



IRAQ OIL REPORT

GROUND TRUTH CUSTOM RESEARCH

IRAQ: ENERGY SECURITY REPORT

NEWS AND ANALYSIS ON THE LATEST SECURITY SITUATION IN IRAQ

SEPTEMBER 2010



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REPORT OVERVIEW

The Iraq Oil Report **Energy Security Report** gives clients an in-depth assessment of threats, hostile incidents, and security trends related to Iraq's energy sector. With more than two dozen researchers located on-the-ground in Iraq, the Iraq Oil Report network taps exclusive sources throughout Iraq's provinces – from local officials in communities, to government agencies focused on the energy sector – and employs experts who track and data-mine the hostile incidents reported by the government, foreign embassies, and independent international organizations. ***In many cases, hostile incidents listed in this report have not been covered in open sources.*** With exhaustive, independent, and unbiased information, clients generally use this report to formulate their own assessments of how best to operate in their areas of interest.

This comprehensive report covers energy security related events and news countrywide, on a monthly basis. Upon a client's request, Iraq Oil Report also provides custom reports, modified to focus on particular topics or regions of interest.

The security situation in Iraq remains fluid, dynamic and vulnerable to instability that can disrupt foreign investment. Therefore, while this report focuses on the energy sector in detail, it also includes general trends and analysis that clients may use to help understand the country's overall security situation. Due to the fragile and reversible nature of stability in Iraq, our analyses are based upon the information known at the time of this report, and as such, may not be applicable or valid in the future. Therefore, Iraq Oil Report reminds readers that successful investment in Iraq depends upon remaining informed about on-the-ground events as they relate to their sector.

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SAMPLE CONTENT FROM THE SEPTEMBER 2010 REPORT

SECTION 2: IRAQ ENERGY SECURITY – SPECIFIC INCIDENTS

The following section details recent incidents significant to Iraq’s energy sector. The information comes first-hand from Iraq Oil Report researchers on the ground. Incidents are listed as they were reported to Iraq Oil Report; when possible, they have been corroborated by second-hand sources such as local media accounts and press statements. In cases where clients request additional confirmation or details about an incident or topic, Iraq Oil Report will task researchers to gather supplemental information.

A. ATTACKS AGAINST PIPELINES, INFRASTRUCTURE AND OTHER ENERGY-RELATED ASSETS

- **21 August 2010:** A section of an oil pipeline east of Ba’qubah in Diyala province was bombed. Available data suggest the pipeline may have been the crude oil pipeline connecting the Khanaqin oil field in Diyala province to the Beiji refinery in Salah ad Din province.
- **On or about 21 August 2010:** At an unspecified location south of Mosul, in Ninewa province, a leak occurred in the North Oil Company (NOC) strategic crude oil export pipeline from Kirkuk (at-Ta’mim province) to Port Ceyhan (Adana province, Turkey). It was not clear what caused the leak. Various accounts attributed it to a crack in the pipeline due to a previous bombing. However, an undisclosed NOC source said, “An explosion targeted the main pipeline.” Other officials at the NOC said the pipeline was shut down to repair a section that had been poorly repaired over the past four months, following an attack.

Iraq Oil Report’s Analysis: This strategic pipeline has frequently been the target of attacks over the past year due to the high level of ISI activity in the area. (The insurgent group ISI, the Islamic State of Iraq, was responsible for over 100 attacks against oil, gas, and electric power assets in Iraq between September 2006 and November 2009.) While ISI does not always claim responsibility for the attacks, the targeting of energy infrastructure has been a hallmark tactic of the terrorist organization. The recent speculation by the Government of Iraq that ISI will increase their activities against the oil sector (*described in Section 2C, below*) gives further credence to ISI’s responsibility for these attacks. One of the most significant, recent attacks was on 22 April 2010 when an explosive device detonated at 04:30 am underneath a section of pipeline 70 km south of Mosul. At least 250,000 barrels of crude spilled, which caused pumping to stop and delayed exports. The pipeline was repaired and pumping resumed four days later, at 05:00am on 26 April 2010. Prior to this, the pipeline was sabotaged on 04 March 2010. It was repaired on 09 March 2010 and pumping was immediately increased to a volume of 640,000 bpd throughput in order to compensate for shortages caused by the damage and repairs.

For further information and trend analysis, see Section 3.

