

Baghdad Oil Seminar
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Iraq's Oil service Contracts
An Overview

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HE, the Minister of Oil, Dr Hussain Al- Shahrstani
Mr Chairman,
Distinguished participants,
Ladies and Gentlemen

It is a great pleasure for me to welcome you all to this gathering here in Baghdad which I hope will be an occasion for a mutually beneficial exchange, and will allow all of us at the end of two days of open discussions to consolidate our efforts to bring this huge project Iraq has undertaken to good end. The Advisory Commission at the Prime Minister's office, together with the Ministry of Oil, has recognized the need for such a gathering in order to discuss the major issues related to the implementation of the oil field development contracts as we enter this new phase of work on the ground.

As many of you know, the country has been trying for three decades to ramp up its production and export capacities but in vain due to wars and sanctions. Now, we have succeeded to put the first foot on that path in order to rebuild our upstream oil sector to what it should have been, in par with our neighbors. The Advisory Commission, being aware of the paramount importance of the upstream sector to the country's economy and the dire need for revenues, has always supported the ministry of Oil in its endeavor to ramp up production and increase its export capacity. This, together with the maximization of the oil revenues in the short and medium terms and the building of our national capability in managing and administering the upstream oil sector, are all cornerstones in our national oil policy.

As things stand today, the government is challenged to provide enough revenues to invest in vital services for the population, such as health, education, supply of potable water, building sewage treatment systems and providing housing, not to mention the capital intensive infrastructure such as highways, railways, airports and ports...etc. One of the main reasons behind involving the foreign companies in developing the oil fields and building the required infrastructure is to avoid relying on national financial resources in view of the huge investment required, and to substitute it with foreign direct investment. The present environment in Iraq is conducive to carry out such task in cooperation with the international oil companies and the issue itself is of paramount importance to the country and its future as Iraq regains its status on the international oil market.

Through those 11 contracts awarded in two successive bid rounds, we are looking at hitting production targets that could exceed 10 million barrels per day in the next decade - market conditions permitting - through the further development of producing fields as well as bringing some partially developed or

non-developed fields into production. Additional production would come from fields operated by our regional oil companies and the federal region of Kurdistan.

The experience of working with foreign oil companies is not new and goes back to the 1960's and 1970's, before and after nationalization. We had a service contract with France's Elf in the early 1970's, which resulted in the discovery and development of Missan oil fields and another service contract with Petrobras that led to the discovery of Majnoon in . There were also negotiations with some 80 IOCs in the 1990's which culminated in the award of three field development and two exploration contracts.

The more recent service-type contracts we are discussing today were awarded in a very transparent and highly competitive process. The IOCs are required to carry a number of well defined tasks starting with providing investment, further develop the oil fields in accordance with approved development plans and shoulder the responsibility for meeting production targets. Transfer of technology, capacity building, training of Iraqi personnel in all kinds of skills required for the management and oil operation as well as providing work opportunities for Iraqis and utilization of the national content, are all part of the requirements included in the signed contracts.

The objective of this seminar is to focus on the main characteristics of the contracts and what they entail when it comes to implementation. One of the major characteristics of those contracts is their sheer scale. There are huge volumes involved in all aspects of these contracts and at all phases, whether during their execution or the final results. I mean here the production and export capacities that we are adding, the scope and volume of work involved, both as direct core and as supporting work, all of it over the duration of the contracts which is at least 20 years.

This scale is unprecedented. We're not talking about one or two oil fields here that we need to develop, but rather about 15 fields, most of which are classified as super giant or giant fields, that all need to be developed at the same time. The incremental production capacity targeted is not a modest percentage of existing capacity but rather several folds what we are producing now. Once realized, it will put Iraq back in a leading position among world's oil producers and play a major role in insuring world stability through the security of energy supply.

An overall simplified overview shows that those contracts entail the drilling of several thousands of wells, both oil production and injection wells and laying thousands of kilometers of flow lines and pipelines. The

requirements to achieve those targets are quite varied and large in size and number; dozens of drilling rigs and work over rigs need to be deployed all over, the majority of which need to be brought into Iraq from abroad. With the rigs, a huge amount of equipment and materials will need to be imported starting from casing and tubing material, to wellheads, Christmas trees, and valves, in addition to heavy equipment for logging, cementing and acidizing trucks, coil tubing units and heavy vehicles such as cranes and forklifts,..etc. The requirements also include thousands of tons of mud, cement and chemicals for drilling wells.

Besides what I have just described, the development of new or “Green” fields will require a lot of civil and electro-mechanical work. The building of degassing stations, with flow tanks, pumps and compressor stations as well as transfer lines, will add to the work I’ve just described. It will also involve the construction of control rooms, power stations, industrial zones housing workshops, warehouses, stores and yards, together with work camps, residential areas and roads.

At another level, the implementation of these contracts that we have signed would require the addition of another dimension to our national networks, namely our national storage, transport and export networks.

