

## IRAQ MONTHLY OVERVIEW

### October 2011

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#### Political

##### **Fourth hydrocarbons licensing round postponed until March 2012**

The auction for 12 new oil and gas exploration blocks that had been due to be held on 25-26 January 2012 has been put back to 7-8 March 2012, the second time the bidding round has been postponed. The delay – blamed on ‘technical issues’ – is likely to be the result of a number of key changes to the type of contracts that will be on offer, and of the reaction of interested parties to those amendments. Though the Iraqis are still tough negotiators they have proved increasingly willing to listen to the energy companies’ concerns, and much of the extra two months before the auction is finally held will be spent allaying their fears and answering their questions.

##### **The Kurdish region announces one million barrels per day output target by 2015**

The Kurdish Regional Government announced on 13 October that it aimed to reach a production capacity of one million barrels of oil per day (bpd) by 2015, with an initial target of 200,000 bpd by the end of 2011. While such ambitions are impressive, there are many hurdles to be cleared before these figures can be made a reality – including antiquated export infrastructure, the ongoing dispute over Kurdish energy contracts (and its implications for payments to foreign companies) and the shifting sands of Baghdad-Erbil politics. Energy firms will have to make very substantial investments in exploration and test drilling before production can come on line – a risk they are unlikely to take without a greater degree of certainty. The KRG’s targets are admirable – but perhaps too optimistic.

##### **Obama announces final withdrawal of U.S. troops – but al-Maliki hints otherwise**

On 21 October President Barack Obama announced that, as promised during his election campaign, ‘the rest of our troops in Iraq will come home by the end of the year. After nearly nine years, America’s war in Iraq will be over.’ After months of uncertainty on the issue Obama’s speech would seem to be the last word, ruling out the oft-mooted possibility of a few thousand soldiers staying in the country. However, as

always with this issue, the reality is less clear-cut. The U.S. president left open the possibility of American military personnel being used to ‘train and equip’ Iraqi forces – a neatly open-ended phrase that could mean anything from instruction on the use of equipment to significant support to combat operations. The question of immunity for U.S. personnel, if any remain, in Iraq, is still being thrashed out and a number of options are still open. Whatever the outcome, American engagement in Iraq will remain strong.

## Energy

### **Kurdish oil figures reveal underlying problems over payment to foreign companies**

The Kurdish Region is targeting oil production of ‘250,000 barrels a day next year, up from our current production of 120,000 barrels a day’, according to KRG Prime Minister Barham Saleh. The figure to focus on is the second: 120,000 bpd is down from the year’s average, raising the question as to why Kurdish exports and production have fallen. The answer could well be that groups operating in the Kurdish Region have cut levels because they cannot be sure of payment, and because internal Kurdish demand is not sufficient to pick up the slack. If so, the situation illustrates the shortcomings in the ad hoc arrangement between Baghdad and Erbil over oil exports. Until clarity over contracts and payment is achieved, relations between the KRG and the federal government will play all too big a role in the operations of international energy groups.

## Business

### **Minister of Communications chooses 4G technology for fourth mobile licence**

The Minister of Communications has announced that Iraq’s fourth mobile telephone licence will have 4G technology as its platform, a move that will ‘create competition’ in the sector. The three existing 2G network providers will be concerned about their share of the market – which leads the way for private sector investment after hydrocarbons – especially given the sums they have already put in to technologies and networks. However, this fourth licence may not be the last to be awarded and existing suppliers are well in the frame to take advantage of the sector’s development.

### **Telecoms operators escape fines for missing IPO deadline**

Iraq’s three mobile telecoms network operators – Zain, Asiacell and Korek Telecom – will escape fines for missing a deadline to launch an initial public offering on the Iraq Stock Exchange. Although the firms

are now not expected launch their IPOSs until mid-2012 – and it is true that they missed the deadline good and hard – this decision is nonetheless heartening. It shows a welcome flexibility on the part of the regulator, a realism on the part of government, a willingness to listen to the concerns of domestic and foreign companies and an acknowledgement that the fortunes of those firms are bound up with the economic well-being of the country as a whole.

### **Iraq hopes to improve its economy by encouraging private investment**

On 22 October the Iraqi Finance Minister, Rafie al-Essawi, revealed plans to cut the budget deficit by two-thirds and to boost growth by 9% in the next three years by developing the private sector in the state-dominated economy and increasing oil production. These comments are encouraging as they illustrate that the government recognises outside investment as essential for growth and is committed to a stable, developed economy. However, many state enterprises are in a poor state of health – with the best ones already cherry picked by investors – while the country is still heavily dependent on the hydrocarbons sector for overall prosperity. At least the government is sounding the right notes, even if it is still learning how to nurture an investor-friendly climate and a dynamic economy.

## Security

### **September's death toll falls whilst militant attacks continue**

The number of civilians killed in incidents of violence fell from 155 in August to 110 in September, the second-lowest monthly total for 2011. The figures illustrate the shape of violence in Iraq today: large attacks designed for maximum impact while the overall trend (with wide variation from month to month) is a gradual decline in the total number of fatalities. The strength of jihadist organisations is on the wane; their strategy now is evidently to get the greatest 'return' for their limited resources, to give the impression that they wield greater power and influence than is the case.

### **Anbar police station siege leaves four hostages dead**

On 3 October insurgents took over a police station in the town of Baghdadi, Anbar Province, seizing the forty or so people inside. Four hostages were killed before the building was stormed. Security in this Sunni province is largely the responsibility of the police, many of whose members are former insurgents with inferior training to the army and a reputation for corruption and divided loyalties. Anbar's longstanding mistrust of the army does indeed leave it open to attacks of this kind.

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