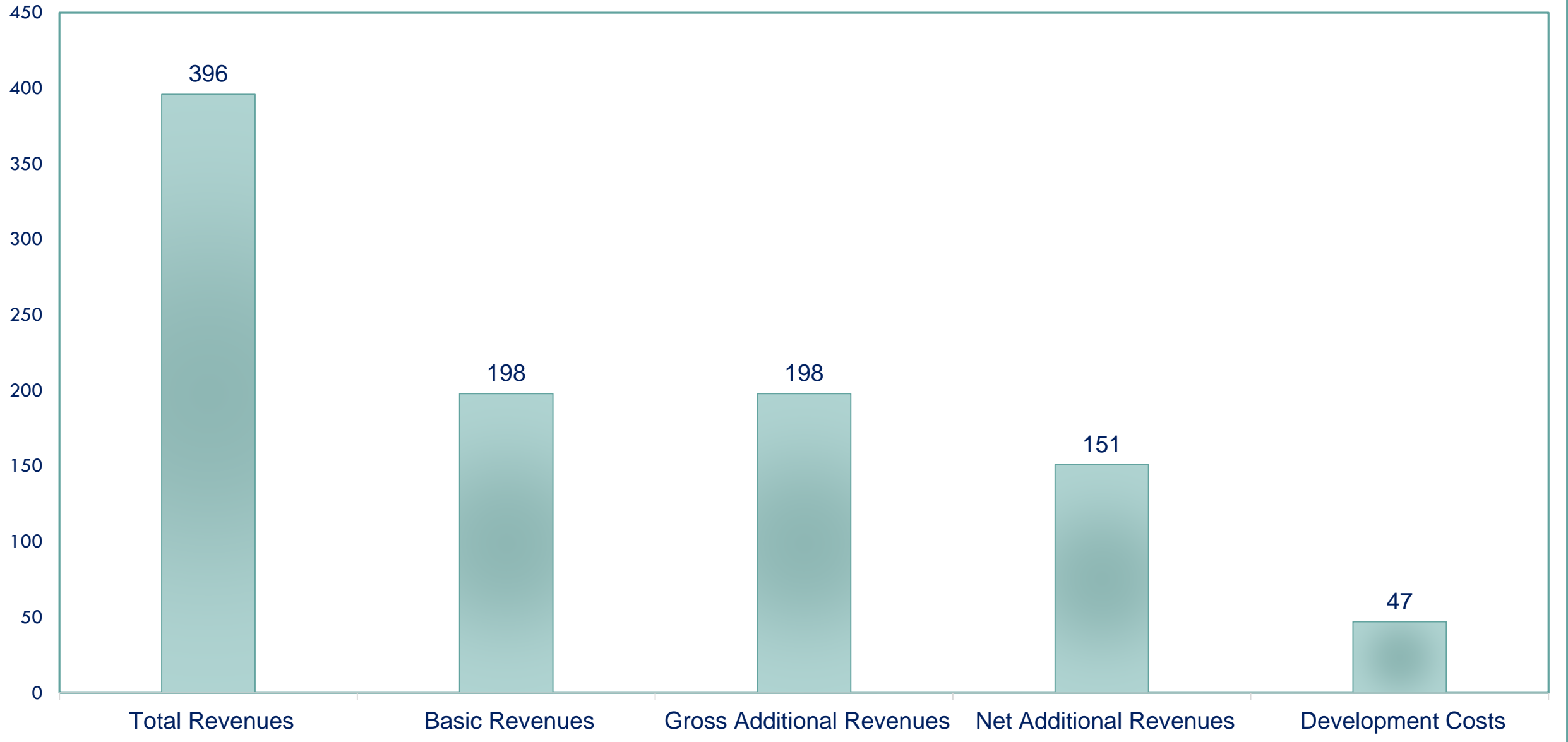
The net payment of about \$1 Billion  
represents 0.5% of the additional  
revenues

