



FOREIGN COMPANIES are cautious about acquiring Iraqi oil facilities, such as this one in Kirkuk, in part because of a shifting political landscape.

## Race for Iraq Oil Stalled by Security Fears

**ON THE SAME DAY** that American troops withdrew from Iraqi cities in June, representatives from more than 35 international oil companies descended on Baghdad for another historic event—the opening of Iraq’s oil industry after nearly 40 years of nationalization. But companies were mostly there to “kick the tires” rather than to drive away with the rights to operate an oil company in the country. Companies signaled by their actions that the security risks far outweighed the rewards at this stage.

As a result, the auction, which offered 20-year development rights to six lucrative oil fields and two gas fields, yielded only one deal.

Apart from the security risks, companies that want to participate will face high startup costs. Years of sanctions during Saddam Hussein’s regime and war in Iraq have led to a crumbling oil and gas infrastructure that will require tens of billions of dollars of foreign investment if the country is to reach a production goal of 6 million barrels a day within the next ten years. Iraq produced approximately 2.4 million barrels a day last year, up slightly from the year prior, according to the U.S. Department of Energy’s statistical agency.

But this situation won’t last. Iraq boasts an estimated 115 billion barrels of oil, the

world’s third largest proven oil reserves, surpassed only by Saudi Arabia and Iran. Given the potential for future financial rewards, companies are likely to seek ways to address the security concerns.

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keen to get in there,” Mike Blyth, director of risk consulting at RSM Consulting, told *Security Management* before the June auction. Blyth helped one consortium create its strategic security plans for Iraq.

Another security consultant who is supporting oil and gas companies as they plan to enter Iraq agrees, despite the auction’s outcome. “I don’t think the independent oil companies, the [international] oil companies, are going to walk away completely just because of what happened in the bid round,” says Michael Woodrum, senior manager of global services at Control Risks.

Companies know that the upside is po-

tentially as large as the risk. Iraq is one of the least developed OPEC countries, notes Michael Makovsky, foreign policy director for the Bipartisan Policy Center. There are believed to be oil fields that have not yet been discovered in addition to the producing fields that have not maximized production. “Some people say their reserves, while listed at only 115 billion barrels, might be twice that amount,” he says. That would rival Saudi Arabia’s reserve.

The biggest risks the international oil companies face going into Iraq at this point are posed by political volatility, Woodrum says. Iraq’s parliament has not yet passed a hydrocarbon law and political uncertainties abound. The parliament claims to have the power to veto any of the agreements reached by the oil ministry and has indicated that when a law is passed, it may invalidate any contracts negotiated beforehand.

Also, the proposed legislation would create the Iraq National Oil Company (INOC), but it’s not clear how the INOC would be affiliated with the already existing state-owned oil companies, with which the foreign firms must partner.

Some in Iraq consider any contracts with foreign oil companies to be illegal, and a union representing workers of one

of Iraq’s state-owned companies has threatened strikes. Iraqi elections to be held early next year add yet another layer of political uncertainty.

In addition to a political minefield, companies that go into Iraq will face an entirely uncertain security environment. “The security situation now may be very different—it may be better, it may be worse—in six months time,” says Blyth.

Both Woodrum and Blyth stress the importance of incorporating security into the business from the outset. Security must be intertwined in management decisions for procurement, partnership, and timing of projects, Woodrum says.