- **05 September 2010:** Iraqi security forces defused and removed an explosive device attached to a fuel tanker truck in the al-Sha’b district in Baghdad.
- **06 September 2010:** The Oil Police Directorate in Basra province claimed to have foiled an attack on an unspecified oil pipeline in the province. The claim appeared to be based on a police raid on a farm in the province during which unspecified “explosive materials” were found and confiscated.
- **07 September 2010:** The Ministry of Electricity reported that three “major electricity towers” around Baghdad had been sabotaged by “terrorists,” and electric power services to Baghdad would be “negatively impacted” as a result of the attacks.

B. ATTACKS AGAINST OFFICIALS AND EMPLOYEES IN THE ENERGY SECTOR

- **24 August 2010:** Four employees (or five, depending upon the account) of the Haditha oil refinery in al-Saniyah (Seniyah) district in western al-Anbar province picked up salaries for their colleagues from the main refining headquarters in Beiji, Salah ad Din province. Upon leaving the area, they were stopped in their car by an unspecified number of gunmen, robbed of ID 358 million (\$US 300,000), and shot to death. Another account placed the robbery and killing outside of Tikrit, in Salah ad Din province. Other conflicting accounts of the same story said the employees had just picked up their own salaries in al-Saniyah district, al-Anbar, and were robbed and killed there.
- **24 August 2010:** Seven employees of the Beiji refinery in Salah ad Din province who were transporting the salaries for refinery employees were stopped in their company car by unspecified gunmen in Salah ad Din province. They were robbed of ID 750 million (\$US 615,000) and shot to death. According to an Iraqi Interior Ministry source, a group said to be affiliated with al-Qaeda and calling itself the Abna al-Yamahah claimed responsibility for this attack. ***For further information on this group, see Section 1.***

Iraq Oil Report’s Analysis: The above two reports of the 24 August 2010 armed robberies and murders of refinery employees are composites based on multiple sources; it is difficult to discern precisely what happened. Iraq Oil Report offers the following informed speculation and analysis:

1. There was likely only one incident. If there were two attacks, the operations suggest a high degree of coordination, which is unusual in robberies.
2. If there was only one incident, it would seem only Beiji employees were victimized.
3. If there were two incidents involving robberies and murders of both Haditha and Beiji refinery employees, the various accounts of both are confusing and contradictory concerning where they occurred, how many employees were involved, and the amounts of money taken.
4. The Ministry of Interior claim that Abna al-Yamahah was responsible for the attack on the Beiji refinery employees begs the question of who was responsible for the virtually simultaneous attack on the Haditha refinery employees (assuming there was such an attack).

- **25 August 2010:** A roadside bomb destroyed a Ministry of Electricity vehicle in Beiji district, Salah ad Din province, some 40 km (25 miles) north of Tikrit city. An unspecified ministry employee in the vehicle was wounded.
- **01 September 2010:** A director in the Ministry of Electricity was shot dead by an unspecified armed group that broke into his residence in the al-Amiriyah area of west Baghdad. The identity of the victim is unknown, but the location of his residence suggests he was director of the nearby Ministry of Electricity power station.
- **01 September 2010:** A policeman and his son attacked a private power generator station in Kirkuk, at-Ta'mim province, allegedly because the generator had not been turned on as scheduled. The attackers shot and killed the father of the generator's owner, who was also an official in the Patriotic Union of Kurdistan political party (PUK). Another relative of the owner was wounded in the attack. It is unclear if the motive of the attack was political or energy related; however, at the time of the attack, power outages in Kirkuk were lasting approximately twenty hours per day.

Iraq Oil Report's Analysis: The lack of service delivery by the Government of Iraq – and the degradation of the electricity, fuel, water and sanitation sectors during the seven-month-long central government political vacuum – has fueled not only an increase in public demonstrations, but also in security incidents stemming from a frustrated populace. This, in connection with an increase in criminal, terrorist, and insurgent activity, has made July and August 2010 the deadliest months in Iraq for private citizens, government officials, and Iraqi security forces since 2008.

For further information on this trend, see Sections 1 and 3.

- **05 September 2010:** A Ministry of Electricity employee discovered an explosive planted in his house in the al-Jadidah district of Baghdad.
- **15 September 2010:** A gunman broke into the house of a “power department” employee in al-Qayarah district, southern Mosul, Ninewa province and shot and killed him. Iraqi security forces did not provide further details.

