Russia is helping Iraq Return To the World Oil Market

Now Iraq wishes to become the fastest-growing oil exporter, compensating for the loss of Libyan production in the market, and possibly reviving the competition for participation share in the market among OPEC members. Despite the escalation of violence in the country, due to the exports of instability from neighboring Syria, Iraq, which is already the second largest oil supplier among OPEC members, has shown one of the most spectacular increases in annual production in the history of the industry. These successes are associated with the fact that foreign oil companies are developing deposits in the south - a region that almost has not been affected by the unrest.

Thanks to the fact that it was possible to eliminate export "bottlenecks" in the terminals of Basra in the south of Iraq, through which almost all Iraqi oil is exported, it is expected that Baghdad will be able to maintain, or even increase, the volume of oil exports. The exports in 2014 are estimated at about 140-150 million tons. If Baghdad manages to keep the export of oil at this level, its revenues will exceed $100 billion (at oil prices of $100 per barrel).

Oil renaissance. In 2010, the world’s leading oil companies began the work on expanding production at the giant South Iraqi oilfields of Rumaila (British Petroleum), West Qurna-1 (Exxon), Zubair (Eni), Majnoon (Shell), and Halfaya, where PetroChina operates under service agreements signed with Baghdad. This revival has been in progress for five years, and has allowed Iraq to set a goal of achieving an export level of 170 million tons per year.

Russia is making a significant contribution to this process. On March 31, 2014, the Russian company Lukoil started oil production in the Iraqi field of West Qurna-2. Its estimated reserves are 4.8 billion tons of oil, with recoverable reserves set at 1.8 billion. It is planned to extract at least 100 million tons from there by 2035.

Lukoil received the first oil in West Qurna-2 in October of last year. Now the field has reached the production level of 16,000 tons per day, which allows talking about the beginning of commercial operations. Lukoil is developing the field as a service company, under a contract signed with the Iraqi government in 2010 and valid through 2025. It owns 75% of the project, its partner, the Iraqi state-owned company South Oil Co, owns 25%.

The Iraqi government will compensate Lukoil’s costs for the project with oil produced in West Qurna-2. The compensation will start in three months. Lukoil has already spent about $4 billion on the project, and the total investment will be about $40 billion by the end of the contract.

The total amount of compensation for Lukoil, over the term of the contract, will be 90-100 million tons, which is comparable to the annual production of Lukoil. This oil will be sold through Lukoil’s trading company Litasco. Lukoil expects to earn about $90 billion from this project. Deductions to the Iraqi side will be about $1 trillion dollars, and to achieve this, Lukoil has to increase production at the field by 10 times, i.e., up to 160,000 tons per day by 2017, and to keep this level for almost twenty years. Thus, it is obvious that it will be not only a mutually beneficial, but also long-term cooperation between Russia and Iraq in this country’s critical industry.

Moreover, gradually this will apply to the processing of the associated gas, extracted during the production of oil (after reaching peak production, the West Qurna-2 will produce up to 6 billion cubic meters annually). In two
months, Lukoil intends to submit proposals, to the Iraqi government, for the creation of capacities for processing of associated gas. Most likely, this will be the production of polyethylene and polypropylene, as the associated gas produced has a very high content of ethane.

According to one of the top-managers of South Oil Co (SOC), partner of Lukoil, Ibrahim al-Maliki, unlike the Western companies operating in Iraq, the Russian company “pays special attention to the development of social facilities in areas of its presence”. This fact is also noted by elders of Imara Tribe, who welcome the work of the training center for local residents, established back in 2011 by Lukoil, where 350 specialists in various professions are being trained, who subsequently will be able to find good jobs, both in the oil industry and in other spheres.

On its own initiative and at its own expense, Lukoil supplies the necessary materials and equipment to the local school, medical and sports facilities, and even searches for new sources of drinking water for the population, something that is definitely not provided for in the formal agreements with the Iraqi government. Moreover, 2/3 of the 11,000 people employed in Lukoil’s enterprises in Iraq are Iraqis. No foreign company operating in Iraq has this ratio of local and foreign labor force.

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