

IRAQ

The Opportunity Of Our Lifetime

A Special Report From
Oil and Gas Investor
and Global Business Reports



OUTLOOK

After three decades of turmoil and war, during which oil exploration ceased, it is widely believed that Iraq's as-yet undiscovered reserves could soon make it the world's wealthiest hydrocarbon country. Iraq is the opportunity of our lifetime.

Seven years after the regime change and after 20 years of political and economic isolation, Iraq is returning to the world economy. Sanctions in place since 1990 have left its economy tattered and almost exclusively dependent on an oil industry performing well below its potential. Democracy brings Iraq's first real chance to fully capitalize on its abundant hydrocarbon resources. The development of a modern oil and gas industry benefiting Iraq and its foreign investors is the ticket to prosperity.

The international oils

When discussing Iraq's potential, it is easy to lapse into superlatives. The sheer volume of reserves and size of investment needed to develop them are on a scale no other country can match.

Iraq currently ranks third globally in proven oil reserves, with a total of more than 143.1 billion barrels. The cost of extracting these reserves is approximately US\$1 per barrel, the lowest in the world. However, the bulk of Iraq's data comes from exploration performed more than three decades ago. With more than 70% of the country unexplored and 3-D seismic technology only recently introduced, estimates of total oil reserves still approach 350 billion barrels—a figure that would make Iraq the world's wealthiest hydrocarbon country.

Licensing rounds

Iraq's first step towards exploiting its resources has been the implementation of three petroleum licensing rounds, in a process that Ahmed Redza Abdul Wahab, group general manager, legal and corporate affairs, Petronas, describes as "courageous given the challenges that were faced post-2003." The first two of these auctions offered 45 international oil companies (IOCs) the opportunity to bid on 18 oilfields; 11 contracts were awarded to consortia involving 16 companies. The third round offered three natural gas fields, which were awarded to three consortia involving four companies.

Under terms of these contracts, the IOCs will develop the fields on the basis of a total service contract (TSC). Bids were submitted on two criteria: plateau production target and remuneration fee.



ExxonMobil is operating partner of super-giant West Qurna Phase One. Above, James Adams, vice president of ExxonMobil Iraq Ltd.

The remuneration fee is payable on each barrel of crude oil or barrel of oil equivalent of liquefied petroleum gas (LPG) recovered from a gas-processing plant after the awarded oil field reaches a base rate of production, which differs according to the field and its current production capacity.

The combined plateau production targets from the first and second petroleum licensing rounds total 11.59 million barrels per day, which, when added to the fields that the Ministry of Oil is developing directly (most notably Kirkuk), brings the total planned production capacity to more than 12.5 million barrels daily, from its current level of 2.4 million. The 16 companies with interests in these contracts include a strong representation of Asian companies, with China's CNPC and Malaysia's Petronas achieving large interests in numerous fields and smaller players such as Japan's Japan Petroleum Exploration Co. (Japex) making limited but strategic bids to come away successful.

European giants such as BP and Shell emerged as operating partners in the super-giant fields of Rumaila and Majnoon, respectively, and Statoil, Turkish Petroleum and Total staked claims with minority shares in selected fields. The leading Russian players, Gazprom Neft and Lukoil, are operating partners for Badra and West Qurna Phase Two fields, respectively.

American firms also took stakes, with California's Occidental Petroleum gaining a significant minority share in Zubair Field and ExxonMobil announced as the operating partner of super-giant West Qurna Phase One. Even Africa has a representative in the mix, with Angola's Sonangol independently awarded two fields, Najmah and Qaiyarah, in Iraq's northern Nineveh governorate.