**\$151 Billion Cash Money**

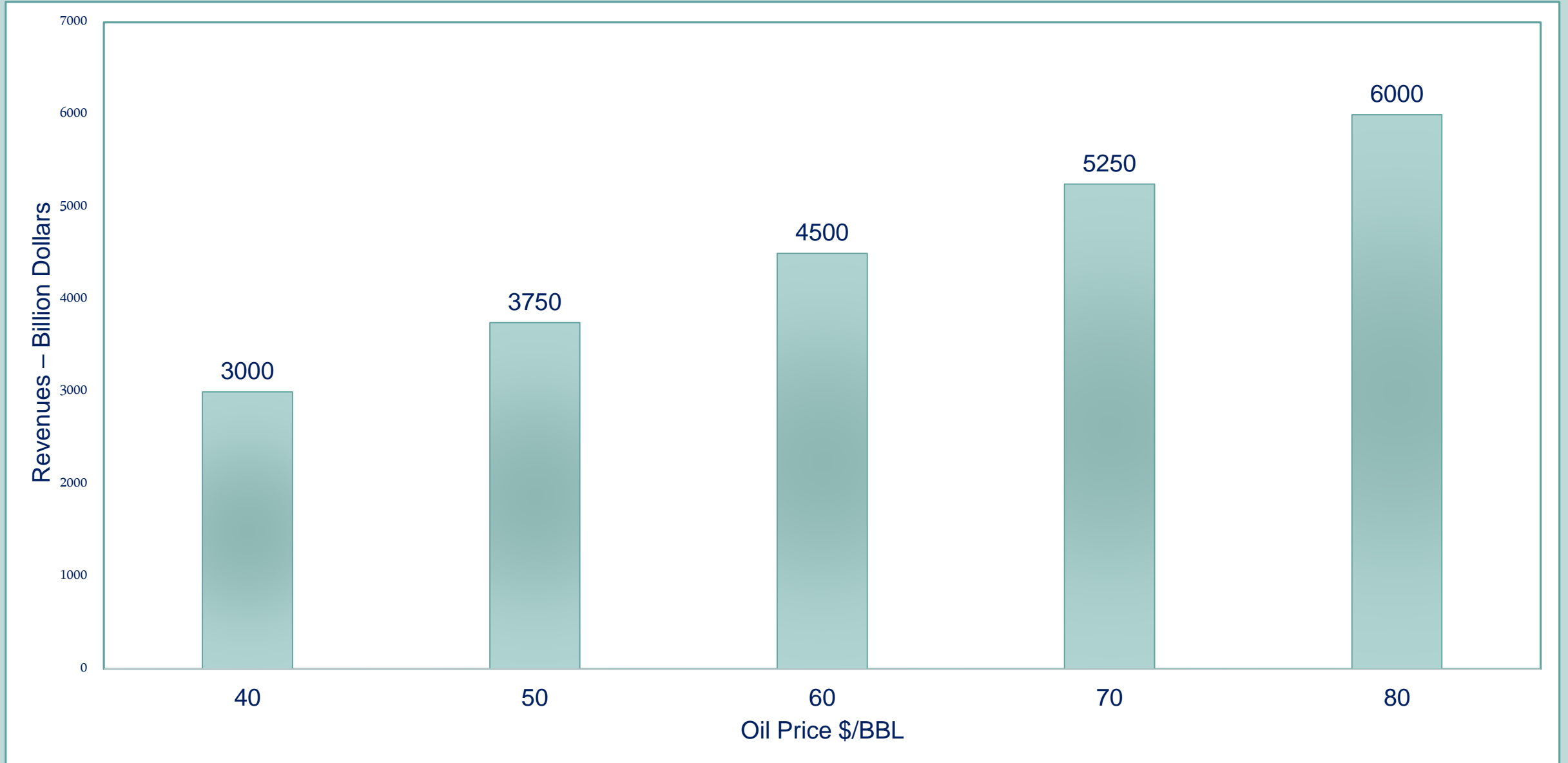
Plus \$46 Billion worth of New Assets  
the Benefits for Iraq from the Oil License  
Contracts in the first 5 years

Apart from paying all Costs and  
Remunerations

*Finanace Summary of Iraq License Contracts 2011 – 2015 – Billion Dollars*



*Iraq's 25-Year Expected Revenues from License Rounds Fields – Billion Dollars*



## *Oil Evacuation System*

Iraq has limited the scope of work of the License Contracts to the oil fields only leaving the oil evacuation infrastructure as a completely sovereign facility with specified delivery points for produced oil from fields

The Ministry of Oil was tasked with the expansion of pipelines, storage tanks and export terminals

The Ministry succeeded in building and put in operation new export terminals and sub-sea pipelines in the Basra Gulf within two years from the effective date of the license contracts after surveying and clearing mines and remnants of war from Iraqi territorial waters  
Such work was a great achievement by all standards

Unfortunately, Iraq did not build storage tanks and pipelines at the same pace as with the sea export facility which resulted in bottlenecks in the oil evacuation chain that caused curtailment in the oil produced in the fields and thus the country lost some valuable revenues

