



IRAQ OIL REPORT

GROUND TRUTH CUSTOM RESEARCH

IRAQ: THE ESSENTIAL GUIDE TO FOREIGN INVESTMENT

AUTUMN 2010



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REPORT OVERVIEW

Iraq: The essential guide to foreign investment is a standardized report created by Iraq Oil Report which can be tailored to a company's specific needs based on industry, level of investment, maturity of business model, and areas of operation. This report synthesizes public data, ground-truth intelligence not available in open source, and other information provided by various foreign and Iraqi entities. The first three sections illustrate the current political, economic and social conditions in Iraq and highlight the various opportunities for foreign investment. The fourth section illuminates the types of contracts available and the lesser-known suppliers and contractors currently working in Iraq, by giving a snapshot of current Government of Iraq contracts in the oil and gas sector. The final two sections outline the bureaucratic steps a company must take to enter Iraq, and the challenges and risks they are likely to face.

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SECTION I: UNDERSTANDING IRAQ'S POLITICAL LANDSCAPE

Oil and Gas Sector: One must never underestimate the importance and impact of domestic and international politics on investment in Iraq. The political machinations within the oil and gas sector over the past several years are exemplary of this fact. For example, the contract terms in Iraq's first and second bid rounds – especially the remuneration fees and the quick timelines – were shaped by domestic politics. Prime Minister Maliki's government was determined to prove in advance of the national elections that it was not giving away oil to foreign entities, and that it could achieve rapid economic development. The resulting plan to increase oil production capacity from some 2.5 million bpd to 12 million bpd in a tight timeline of six years does not necessarily reflect the reality of how much oil Iraq actually should (as well as how much it can) produce in the next decade. While foreign energy companies are gearing up to meet their contractual deadlines, Iraq's small economy is expected to overheat as the foreign- and state-owned companies compete for the resources necessary to complete so many megaprojects at once. The IOCs and NOCs are already experiencing organizational and infrastructural bottlenecks within the Government of Iraq's operating structure. The foreign companies that can secure rigs, workers, and materials first will likely maintain the competitive advantage over the rest.

The IOCs and NOCs from the first bid round (which dealt already-producing fields) are under pressure to achieve a 10 percent production increment within the first 12 months of signing contracts. The IOCs and NOCs from the second bid round (greenfield sites) must begin first production within 18 months of contract signing. Over the next few years, there will be massive opportunities for oil service companies and suppliers to take advantage of the 11 new projects already under way, including seismic, demining, drilling hundreds of wells and connecting them to new pipes, designing and building new treatment plants and pumping stations, and expanding storage and export facilities. There is already over-demand in country for construction machinery, materials, and rigs, as well as qualified professional and technical staff.

The Government of Iraq changed the first round bid terms in April 2010, as the result of a lawsuit against the Ministry of Oil that was filed in early 2010 by a former member of Iraq's Parliament. The lawsuit (which was eventually dismissed) challenged the legality of Iraq's contract with BP for the Rumaila oilfield – and, by extension, all of the contracts from the first bid round. The plaintiff argued that there is no current hydrocarbons legislation, and the existing Saddam-era legislation should technically be followed. According to the existing law, no loans can be given to the government without the consent and approval of the Council of Representatives (Parliament), or the contract can be considered in violation of the constitution. (The Rumaila contract was ratified by the Council of Ministers, but not by the full Parliament.) Therefore, instead of taking \$400 million in soft loans from Exxon Mobil/Shell for West Qurna Phase 1 and \$300 million from Eni/KOGAS/Oxy for the Zubair oil field, Iraq converted

Note: This content is only excerpts from the full, comprehensive report. To obtain a copy of the full report, please contact research@iraqoilreport.com.

each loan to a \$100 million signing bonus from each company. According to Sabah Shabeeb al-Sa’idi, the head of the legal department in the Oil Ministry’s Petroleum Contracts & Licensing Directorate, “The signing bonus for Rumaila is still a \$500 million loan, as it was paid soon after the deal.”

Chinese, Malaysian, Indonesian and Indian national oil companies – some of which have been pursuing claims relating to agreements reached with the former ruling regime – were at an advantage in the second bid round. For Asian NOCs especially, energy security is often as important a consideration as short-term and medium-term profitability, and even deals that do not confer equity rights are viewed as valuable parts of a long-term strategy to establish a presence in Iraq. As a result, many of these companies have a greater tolerance for security and political risk, as well as legal and project-related uncertainties, than Western IOCs. Although they have access to a less impressive skills base than their international counterparts, NOCs may find it easier in the near term to strike additional agreements with the government. This favor for the NOCs over the Western IOCs will likely increase the geopolitical influence of such actors as Iran and China in Iraq.

■ *Continued in full report...*

SECTION 4: AN OVERVIEW OF INVESTMENT OPPORTUNITIES WITH THE GOVERNMENT OF IRAQ

“This scale is unprecedented. We’re not talking about one or two oil fields here that we need to develop, but rather about 15 fields, most of which are classified as super giant or giant fields, that all need to be developed at the same time. The incremental production capacity target is not a modest percentage of existing capacity but rather several folds what we are producing now. Once realized, it will put Iraq back in a leading position among world’s oil producers and play a major role in insuring world stability through the security of energy supply...