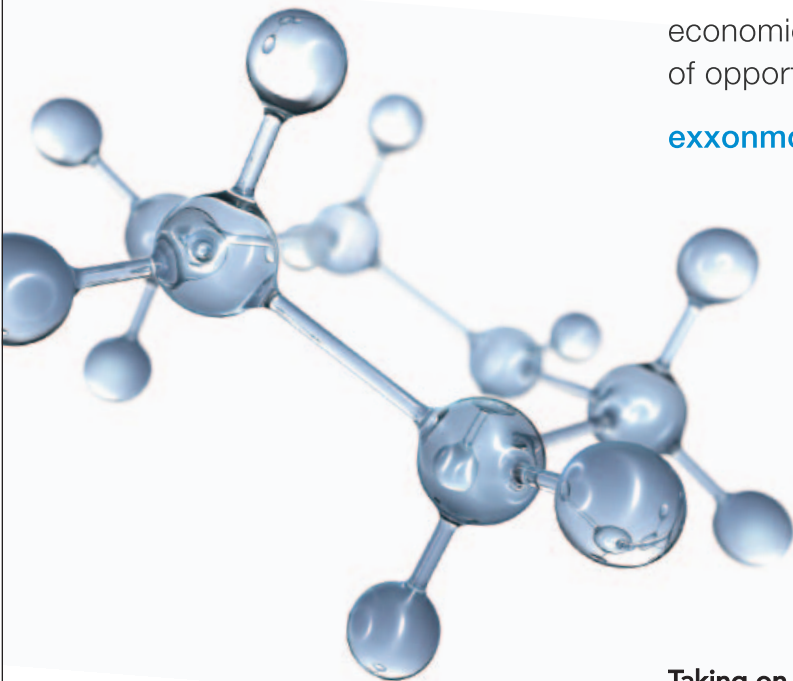
This report was prepared by Barnaby Fletcher and Lise Liezenga of Global Business Reports. For more information contact info@gbreports.com.

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Production targets

Although the IOCs are confident of reaching their plateau production targets in the time frames stipulated, predictions as to the fields' total capacities or development schedules cannot, at this stage, be 100% certain. Says ExxonMobil's James Adams, "Based on the information provided to us by the ministry and SOC (South Gas Co.), we are comfortable with our preliminary estimates, but as is standard practice, we have additional work to do to reach greater certainty regarding the future performance of the field, including seismic and injectivity

testing, and that is precisely what the contract anticipates and requires that we do."

Indeed, three-quarters of the 30-billion-barrel increase in proven reserves announced by the Oil Ministry on Oct. 4, 2010, comes from West Qurna Phase One and Phase Two, showing the fluctuating nature of current information on these fields.

Gazprom Neft's estimates of the reserves in Badra Field have risen just in the short time since its contract was awarded. According to Alexander Kolomatsky, Gazprom's country director for Iraq, "During the bidding round the reserves of oil in

Gas Master Plan

This increased oil production brings with it a pressing concern. Currently, US\$50 worth of gas is being flared off every second in Iraq, a waste that is only going to worsen as production rises. To deal with this problem, Shell developed the concept of the South Iraq Gas Joint Venture. This idea was born out of the "Gas Master Plan" Shell undertook for the Ministry of Oil in 2004 and which was proposed to the ministry in 2007.

"Our Iraqi partners had already clear ideas in mind," says Mounir Bouaziz, vice president, Middle East and North Africa, upstream international, Shell E&P International Ltd. "They wanted to develop a modern gas industry in the south, they

wanted it to be a joint venture, and they wanted the existing South Gas Co. to become a holding structure—a regulator rather than an operator."

This is essentially what Shell is helping the Oil Ministry to achieve today. The Basra Gas Co., a Shell-led joint venture that has taken control of the state-owned South Gas Co.'s 4,000-person staff, will capture the associated gas from Rumaila, Zubair, West Qurna Phase One and Majnoon oil fields.

Efforts have been made to provide some immediate benefits to Iraq, with quick-implementation projects already reducing flaring by 20%, a power plant of 18 megawatts fixed and a 50-megawatt power plant being developed.

“What is happening in Iraq is quite fundamental for the future of the industry.”

Badra Field were put forward at 1.2 billion barrels. After our initial calculations, we increased this value to 2.4 billion barrels and now, as we are preparing for the start of drilling and development, additional data from our Iraqi partners has put this value to 2.5 billion barrels. ...

"By the end (of our appraisal program) we should have the correct figure for the total oil potential. We are confident that this potential will reach 2.9 billion barrels of oil."

