

Analysis: Iraq's new energy ministers face hurdles on capacity growth, power supplies



Baghdad — Iraq's appointment of two policy veterans as its new oil and electricity ministers could herald an era of urgent oil capacity growth, as OPEC's number two producer pumps at record highs, targets higher exports, plans to restart the national oil company and pushes long-delayed efforts to capture more gas.

Prime Minister-designate Adel Abdul-Mahdi named part of his new cabinet late Wednesday, confirming Thamir Ghadhban as Iraq's new oil minister and deputy prime minister for energy affairs, and Luay al-Khateeb as the new electricity minister.

In a political system that rewards political allies and apports ministerial posts based on sectarian identities, Ghadhban's nomination is a relative anomaly.

At 73-years-old, Ghadhban has been in the Iraqi oil sector since becoming a field and reservoir engineer in 1973, and moved up the ranks until 2003 when, after the US-led invasion, he was named head of the ministry by the Americans.

After a seven-month stint, he returned as Iraq's oil minister for nine months from 2004 into 2005. He is seen as a capable technocrat, well-respected within Iraq and by the dozens of foreign oil companies operating in the sector.

"He is an oil and economy expert," said one senior adviser to multiple leading Shia political parties. "No political allegiances."

Ghadhban co-authored the 2006 draft hydrocarbons law, but has since distanced himself from it after parliamentarians and parties altered it too much. He was also the architect behind the Iraq National Energy Strategy, which created a roadmap for Iraq to become a net exporter of not only crude, but fuels and electricity, with local demand fully satisfied and the economy diversified.

In his deputy prime minister role, not only will the hydrocarbons sector be under his purview, but he'll be a clearinghouse for electricity issues and a new national oil company, even if the company ends up being carved out from the ministry.

GAS, POWER IMPERATIVE

OPEC's second-biggest oil producer behind Saudi Arabia, Iraq is pumping at a record rate close to 4.7 million b/d after gradually rebuilding its oil industry after years of sanctions and US support after the second Gulf War. The country is targeting a production capacity of 8 million b/d by 2025.

In the short term, Iraq could boost its oil exports by reaching an elusive deal for the use of an export pipeline under the control of the semi-autonomous Kurdistan region of northern Iraq. The political dispute between the federal

government in Baghdad and Erbil is shutting in some 200,000 b/d of federally controlled fields in the Kirkuk area.

The new appointments also bode well for further progress on Iraq's ambitions to capture more of its large volumes of flared gas to fuel power plants, produce petrochemicals and process into liquid fuels, according to the International Energy Agency.

Alongside Russia, Nigeria and Iran, Iraq flares large volumes of gas, equivalent to fuel around 4.5 GW of gas-fired power generation, or enough to power 3 million homes, according to the IEA.

Although Iraq's Ministry of Electricity has built significant power generation capacity with combined cycle gas turbines, delays in capturing more gas has meant the new power plants were switched to burn oil.

Some 300,000 b/d of crude and heavy fuel oil is used for Iraqi power generation, according to the IEA, despite the start of the Basrah Gas Company processing venture with Shell in early 2013.

Public frustration over chronic power shortages came to a head over the summer with a wave of major protests, mainly the oil-rich province of Basra in the south.

WATER INJECTION

But Ghadhban and Khateeb are both Iraqi policy veterans that are well aware of the need to push for faster progress on gas capture projects, the IEA's Middle East and North African analyst Ali Al-Saffar said Thursday.

"Khateeb knows these issues extremely well, this is high up on his agenda as we understand it," Saffar said during an IEA presentation in London, "Likewise, we expect that to be well understood by Gandhban, who has dealt with the issues in the past. So the outlook is possibly quite optimistic, in the sense that these issues are well understood and movement can probably be made on them now," he said.

Khateeb spent six years with Shell and then Crescent Petroleum focused on Iraq, and founded the Iraq Energy Institute, a Baghdad-based think tank.

With a new focus on capturing flared gas, Iraq's gas production could rise rapidly from 8 Bcm today to 115 Bcm in 2040, the IEA predicted in a new long-term outlook for major producers published Thursday.

The report also notes that one of the biggest uncertainties for oil development in Iraq is the lack of progress on projects to supply water for injection in upstream operations.

The Common Seawater Supply Project that was initially planned to be in operation by 2013 has yet to make any real progress, the IEA said, and without additional water injection, Iraq could reach a ceiling in production "well below" the 7 million b/d mark.

NEW NATIONAL OIL COMPANY

A 45-year oil industry veteran, Ghadhban is also likely to be laser-focused on restarting the national oil company and after more than a decade of witnessing stagnant strategy in the energy sector.

He long supported the move, following Saddam Hussein's cancellation of the company -- an institution of national pride -- and concentration of power within the Oil Ministry.

One adviser close to Ghadhban said it is "his main mission" to carve the operating companies out from the ministry and create an independent state operator that can advance Iraq's oil sector outside the trappings and whims of Iraq's political climate.

Parliament approved a law re-constituting the Iraqi National Oil Company in March, and it was to begin formation by this month.

Internal political delays, and two concurrent federal lawsuits, have derailed that timeline. Iraq's caretaker cabinet two weeks ago named then-Oil

Minister Jabbar al-Luaibi to also be president of INOC and to begin the company's development. A week later, Luaibi ordered nine operating companies to separate from the ministry but walked that order back after an immediate rebuttal from the incoming Abdul Mahdi. The Oil Ministry said any actions regarding INOC would be left to the next government.

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Source: S & P Global, 25 October, 2018

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