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The Iraqi Oil Industry – Reconstruction or Recovery?

There has been a lot of talk about the reconstruction of the oil industry in Iraq. However, the reality is that there was very little recent war damage, rather a legacy of 13 years of zero investment and extremely difficult management conditions. Together with the Iran-Iraq war, this has left the industry woefully in need of modernisation, new technology and efficient reservoir and production management systems.

Reconstruction

Beamed across TV networks, the oil well fires made headline news. However, only seven wells in the South Rumaila oilfield near Basrah and one well in Kirkuk were actually set alight and pipelines were ruptured at a few locations (two additional fires were due to damage in the pipeline system). In fact it was suggested that several explosive charges failed due to Iraqi troops not willing to destroy their own resources. The effect on immediate production capacity was minimal and the necessary repairs are well within the capability of Iraqi engineers. So far there is seemingly no significant damage to the export system.

Rehabilitation

Rehabilitation is desperately needed and fast. Iraq's production capacity from oilfields may well decline before it recovers, perhaps for as many as two years or more. The issues are many and wide-ranging:

- **The Iraqi Ministry of Oil specialists are some of the most capable people in the world**; the real issue is that there are far too few and sadly technology over the last 13 years has left Iraq behind.

- Replacement wells can be drilled immediately in existing producing oilfields but this will exacerbate the underlying problem. Ideally every field in the country requires re-examination and reservoir modelling to prepare new development plans and drilling programmes. This starts with the collection of new data (principally seismic) and the use of modern reservoir interpretation techniques.

- Oilfield facilities require considerable upgrading: mainly oil processing, gas processing and injection systems.

- Pipeline and export systems are operational. Capacity is fine – safety and reliability are not. Systems have lacked corrosion protection for an awful long time and pumping and storage facilities in southern Iraq in particular are in need of much attention.

Fao pumping and storage facilities were never repaired fully following the Iran-Iraq war.

- Much associated gas has been flared. In 1990 plans were well underway to utilise gas in power, industry and the domestic market as well as LPG export. In the absence of the Gulf War, Iraq would very quickly have found a home for all but emergency flaring. These plans need immediate rejuvenation: to avoid flaring, to provide a valuable domestic resource and to free up oil for export. Contrary to popular opinion, Iraq aspires to the highest environmental standards in the world.

- Downstream is probably in a more needy state than the upstream. In a perfect world refineries need rebuilding and the gas industry needs a complete overhaul.

Finance

Anyone who believes Iraqi oil exports will fund reconstruction and the needs of the oil industry is pitifully mistaken. Health, food, water, sewage, education, power, industry, transport, administration, building and civil construction all need immediate and massive funding if Iraq's new era is to survive and prosper. The past efforts of the UN oil-for-food programme fall into insignificance compared to the current needs – and the political will and motivation now is quite different. Furthermore, big question marks hang over the national debt and the Gulf War reparations bill: suspension, reduction, cancellation or no change?

Funding in the oil industry is 'chicken and egg', too little leads to too little in renewed oil exports and revenues; achieving self sufficiency in a 'reasonable time' has to be the ultimate goal. In the past we had assumed private finance in the oil sector was needed, now it is necessary. In fact, the development of the much publicised giant oilfields of the south may well lead to enhanced exports more quickly than the *proper* rehabilitation of existing and tired producing oilfields.

We believe very strongly that the Ministry of Oil maintains full control over its oil industry and we do not advocate privatisation – that goes against the grain of local and regional political fundamentals and would not survive the test of time. However, development and production contracts are another matter. These contracts (PSAs elsewhere) could bring about the transformation of the upstream oil sector of Iraq in a relatively short time; they will be under the control of the Iraqis and provide technology and expertise for the long term with early revenues for the Government. In the downstream, a similar process, with incentives for contractors, could also see the early redevelopment of facilities using private finance.

However, little of this recovery work can proceed without early stability and an installed **Iraqi Government**, both of which we hope will materialise just as soon as possible.