The success of these petroleum licensing rounds, despite contractual terms that were less favorable to the IOCs than many of them were used to receiving from other countries, represents recognition of the Iraq market's importance. As Arnaud Breuillac, Total's senior vice president, Middle East, says, "What is happening in Iraq is quite fundamental for the future of the industry. It is going to be one of the main sources of growth for the world's oil production in the next 10 to 15 years, and therefore the success of Iraq is essential." ■



SHELL IN IRAQ

In Iraq we commit to: Safety, Respect for People and the Environment

Shell's presence in Iraq dates back to the early days of the Iraq Petroleum Company (IPC), which laid the foundations that contributed to the development of an oil and gas industry in Iraq. Shell, through its shareholding in IPC, was one of the main contributors in the discovery of the Kirkuk oil field in October 1927.

Shell has long expressed a commitment to work with the Government of Iraq to support its aim to rebuild the energy infrastructure of the country, and create a new income stream for Iraq's economy.

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- Conducting business as a responsible corporate member of the Iraqi society



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Service Solutions Emerge

The lack of infrastructure represents unparalleled prospects for foreign firms and their local counterparts.

While what is below ground provides the incentive for IOCs in Iraq, it is the lack of anything aboveground that constitutes the most compelling aspect of the country for service providers. Thirty years of wars, sanctions and a centralized government have resulted in an inadequate infrastructure and underdeveloped private sector. The services foreign firms can provide will prove both necessary and highly profitable.

Integration

For many companies, the key to success in Iraq is the ability to offer integrated services. There are two reasons: first, the IOCs' desire to devolve risk, and second, the dearth of supporting networks.

Brage Johannessen, vice president of Baker Hughes Global Integrated Operations, says, "Prior to the first bid round, we very much saw Iraq as an integrated operations market. However, we also believed that a significant minority of our operations would be call-out services. Since the terms and conditions for the IOCs were revealed at the first bidding round, we have seen a shift towards more integrated solutions as IOCs seek to spread the investment risk."

As for market opportunity, KBR's Alex Haynes, business development manager, oil and gas, says, "When you look at the Iraq market, you see that the IOCs and state companies have plans and resources, but there is no Iraqi private sector to support them. Indeed, there has not been a private sector in Iraq for 20 years; I saw figures recently that state that only 3% of GDP is currently in the private sector. ... The amount of work that is going to be released will stretch the contracting community to its limit."



Remote Projects Services Group's Nicole Rischert, chairman, says, "The ability to offer a total solution is the most important requirement in Iraq."

No matter how established and confident a company is, however, Iraq is a unique market with unique difficulties. "This process, from the first surveys to the supply of the final stations, has been a learning curve for us," says Laith M. Hayawi, regional general manager, North East Gulf, GE Oil & Gas. "Establishing the right finance, credit and procedures to cater for such a large project had not been established in Iraq and we had to figure out how to work within this environment."

Climbing the learning curve early has served GE well. Having decided to reopen offices in Baghdad and Basra, its oil and gas division alone has done more than US\$500 million in work in the past five years.

On the ground

Establishing a physical presence in the market is not only important from the technical aspect. Mohamed El Gamal, Iraq country manager for Schlumberger, keenly appreciates

the importance of sending the right message: "Schlumberger has always shown a commitment to Iraq and the footprint we have here does give us a competitive advantage in the market. At the end of the day, it comes down to the client's perceptions of your intentions in the country. Our clients, whether they are international oil companies or the Ministry of Oil, can see that we have made a long-term investment in the country, and that inspires trust."

Mott MacDonald returned to the country in 2003 and established a competitive edge early by conducting a study on the infrastructure baseline in southern Iraq. It quickly re-established an office in Basra and is undertaking significant projects for BP and Exxon-Mobil. "Without this Iraqi presence," says Bob Phillips, divisional



AISG Project Locations

- Mosul
- Taji
- Baqubah
- Al Walid
- Fallujah
- Scania
- Basrah
- Shaiba



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director, Iraq, for Mott MacDonald, “any company, including Mott MacDonald, would really struggle.”

Many of the smaller companies supporting these giants have, in a very real sense, made their fortunes in Iraq by establishing this local presence. Capitalizing on an intimate knowledge of the local market and a willingness to take an early risk, players such as Remote Projects Services Group (RPSG), Petronor and American Iraqi Solutions Group (AISG) have built themselves up to become some of the most reliable and capable operators in Iraq.