We are going to see a large number of oil storage depots with sizeable storage tanks, high rate and high pressure pumps connected to large diameter transfer pipelines, extending for long distances between the fields. The depots and offshore export outlets are going to witness major expansion work as well. Similarly, expect large scale water injection and industrial water supply systems with large diameter pipelines extending from offshore sources for hundreds of kilometers into the fields.

The infield gas gathering and processing facilities and gas transfer lines present a large scope of work on its own. The gas network is not large enough at present to cater for the production and export volumes that will come on stream as a result of the two bid rounds. As a result, we will witness a major expansion of the gas network as well as the construction of a new network. Again, to build this necessary infrastructure, a large volume of equipment, material and manpower will be involved.

Now, let’s assess the logistics required to implement work at this scale. It is expected that work shall intensify at a high rate with time and continues for the next ten years as far as those contracts are concerned, to be followed by a maintenance period. One can visualize during this period, and on a daily basis, thousands of people, Iraqis and expatriates, going in and out of the fields; A

continuous influx into the country of heavy equipment, machineries and materials through our ports, our airports in Baghdad, Basrah, and Mosul, and land border entry points with neighboring countries. There will be a large number of engineering and field service companies that will add up to the international oil companies, both international and national, getting involved. Numerous foreign and local contractors providing all sort of services in the fields of civil engineering, construction, transport and catering ...etc, will also become part of this web.

I have tried here to help you visualize the enormous tasks that lay ahead. And having in mind the time constraints to reach the production targets mentioned, it's imperative to stress on the need that all parties concerned, whether directly or indirectly, national and international, work together for the efficient and speedy implementation of those contracts. It is with this objective in mind that we decided to convene this seminar and invite as many representatives of Iraqi institutions as possible as well as all the international companies involved. The early steps as the companies start implementing their contracts on the ground are crucial to the success of the whole project.

To start with, registration of companies and the opening of their offices in Baghdad and their branch offices in the relevant cities got to be handled in a professional manner and done swiftly without delay once required documents are provided.

Facilitation of the entry into the country of company's personnel, issuance of entry and exit visas and granting of residence permits in accordance with contracts requirements are essential to the success of the IOCs to meet their obligations.

Custom clearance at ports, airports and border entry points should not witness any unwarranted delay.

Other activities such as opening bank accounts and banking facilities, insurance and taxation as well as auditing of accounts ...etc, should be provided in a highly professional, clean and friendly manner.

It's clear that such measures are governed by laws and regulations. Amending and revising such laws and regulations can be incorporated in the ongoing process of the Economic and Legislative reform in which the advisory commission is taking a leading role. However, managements could play a very effective role in reducing routines and avoid the burdens of bureaucracy.

The managements of the regional oil companies, the Iraqi members of the Joint Management Committees as well as the directorates in the Ministry of oil headquarter could have profound effect in easing, facilitating and executing various resolutions and measures in order to carry day to day work, as well as handling medium to long terms plans and budgets without delay.

Local authorities, in particular, the Governors and the Governing Councils in Basrah, Missan, Wasit, as well as Kirkuk and Mosul, have important roles to play in coordination with the Ministry of Oil and other Ministries such as Interior, Transport and Finance. Those producing governorates shall accrue great benefits from the implementation of those contracts whether in the form of revenues which will increase their annual budgets or through the employment of the local manpower and contractors, and many other forms of added benefits.

I would like to stress the firm desire of the Iraqi Government to conduct those contracts as well as all other activities in the energy sector in a clean and transparent manner. This desire was exemplified by Iraq becoming a member of the International Transparency Initiative in the Extractive Industry.

I believe that all of us here recognize that great improvement in security throughout the country has been achieved, a decisive factor that made the award of those contracts and their implementation on the ground possible. The government of Iraq has stressed more than once its firm commitment to secure the fields and take all necessary measures to provide a safe working environment. It's the duty of the federal and local authorities on one side and the IOCs on the other to work together to achieve this goal.

Finally, I would like to recommend to the IOCs to take social corporate responsibility seriously as it will always be conceived by the population as a yardstick for measuring the success of the contracts awarded. The local communities have expectations which I advise taking into consideration as companies go over their investment plans.

Let me conclude by stressing again the importance of these contracts to the future of the country and the wellbeing of the Iraqi people. For this reason it is crucial that we all work together to insure they are implemented in the most effective and timely manner. The responsibility lies with both sides to make sure all commitments are delivered on. I would like to invite in particular the leaders in government institutions and ministries to step in and be at the forefront in turning this huge exercise into a success story.

It is really a great pleasure for me, as a veteran of the Iraqi oil industry, to see Iraq finally breaking ground and is set on the way to become a major oil producer in the region and in the world. Very soon, we will start witnessing increases in our oil production and our oil exports, and with it additional revenues will be made available to the state. As we do this, it is important that we insure the creation of a win-win relationship with our partners, while maximizing our national effort to build our capabilities and maximizing the national content in the implementation of these contracts.

Thank you for your attention and for joining us today.