The Ministry managed in 2015 to achieve some success in adding new storage capacities and removal of bottlenecks which gave good results in raising oil production, hiking exports, and improve quality of the exported Basra Light grade especially after the State Oil Marketing company succeeded in launching the Basra Heavy grade to global markets

The Remuneration Fees paid over the period 2011-2015 was around one billion dollars representing less than 1% of the total additional revenues of \$198 billion

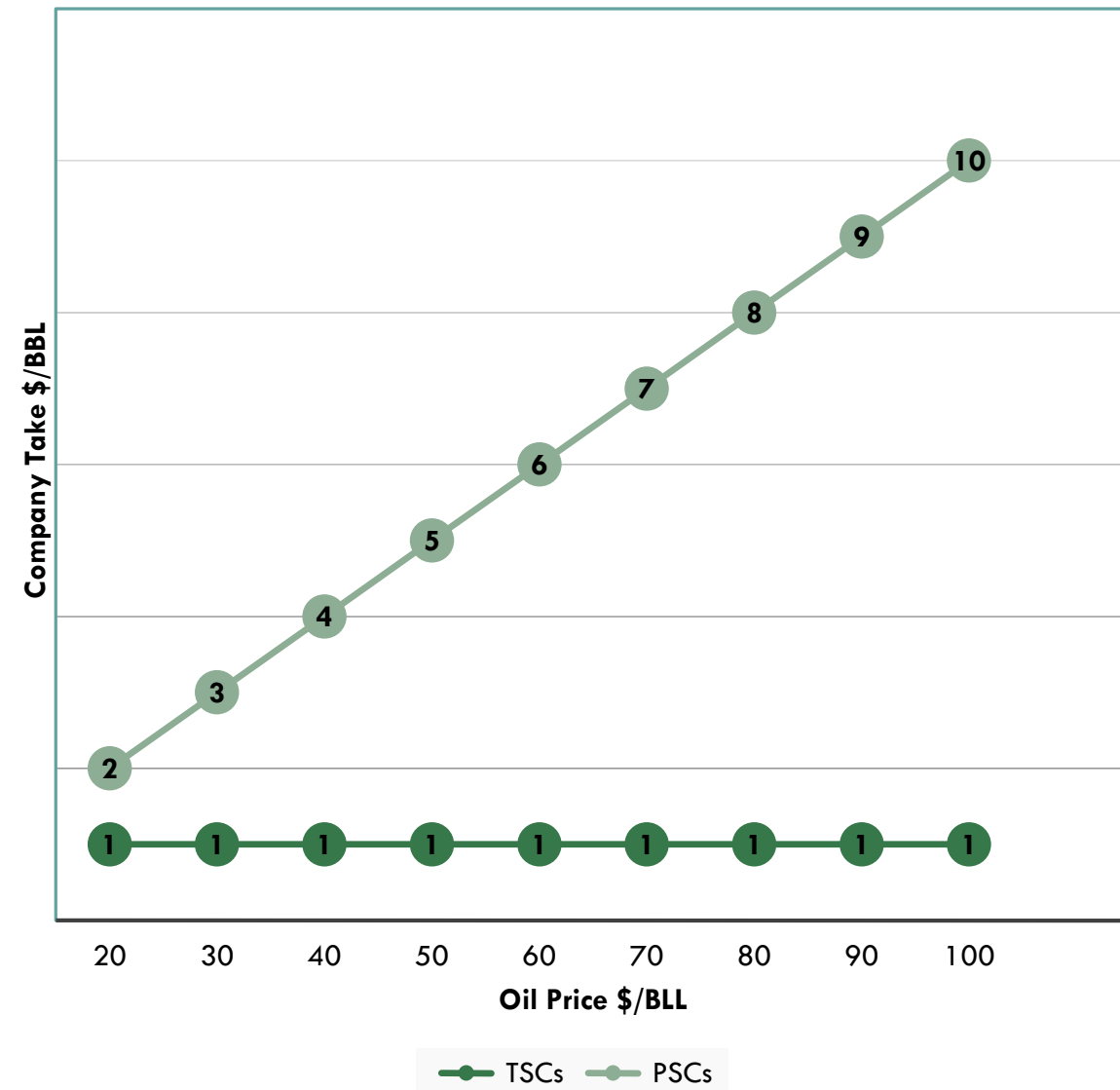
Strangely, there has been a campaign to change the Technical Service Contracts to Production Sharing Contracts on the pretext that the TSCs did not take into consideration low oil prices

