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A Short Analysis of Shell's Exit from Iraq Field Development. By Asri Mousa*



Royal Dutch Shell announced this month that it is trying to sell its stake in the Majnoon oilfield in southern Iraq, following a failure to reach agreement with Iraq's Ministry of Oil.

A Shell spokesman told UAE-based newspaper *The National*:

"Following extensive discussions with the Ministry of Oil, the oil minister of Iraq formally endorsed a recent Shell proposal to pursue an amicable and mutually acceptable release of the Shell interest in Majnoon, with the timeline to be agreed in due course."

In the short analysis to follow, I review Shell's situation in Iraq and try to recognize the key reason for the exit.

1- Summary of Shell's Projects in Iraq



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- **Majnoon Oil Development** – A 20-year development and production Technical Service Contract (TSC) with a Remuneration fee of \$1.39/barrel equivalent and a production target of 1.8 million barrels per day. Shell is the operator and holds 45% in a consortium including Petronas (30%) and state-owned Missan Oil Company (25%).

The field started production in 2014 after extremely long delay. Current level of production is 215,000 bpd. Oil production was 45,000 bpd prior to the TSC.

- **West Qurna-1 Oil Development** – A 20-year brown-field production and re-development Technical Service Contract project led by ExxonMobil as an operator in partnership with Shell and CNPC. The Remuneration fee is \$1.9/barrel and the production target is 1.6 million bpd (reduced from 2.325 million bpd).

Oil production at the base-line of the TSC was 244,000 bpd and the current level of production is 470,000 bpd.

- **Basra Gas Company** - 25-year Joint Venture Agreement between state-owned South Gas Company (51%), Shell (44%), and Mitsubishi Corporation (5%) to capture, treat, and process flared gas and the sale of gas products in domestic and international markets. The joint venture started working on the ground in May 2013.

The current operating capacity is around 800 million cubic feet a day and the final target of 2000 million cubic feet a day is expected by 2020.

- **Nebras Petrochemical Project** – A multi-billion-dollar foreign investment project with the Ministry of Industry. A Memorandum of Understanding (MOU) was signed in 2015 but no significant progress has been made.

2- *The Problematic Majnoon Project*



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Although there has been some issues and problems in the execution of all Technical Service Contracts between the Ministry of Oil and the developing companies, the Shell Majnoon project was the most problematic of all the TSCs and since 2013 the ministry has been frustrated with Shell's pace of development at the field and there were firm letters from the ministry (some of them were leaked to the media) warning Shell against delays that resulted in Iraq losing huge amounts of money at that time.

Shell performance was characterized by long schedules, relatively low incremental production, and higher cost per barrel compared to other TSC projects.

The relationship between the two sides became even more tense since the global oil crisis that started in the second half of 2014 and still ongoing. In 2015, Shell said it had pushed back a decision to further develop Majnoon, citing upstream spending cuts in the face of low oil prices.

The worst has come in May this year after the MoO applied performance penalties on the Shell-led project which had a significant impact on its commerciality.

3- Shell's Iraq Exit

The quiet dispute between Shell and the MoO has emerged to the surface this month when the company announced that it had agreed with Iraq's oil ministry to relinquish operations at Majnoon field to the government after unfavourable changes to fiscal terms.

"The Oil Minister of Iraq formally endorsed a recent Shell proposal to pursue an amicable and mutually acceptable release of the Shell interest in Majnoon, with the timeline to be agreed in due course," a Shell spokesman said.



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Shell is also reported selling its 20 percent stake in West Qurna -1 oil field in the south of the country. The field is operated by ExxonMobil.

Some reports indicated that Shell had found limited financial benefit in recent years from oil production in Iraq, where it is paid in crude but has limited say on strategy.

Shell said it was still committed to producing gas in Iraq, saying it would focus on developing and expanding the Basra Gas Company, which processes gas from the Rumaila, West Qurna and Zubair fields. It has a 44 percent stake in the joint venture.

"By leaving Majnoon, Shell will be in a stronger position to focus its efforts on the development and growth of the Basra Gas Company, and the Nebras Petrochemicals Project," a Shell spokesperson said.

4- Shell's Global Business

- Shell's acquisition, in recent years, of UK gas firm BG for a whopping price of around \$70 billion, coinciding with the global oil price crisis has prompted Shell to sell assets in several places worldwide including the UK and the United States. Aside from Iraq, Shell is currently planning to divest ~ \$ 30 billion in assets worldwide. Some reports indicate that around \$ 5 billion have been divested between North Sea upstream and other region downstream assets.

5- Shell's Bid for Iran's Azadegan Field

Shell's decision to exit the Majnoon project comes as the company prepares to bid for a contract to develop Iran 's giant Azadegan field, which lies across the border in Iran's strategic West Karoun oil cluster.

The area also covers Iran's Yadavaran and Yaran fields, which Tehran has earmarked



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as a development priority due to their proximity with Iraq.

Shell signed a memorandum of understanding with Iran's NIOC in December 2016 to carry out a technical study of the Azadegan and Yadavaran fields as well as the Kish gas field.

6- Conclusion

Shell's exit from Iraq oil field development has come as a result of multiple reasons, the main driver, in my opinion, was that when Shell signed the two Technical Service Contracts in 2010, for Majnoon and West Qurna-1, it had in mind changing the terms of these contracts to some kind of Production Sharing Contracts but, in eight years, it did not succeed to any extent in that direction and in the end there was the decision to exit the two projects.

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