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Iraq: Oil mirages and the reality

The Middle East never ceases to amaze the world and sets tough tasks for politicians and economists. Thus, the latest news made oil industry workers immediately hit their calculators and make forecasts - by 2020, Iraq is going to triple oil production and intends to work closely with Iran and jointly challenge the hegemony of Saudi Arabia in the Organization of Petroleum Exporting Countries (OPEC). “We believe that economic growth in the world, needs energy security,” said Hussain al-Shahristani, the Iraq Minister of Energy.

This move will increase oil production from three to nine million barrels per day. Hussain al-Shahristani said that the unpredictability of the global economy makes it impossible to accurately forecast energy needs. “We are coordinating our actions with Iran,” stressed the Minister. As it is expected, after the removal of sanctions, Tehran intends to finance the ambitious plans of Baghdad. It is also possible that Iranian ports will be used for the export of Iraqi oil through the Persian Gulf. Jointly, Iran and Iraq own the largest oil reserves, and at the moment, their potential in terms of crude oil, is about 12.5 million barrels per day.

Oilmen immediately took alarm, saying that the future joint actions of Iran and Iraq will increase oil production and this will lead to oil price decline and the destabilization of the oil market and of the entire world economy. This, however, is not surprising, if we take into account that the production of oil, at the moment, in Saudi Arabia and Russia represents 10 million barrels per day. In addition, the United States may approach this threshold in the near future, with its shale oil. Then Iran, which is gradually emerging from the sanctions regime, also plans to increase production of the “black gold” and gas. If you take the total future oil production of these five countries, it turns out that they will produce 45-50 million barrels per day, or 50% of world consumption. It is natural that in such circumstances, the world will witness a sharp oil price decrease, possibly down to 15-20 dollars, as it occurred 20 years ago.

Will there be an oil collapse in the global economy and is the world ready for a new economic crisis? Let us analyze calmly and try to understand the quite difficult situation on the world oil market. Let us analyze the “oil” situation in Iraq.

It is well known that for the normal operation of any industry, and especially the oil sector, political stability and sustained funding are required. However, Iraq does not have these two components and it will not have them in the nearest future. There is a fierce, bloody struggle for power going on between Sunnis and Shiites in the country, which, on one hand, is strongly heated by Shiite Iran and, on the other hand, Sunni monarchist regimes of the Persian Gulf. Neither the politicians nor the economists, nor even the in-vogue astrologers, can predict the outcome of this struggle.

Recently, Hussain al-Shahristani announced some data relating to the negative impact of Middle East events on the oil industry of the country. According to the minister, the terrorists from Syria and Iraq, using the transparent border, created a number of bases on Iraqi territory, from which they carry out attacks on civilians, infrastructure and economic objects. The objects of the energy complex are especially popular targets, as they bring most of the money into the budget. The oil pipelines, power transmission lines and power plants are being attacked by the
terrorists. Due to the Islamist activity, there is a high probability of bombings and terrorist attacks in the province of Nineveh (capital city - Mosul) and the development of promising oil fields is in danger. Speaking about the oil transportation, the oil pipeline from Iraq to Turkey has already suffered explosions 54 times in 2013.

This is not surprising, since there are constant attacks on the guards of the pipelines. Thus, the Iraqi media has just reported that at least 15 Iraqi army soldiers were killed in an attack by Islamists in the military camp next to the village of Ain al-Janashiya, situated 20 kilometers from Mosul. Soldiers were guarding the pipeline. It was reported that most of them were killed after they were captured. Eight soldiers were beheaded, and the others were shot. Bodies were found by their colleagues who returned to the camp a few hours after the attack. The Iraqi oil decline in 2013 is due to poor maintenance of infrastructure, sabotage and adverse weather conditions.

Currently, according to many political analysts, the country has reached a deadlock. Parliament is not able to solve anything, many members of the Parliament do not participate in its hearings as a protest against government policies, and the lack of a quorum does not allow making decisions. The 2014 draft budget has not been decided upon, and many other bills have not been debated. A huge number of vital projects that are not approved and that have not received funding remain on paper. The huge oil and gas profits are being deposited into accounts opened in the United States.

Many people in Iraq guess where the money goes. Therefore, the Ministry of Finance’s refusal, with reference to the lack of funds, for the implementation of the law adopted in 2013 to increase the 2014 budget allocations to the provinces from $1 to $ 5 per barrel of oil, caused uproar among local authorities. Governors and provincial councils began to produce coordinated actions to influence the government. According to the official statements, the leaders of the provinces intend to make the government revise the 2014 budget draft by any means.

The Iraqi leaders behaved as rules with here-and-now approach during the last 10 years. In the prestigious areas of London, many former functionaries of the “new democratic government”, starting with the first Defense Minister Hazem Shaalyana (at the time he was accused of embezzling half a billion dollars in just one year of office), found shelter. Many current Iraqi bosses prudently bought real estate there. According to the parliamentary committee for the fight against corruption, the amount stolen from the treasury and brought abroad is approaching $200 billion. In addition to these evils, the situation with Kurdistan has not been solved, which, in its turn, has built its own pipeline to Turkey and, despite a guerrilla war against Turkish special forces and bombing of its territory by Turkey, is going to direct large volumes of oil to its cursed neighbor. Moreover, some 50 percent of the oil exported to Turkey will be sold at low, discount prices, and only the other half will be sold at the market price. The same Hussain al-Shahristani warned the Kurds that if they supplied oil abroad, without the consent of Baghdad, the government would cease to allocate money from the Iraqi general budget. This is a very powerful argument and threats, as the Kurds get about 14–15 billion dollars from the Iraqi budget. If they sold their own oil, they could get less than 9 billion.

In addition, Baghdad has illusive dreams of receiving Iranian funding, as Tehran itself is not only going to increase oil production in its old fields, but also wants to develop new ones. To this end, the Iranians are actively seeking investors for the oil industry. They have begun negotiations with potential partners, as Oil Industry Minister, Bijan Zanganeh, said in an interview with the Financial Times newspaper. According to him, he met with European companies, and “indirectly” with U.S. companies, which are preparing for the time when they will again be allowed to invest into Iran. “Definitely we will be back if the sanctions are lifted. However, until that happens, we will not do anything,” said Christophe de Margerie, General Director of Total.

It seems that the dreams of Baghdad, of a sharp increase in oil production capacity, will eventually fade like a mirage in the desert. First of all, they need to solve the problem of power, to unite the country, which is falling apart, and to establish the financing of the oil industry. And only then, will it be possible to speak about the transformation of the “black gold” into real gold and hard currency for the benefit of the Iraqi people.

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