Just like the international service companies, these smaller supporting players have largely adopted an approach of offering comprehensive integrated services. RPSG’s core business, for example, is camp support services. What lies behind these support services, however, is the ability to successfully carry out a full turnkey solution, from design and construction to decommissioning.

As Nicole Rischert, RPSG chairman, says, “The ability to offer a total solution is the most important requirement in Iraq. All the contracts currently coming in are for turnkey projects. These start with de-mining and raising the land and go right through to camp construction and the provision of services whilst the camp is operational. What RPSG offers the client is a full solution.”

AISG is known to many companies for



“Security remains core to our business,” says Christopher (Kiffer) Andress, CEO, American Iraqi Solutions Group.

its security services. However, security accounts for only a minority of the US\$300 million in business that AISG has completed in the past six years. “We were the second licensed security company in the country and security remains core to our business,” explains Christopher (Kiffer) Andress, chief executive officer. “It is not, however, our primary business driver. We are a construction security company, with the ability to design, build and operate camps and other structures.”

Petronor, formed in 2001, is intimately

familiar with the intricacies of the Iraq oil industry (the company’s managing director, Hans Hoiskar, was the only foreign representative present at the reopening of the Ministry of Oil in 2003 and continues to maintain close ties with the government). Unlike some of the other players, it has focused not so much on expanding its services, which include consultancy and environmental studies, but rather on directing its capabilities towards specific projects.

The Mobile Collaboration Center (MCC), for example, an element of its Safe Fields™ service, aims to circumnavigate the difficulties some companies face in visiting sites where they want to invest or operate. Based on open video conferencing technology and providing an encrypted video feed from the location in Iraq to anywhere in the world, this self-contained, high-technology piece of equipment with a range of unique features enables the client to minimize its physical presence on the ground.

The major advantage these local players have is their unrivaled on-the-ground experience. “One of the major advantages of RPSG is simply the seven years of experience we have in the country,” says Rischert. “We know our way around Iraq, we know the procedures with regards checkpoints and immigration and we have a logistics and transportation system in place. All of this allows us to carry out projects effectively and at competitive prices.” ■

"Today, we are one of very few entities who possess actual first-hand knowledge of Iraq and have a proven track record of delivering on ground."

NOWHERE IS TOO REMOTE

RPSG is an integrated services and business intelligence provider specializing in remote locations and challenging environments. Our core competencies lie mainly within the oil and gas industry and the governmental sector. Our expertise includes full turnkey camp construction, transport and logistics, consultancy and life support services. Our strategic partnership with the world leader in security solutions, G4S, enables us to deliver in some of the most demanding and hostile locations with a balanced risk approach.

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Infrastructure Initiatives

Significant efforts are under way to remove obstacles to development of the country's vast resources.

One of the major obstacles to Iraq's planned 12.5-million-barrel-per-day capacity is the lack of adequate infrastructure. This shortage affects every aspect of development of the country's oil industry—from companies attempting to bring equipment in, to Iraq trying to get its oil exports out.

Iraq has five ports in the Shatt Al-Arab waterway, although none of them are functioning at full capacity. Even inside the country, the lack of reliable infrastructure, especially extending towards the remote locations of some of the oilfields, presents difficulties.

The current state of infrastructure is summarized by Dheyaa Jaafar Hyjam, director general of South Oil Co.: "A lot of effort will be required to raise our current infrastructure capacity to the level required. Although the capacity of these facilities is enough for the current production, it will not be sufficient when oil production increases.

"We have to both build new facilities and upgrade existing ones. In terms of our exporting capabilities, we have two facilities: Basra Terminal, which is in fairly good condition, and Khor al-Amaya Terminal, which was severely damaged during the Iran-Iraq War. Even the pipeline leading to this terminal is very old and cannot be operated to design capacity due to safety concerns."

Ala Nuseibeh, KAN International Group of Companies, says, "Iraq has a strategic plan to drill over 6,000 wells in the next five

years. The oil and gas infrastructure cannot handle this. The thousands of miles of pipelines required to cope with this amount of production need either complete repairs or to be built from scratch, and Iraq does not have the money to carry out this type of work."

Solutions are at hand, however, thanks to a mix of government and private initiatives. There are definite plans for the development and rehabilitation of Al Faw Port, which, as Dr. Sami Al Araji, chair of the National Investment Commission (NIC) says, "will take pressure off Basra port and open up imports to the country."