The opposite figure compare Iraq's TSCs with PSCs of 10% - the least share known-

It is clear that Iraq's TSCs are better than PSCs at all cases of high or low oil price

Changing the contracts to PSCs will double the Company Take several times in addition to grant the companies part of the production, entitlement to book oil reserves resulting in impairing Iraq's sovereignty on its resources, compromising the Ministry's independence in decision making, and weakening the country's position in cases of legal disputes with the companies

### TSCs vs. PSCs in regard to Oil Price





*Key Achievements of Iraq License Contracts 2011-2015*

2 Million Barrels  
of New Iraqi Oil  
Flowing Every Day  
from Southern  
Fields to World  
Markets

3 Million BPD  
Historic Exports  
from Basra Oil  
Terminals

\$151 Billion in  
Cash Revenue  
plus \$37 Billion of  
New Petroleum  
Assets

30% Increase in  
Iraq's Oil Reserves  
taking it up to  
150 Billion Barrels

Iraq Jumped to  
the Second Place  
in Oil Production  
within OPEC

Iraq's Oil Industry made good strides towards International Oil Industry Standards

## *Other Benefits of License Contracts to Iraq*

Drill hundreds of new wells, build modern oil production facilities, and expand export infrastructure

Establish in country support centers for logistics, services, and supplies for Iraq's oil industry

Removing millions of mines and remnants of war from oil fields and territorial waters

Establish a local Mine Removal industry based on expertise of foreign companies working on License projects

Award thousands of contracts worth billions of dollars to Iraqi contractors and suppliers

Generate incentives to Iraqi private firms to apply international oil industry standards and practices

Training of thousands of Iraqis abroad and establishing training centers and academies in oil fields

Extend support to Iraqi universities and academic institutes and establish cooperation mechanism with the oil industry

Extend local social services and support through social committees with local governments

## Shortfalls and Obstacles in Iraq License Projects 2011 - 2015

Low pace in oil evacuation projects resulted in bottlenecks in the export chain, curtailment in oil production, and loss of valuable export revenues

Flaring of huge quantities of produced gas worth billions of dollars every year in addition to a damaging environmental impact

Delay in a common water injection project resulting in negative impact on the full development plans and possible damage to producing reservoirs

Government bureaucracy and red-tape caused delay in decision-making, waste of time, and loss of oil production and revenues

Drastic cuts in 2015 and 2016 development budgets led to a slow down in all projects, loss of momentum, reducing production growth, and potential dip in Iraq's oil production within the upcoming years

## Conclusions

Iraq Technical Service Contracts are a new model of oil field development agreements between host governments and foreign oil companies

It offer maximum benefits for Iraq's economy and the country's oil sector

Any attempt to replace these contracts with Production Sharing Contracts will cause heavy loss to Iraq and its petroleum industry

In spite of huge challenges pertaining security, political instability, and lack of logistics, Iraq's oil development program was very successful in its first phase in hiking oil production, exports, and financial revenues

Unfortunately, the projects are facing drastic budget cuts resulting in slow development, reduced production growth, and possible slide in production on the short term

It is imperative that the government acts quickly to put an end to gas flaring by all means

The Ministry of oil is urged to commence implementing the water injection project to avoid reservoirs damage and to allow for the second phase of field development

It is also urged to fast-track storage capacity expansion to maximize oil exports and the country's revenues

Using the oil development contracts for political purposes and media propaganda have made great negative impacts on the development program

The Ministry of Oil could form an Information Bureau to provide true facts and figures and transparent information about the License Contracts progress on the ground to cut the way on manipulation of the oil development issues

## **Asri Mousa - Oil Expert and Independent Energy Consultant**



Bsc. Honor (1971) and a Master degree (1972) in Process Engineering  
University of Sheffield, UK

38 Years service at Iraq's oil sector, assumed several senior posts in Iraq National Oil Company, South Oil Company and The Ministry of Oil, including Head Oil Production and Export Operation 1991-2003 and Director Planning and Studies 2003-2008 at South Oil Company

Senior oil expert at The Minister Office 2008-2010 with former Oil Minister Dr. Hussain Al-Shahristani, during which he was head of the ministry's team for the Basra Gas Company venture and a member in the ministry's team for Iraq License Rounds 2009

Independent energy consultant since 2011 as well as conducting workshops and training courses on Iraq Oil & Gas in venues across the world such as London, Tokyo, Istanbul, Dubai, Abu Dhabi, Amman, and Basra