C. OTHER TERRORIST, INSURGENT, AND CRIMINAL ACTIVITY RELATED TO ENERGY SECTOR

- **05 September 2010:** Ali al-Maliki, chairman of the security committee of the Basra Advisory Council in Basra province, stated that “intelligence information” indicated members of al-Qaeda and the Ba’ath Party were planning to launch attacks against unspecified oil installations throughout the country.

Iraq Oil Report's Analysis: This warning comes on the heels of several statements made by hostile elements specifically targeting foreign oil companies and affiliates. The April 2010 statement issued by the Supreme Command for Jihad, Liberation, and National Salvation (a Baath-affiliated group), titled “The Supreme Command for Jihad, Liberation, and National Salvation Warns the

Companies Contracted with the Collaborationist Government, Deems their Contracts Void” and published on jihadist websites, claimed “that the agreements and contracts of these companies signed with the illegitimate collaborationist government are considered void agreements and contracts.... The work of these companies in Iraq [is] a continuation of the US occupation, consequently considering them a legitimate target for the operations of the factions of the national Iraqi resistance as part of its legitimate struggle against all its projects and wicked expansion on the Iraqi land, so as to achieve the legitimate national objective, namely preserving the national resources of the people.” Just as alarming was the discovery on 15 March 2010 by the Iraqi Oil Police of a cache of weapons in a hideout by a former checkpoint near the Zubair oil field. A note found with the cache included threats to foreign companies directly involved in or supporting the oil sector.

For a complete trend analysis of this topic, see Section 3.

- **15 September 2010:** A Ministry of Electricity source stated that the ministry had rehabilitated 2,600 electricity transmission towers recently targeted by unspecified “terrorists”. The ministry has tasked its Electricity Police Directorate to protect these towers.

D. SMUGGLING ACTIVITIES RELATED TO THE ENERGY SECTOR

- **08 September 2010:** The editor-in-chief of a Kurdish media publication printed an editorial about alleged smuggling. In the article, he asked questions such as: where is the revenue from the oil smuggled from Iraq into Iran through tanker trucks? For whom do the tanker drivers work? Who are the officials who want to hide the issue? The article has sparked debate amongst citizens, although no officials to date have responded to the questions.

Iraq Oil Report’s Analysis: It was reported in early July 2010 that every day, hundreds of fuel tanker trucks carrying crude oil and refined products openly smuggle these commodities out of Iraq and into Iran through at least three border crossings. Much of the smuggled refined oil products are reportedly used in Iran, in contravention of U.S. sanctions. Smuggled crude oil is trucked to Bandar Bushehr, Bandar Imam Khomeini, and Bandar Abbas on the Persian Gulf, where it may be put in storage tanks or loaded onto ships for offshore sales. The large scale and elaborate organization of the smuggling operations suggest the two ruling Kurdish political parties have coordinated with their affiliated companies, for their own benefit, though politicians and officials in Baghdad are also reportedly involved. Proceeds from these sales are assumed to go to Kurdish and Iraqi political and government officials. It was further reported on 07 August 2010 that despite Kurd pledges to stop this smuggling, it has been continuing. Later reports have suggested it was diminishing, but had not stopped.

- **Prior to 15 August 2010:** Recent smuggling incidents reported by Iraq Oil Report in previous reports provide examples of common smuggling operations that persist: In the Hawish area near al-Hillah city, a guard employed to secure the pipeline route was arrested for attempting to smuggle oil via two 36,000

liter tanker trucks; in Dhi Qar province, 110 km north of Nassiriya, a group of oil thieves and smugglers who tapped into an oil pipeline were arrested (the project was disguised as water purification installation).

E. DEMONSTRATIONS RELATED TO ENERGY SECTOR AND SERVICES

- **21 August 2010:** At approximately 2130 hours, residents of Nassiriya, in Dhi Qar province, violently demonstrated against the Ministry of Electricity and the provincial government for not providing “sufficient basic services, especially electricity.” Police used water cannons to disperse the demonstrators, who were stoning and attacking the police with sticks.

Iraq Oil Report’s Analysis: Similar violent demonstrations occurred in Nassiriya in June 2010, in which seventeen police officers were injured, and in Basra where police fired on stone-throwing citizens demonstrating against frequent and prolonged power outages. Two of those demonstrators were reportedly killed.

For trend analysis and further information on this topic, see Section 3.