“Let’s assess the logistics required to implement work at this scale. It is expected that work shall intensify at a high rate with time and continue for the next ten years, as far as those contracts are concerned, to be followed by a maintenance period. One can visualize during this period, and on a daily basis, thousands of people, Iraqis and expatriates, going in and out of the fields; a continuous influx into the country of heavy equipment, machineries and materials through our ports, our airports in Baghdad, Basra and Mosul, and land border entry points with neighboring countries. There will be a large number of engineering and field service companies that will add up to the international oil companies, both international and national, getting involved. Numerous foreign and local contractors providing all sort of services in the fields of civil engineering, construction, transport and catering, etc. will also become part of this web.”

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– *Thamir al-Ghadhban, Former Minister of Oil and current Advisor to the Prime Minister, July 2010*

This section provides a representative sample and summary of activities of those companies with current Ministry of Oil or ROC supplier contracts. The list also includes the type of contract and value amount, as well as the supply country of origin and ultimate destination within Iraq. The information was obtained by Iraq Oil Report from sources within the Ministry of Oil and while it is not considered confidential, it is not readily made available to the public.

2010 CONTRACTS WITH SUPPLIERS/MATERIAL STATUS REPORT

Materials	Supplier	Contract Value	Country of Origin	Delivery Period	Final Destination
Electrical appliances	Al –Ryan Jordan	\$1,692,540.00	South Korea Hyundai	300 days	Basrah
Electrical appliances/power cables	Horizon Emirates	\$2,081,472.26	Vietnam/Germany	120 days	CIP Muftyia Basrah
Pumps/loading	Al-Misk Emirates	Euro 6,060,000	France/Italy/Germany	240 days	CIP Amara
Pipes	Man - India	\$2,943,600.00	India/Canada	90 days	Um Qasser
Microwave system	Rawafid for Technology	\$355,490.30	USA/UK/Canada/France/N Zealand	126 days	CIP Karbala
Storage tanks	Finasi Italy	\$2,000,000.00	USA/Japan/Canada/W Europe	364 days	DDU Hammam Al-Alil
Electrical equipment	Majd al-Mithaq Iraq	\$721,500	UK	273 days	CIP Muftyia Basrah

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SECTION 5: NAVIGATING THE ADMINISTRATIVE, LEGAL AND BANKING HURDLES

Legislation: The legal ambiguities to conducting business in Iraq and contracting result from laws passed in 1967 and 1951, which still hold legal force. A conservative reading of them holds that the Council of Representatives (Parliament) must approve all foreign contracts. Moreover, foreign entities are subject to the Iraqi court system, and the dispute-resolution mechanisms in place are not resonant with international practice. Many laws to

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which companies are beholden are not translated properly (if at all) into English, which makes it difficult for foreign entities to know what is and is not binding.

Despite the question of contract legality and which entity has the right of enforcement inside Iraq, as well as the other administrative obstacles, foreign companies have been operating successfully in Iraq since 2003. In the next several years, as the political situation stabilizes and bureaucratic hurdles are removed, the ease of doing business is likely to improve. Until then, companies can expect delays and uncertainty with contracts, legal findings, immigration and visa regulations, and all other administrative and bureaucratic processes.

The World Bank’s “Doing Business” Annual Report for 2010 ranks Iraq as 153 out of 183 countries when it comes to the overall ease of doing business. Iraq ranks 175, 180 and 183 when it comes to starting a business, trading across borders, and closing a business, respectively. Surprisingly, Iraq scores in the 50s when it comes to employing workers, registering property, and paying taxes. Overall, these rankings have not improved in recent years.

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SECTION 6: A SUMMARY OF RISKS AND CHALLENGES

During a recent conference on Iraq, a senior US intelligence analyst provided the following assessment: “Al-though Iraq has made substantial progress toward the reconstruction of the state in the wake of its shattering collapse with the US invasion in March 2003, this progress remains still quite partial and possibly vulnerable to a major reversal.... Iraq is now at best in a kind of post-conflict grey zone between democracy and competitive authoritarianism and between state viability and state failure.” International companies wishing to operate in Iraq need to understand the dynamic landscape that is Iraq.

Iraq Oil Report believes that the general operating environment, rather than the security situation, will be the primary obstacle to foreign companies seeking operations in Iraq’s oil sector in the coming years. General operational and reputational risks associated with inadequate legislation, endemic corruption, a scarcity of experienced and skilled labor, and government mismanagement will hinder operations. Yet the investment climate will likely improve, as the government forms, parliament passes new legislation, foreign entities provide Iraqi officials with additional guidance, and the rule of law is increasingly enforced.

Security: The general security situation in Iraq is fragile and reversible. Although overall levels of violence in Iraq have fallen markedly since their peak in 2006 and 2007, deadly attacks against civilians and security forces

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in Baghdad, Mosul, and Kirkuk occur almost every day, and attacks which deliberately target religious and ethnic groups continue unabated. Improvised explosive device attacks targeting civilians at places of worship, including mosques and churches, have remained steady over the past two years. Targeted assassinations against government officials and high-profile figures have continued from mid-2008 to present. Those targeted include judges, tribal leaders, ministers, provincial council members, persons affiliated with political entities and other prominent civilians, as well as high-ranking security officials. AQI and associated groups continue to target civilians in mass-casualty attacks aimed at inciting fear and creating instability.

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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.