

2016 Top Markets Report

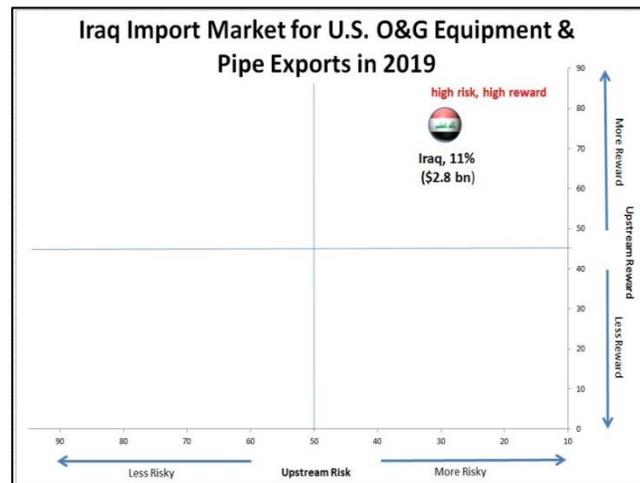
Upstream Oil and Gas Equipment

Country Case Study

Iraq

Overall Rank: 19

The Government of the Republic of Iraq (Iraq) is attempting to dramatically increase its production levels of crude oil by 2020, requiring large investments in infrastructure and O&G equipment. These efforts, however, will be tempered by lower global crude prices, which have already forced Baghdad to decrease development spending. Violence and continued conflict with transnational terrorist groups in the western and northern portions of the country will have a limited impact on production, as production remains concentrated in southern Iraq and Iraqi Kurdistan.



Background

Iraq possesses the world's fifth largest proved reserves of crude oil and is OPEC's second largest crude oil producer. Furthermore, Iraq holds the world's 12th largest proved reserves of natural gas. All of Iraq's known hydrocarbon reserves are onshore, and all of its known major fields are in production or in development. Iraq's O&G sector is recovering from years of international sanctions and conflict, but oil production ramped up by nearly 1 mbpd between 2010 and 2014 despite a series of setbacks, including infrastructure constraints, slow contract agreements, political disagreements and sustained violence that caused supply disruptions. The Iraqi government continues to seek higher oil production levels, setting ambitious targets of more than 9 mbpd by 2020 (with a more likely output totaling 6 mbpd by 2020). However, in an attempt

to support OPEC's efforts to alleviate the global oversupply of crude oil and increase global oil prices, the Government of Iraq recently issued verbal approval to curb higher production levels, keeping oil production at around 3.2 mbpd.

Iraq holds around 113 Tcf of natural gas reserves, accounting for slightly less than 2 percent of the world's proved reserves. Lack of pipeline infrastructure prevents greater use of the resource, and currently more than half of the natural gas Iraq procures is flared, making it one of the largest natural gas-flaring countries in the world. The Iraqi government has attempted to reduce its gas-flaring by entering into joint venture agreements to export natural gas via LNG or pipelines. The Iraqi government has discussed plans for restoring a pre-Gulf War natural gas pipeline with Kuwait, as well as the construction of a pipeline with Iran and Syria

toward Europe. In March 2016, Iraq exported its first shipment of natural gas in its history, shipping 10,000 standard cubic feet of gas condensate from the Gulf of Basrah. Additional shipments of natural gas condensate are expected.

IOCs that are present in Iraq operate under technical service contracts (TSCs), in which they are paid a fixed fee for production, as negotiated by the Ministry of Oil. IOCs are concentrated around Iraq's southern oilfields, including BP, Royal Dutch Shell, ExxonMobil, Eni and Lukoil. Unlike in other parts of Iraq, IOCs operating in Iraqi Kurdistan enter PSAs. The Iraqi government in Baghdad and the KRG have repeatedly clashed on the O&G sector, most notably around the development of resources in disputed border areas and contracts with IOCs.

Market Analysis

In 2015, the United States exported \$130 million in O&G equipment to Iraq (down from \$194 million in 2014), representing less than 1 percent of total U.S. O&G equipment exports. The main products exported include parts for boring and sinking machinery and gas filter/purifying machines. In 2013 and 2014, Iraq relied on several sources for its O&G equipment imports, including China (23 percent of 2014 imports), Italy (14 percent), the United States (13 percent), Germany (9 percent) and Japan (6 percent). Iraq remains a marginal player in the exporting of O&G equipment, exporting \$1.9 million in 2013 and \$0.9 million in 2014.

Policy Context: Opportunities and Challenges

In its attempts to ramp up production, Iraq faces several issues that impact further development of the O&G sector, including sectoral conflict, infrastructure constraints, limited resources, political instability, declining global oil prices and security concerns.

The country's oil reserves are not evenly dispersed across ethno-religious communities with oil concentrated in the semiautonomous northeast that is administered by the Kurdistan Regional Government (KRG) and the Shia-dominated south.

Insufficient transportation infrastructure and limited resources for O&G projects hinder Iraq's ability to meet production goals. Iraq does not possess enough midstream infrastructure to accommodate its ambitious production goals or lessen production disruptions, and will require additional electricity to meet the demand associated with higher production levels. In addition, increasing production from aging fields will require a large amount of gas flooding or water flooding to maintain production for aging wells, which is a highly debated technique among Iraqi oil engineers.

Furthermore, Iraq's parliament has failed to pass a hydrocarbon law that had been under consideration since 2007, underscoring the country's political difficulties due to ethnic and sectarian political factions. These disputes are likely to increase in the face of declining international oil prices, which has already forced Iraq to reduce the funds available to the Ministry of Oil. Furthermore, Iraq remains a challenging place to do business due to widespread corruption, a slow bureaucracy and country-wide security challenges.

Once seized territory has been liberated from ISIL, the Iraqi Government will need to repair facilities damaged in the fighting, including the Beiji refinery and the Iraq-Turkey pipeline. In the summer of 2014, ISIL attacked northern Iraq, seizing the city of Mosul and other towns. This allowed ISIL the capacity to control northern Iraq's oil production and refining (excluding Iraqi Kurdistan), but this did not disturb southern Iraq, where 95 percent of Iraq's total crude exports came from in 2014. Several of these smaller fields and refineries have been damaged by international airstrikes or have been retaken by Iraqi or Kurdish forces. In addition, ISIL has taken oil from storage facilities, pipelines and pumping stations across the territory and continues to sell oil on the black market. A multi-pronged international response, however, has targeted the group's oil infrastructure in order to cripple its oil smuggling.