F. ENERGY RELATED-POLITICAL, SOCIAL AND COMMUNITY NEWS

- **15 August 2010:** Ali al-Obaidi, the director general of the North Refineries Company, who was brought in as director of the Beiji refinery in 2007 to stem corruption, resigned from the Ministry of Oil. With the support of the U.S. military, Obaidi had succeeded in stamping out much of the smuggling, which was said to be directly supporting the region’s insurgency. He was targeted -- with violence and spurious legal action - by both smugglers and political opponents.
- **16 August 2010:** The Iraqi Federal Supreme Court dismissed a case filed by a member of parliament claiming the Rumaila oil field contract awarded to BP and the Chinese National Petroleum Corp. was illegal.
- **26 August 2010:** A member of the Iraqi parliament charged the Ministry of Electricity with allowing U.S.- and German-manufactured generators supplied to Iraq to rust in ministry warehouses.
- **2 September 2010:** Farmers in Basra province villages near Rumaila, Zubair and West Qurna oil fields complained they are being kicked off their land needed for oil production without compensation.
- **11 September 2010:** Acting Minister of Electricity Hussain al-Shahrastani said, “There is huge corruption in electricity projects across Iraq.” He did not elaborate but did call for investigations. ***For more information on how the fallout from the March 2010 elections is affecting the energy sector, see Section 1.***

ABOUT IRAQ OIL REPORT

Iraq Oil Report is the world leader in research, news and analysis on Iraq. Through our flagship news site, *IraqOilReport.com*, we provide the most up-to-date news and analysis on Iraq's most important sectors. With our network of analysts and journalists located throughout the country, the Iraq Oil Report team also provides custom research to clients on a myriad of topics, including political developments, due diligence, industry trends and security updates.

EXAMPLES OF PAST WORK

Below is a sample of past consulting and research we that we have completed for firms on Iraq:

SECURITY INCIDENT REPORTS | Global Security and Consulting Firm, 2010

These monthly reports listed, and analyzed, security incidents that took place in Iraq and were related to the oil sector. This report typically covered incidents that were not reported in national or international news sources, making this extremely valuable to the client and their clients.

LOCAL NEWS COLLECTION AND ANALYSIS | Global Risk and Consulting Firm, 2010-2011

By leveraging our team of researchers and analysts located in every province, we provided this client with a fortnightly report on major local issues of interest to business. This research covered information that was not available in the mainstream press, and typically involved primary research done by our team. The client has renewed this work twice already, and the arrangement is ongoing currently.

OIL SECTOR OVERVIEW AND OPPORTUNITIES | International Oil Company, September 2010

This report was produced for, and presented at, a conference to present opportunities for suppliers and contract companies in the Iraq marketplace. The report entailed business information on oil tenders, fields, existing companies working in the oil and gas supplier markets, and general overviews on the administrative landscape, as well as risks and challenges to doing business in Iraq.

OIL FIELD AND LOCAL COMMUNITY RESEARCH | Global Security Firm, July 2010

This report was produced for a firm who was unable to obtain local and community information on a few of the newly awarded oil fields. Our local connections and discussion with community leaders were able to provide the client with the intelligence they needed before making a substantial investment.

THE IRAQ OIL REPORT CUSTOM RESEARCH TEAM

BEN LANDO | IRAQ BUREAU CHIEF

Ben manages Iraq Oil Report's network of reporters, researchers, and analysts. He also serves as Iraq bureau chief of IraqOilReport.com, our flagship news site. Ben has reported on energy, security and political issues from nine countries, including Saudi Arabia, Turkey and Russia. Ben has presented reports and briefs on Iraq's oil, politics and security at numerous closed-door and public government and business sessions, including to Credit Suisse and members of the US Congress.

MIDDLE EAST ANALYST

Our Middle East Analyst leads Iraq Oil Report's research and analysis, with a focus on Iraq's oil and gas market. She has more than five years of in-country experience, having been a political and market analyst for a major US oil company and an intelligence program manager for a risk and security consulting firm.

SECURITY AND RISK ANALYST

Our Security and Risk Analyst is responsible for Iraq Oil Report's analysis of security and political risk. With seven years of experience in Iraq, he has served as a Country Manager and an Operations Director for two of the largest security and risk-management companies operating in the country.

GROUND TRUTH RESEARCHERS AND ANALYSTS

Our more than two dozen researchers and analysts located in every province of the country have years of experience in Iraq. They know and have built relationships with the decision makers and policy influencers in the country.