The local Basra government is heavily involved in this project and is very enthusiastic about its promise. "There are some immense projects planned, such as Al Faw Port, which is going to change the entire map of the region and link the whole world through Basra; it will psychologically shorten the distance between the East and the West," says Dr. Shiltagh Aboud Al-Mayah, governor of Basra.

Economic zones

Several "economic zones" also are in the planning stages, one located near Al-Faw Port, which, in the words of Dr. Sami Al Araji, "will offer infrastructure availability for different kinds of industries and be covered by the privileges of Law 13 regarding the protection of investors and investment projects." A similar concept to these



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economic zones, although a private initiative, is Petronor's Iraq Energy City. Located on Zubair Field, with 300,000 square meters of land, this camp will provide accommodations, office space, workshops and security to a host of companies, aiming to lower the high barrier to entry caused by the lack of infrastructure and security costs.

Although still a secure location, Iraq Energy City is trying to respect and work within the local community. "It is vital to make sure that the Iraqi oil industry is an integrated oil industry between Iraqis and foreigners," says Hans Hoiskar. "We want to build permanent structures, live together with our Iraqi colleagues as soon as the security situation allows it, and lower the perceived aggressiveness of foreigners. It is very difficult, when you live in temporary accommodation camps surrounded by armed guards, to disabuse Iraqis of the idea that you are just there to steal their oil."

Solutions

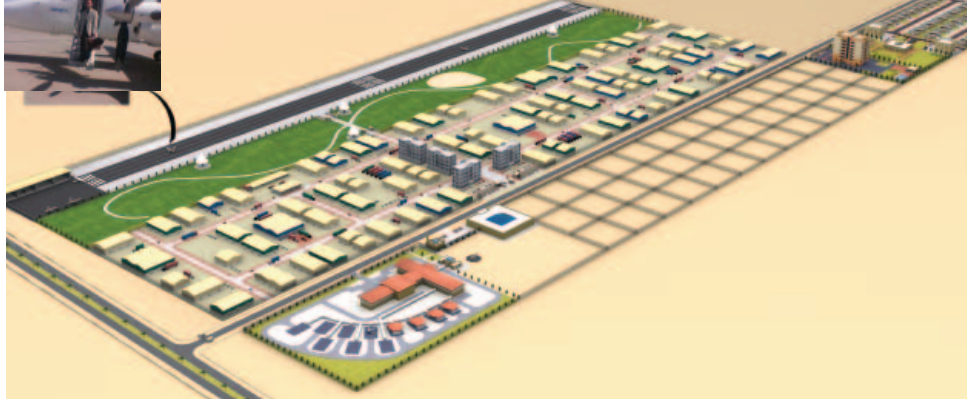
A range of companies that provide transportation and logistics services have the expertise to efficiently navigate the current infrastructure. Smaller players, of the type discussed earlier in this report, initially developed their logistical and transportation capabilities to meet their own companies' requirements, and now are some of the most reliable providers of these services to other companies.

RPSG, for example, in addition to its standard capabilities, already has the means to transport drilling rigs. ABCO offers door-to-door service from anywhere in the world, consolidating items at its facilities in Dubai before shipping them on to Iraq. AISG is a particularly impressive example of companies that have developed their transportation capabilities as a secondary service. It has completed more than 22,000 logistical moves in the past six years, both from abroad and from within the country.

SKA Air & Logistics has cemented its role as the market leader. Having been involved in almost every major project carried out in the country, from the elections to the reconstruction efforts, and having flown 35,000 flight missions without a single incident in the past two and a half years, its logistical experience in Iraq is without equal.

Water

One of the major issues that currently faces the oil and gas community is the availability of water. The amount of water coming from the Tigris and Euphrates rivers has fallen to almost a third of



Petronor's Iraq Energy City will provide accommodations, office space, workshops and security to a host of companies. (Photo courtesy Petronor)

its previous 30 billion cubic meters, due to Syrian and Turkish water projects and two winters of sparse rainfall. Even without this shortage, the quantities of water required by the oil and gas industry could not be supplied by Iraq's existing facilities.

Charles Ellinas, managing director for oil, gas and petrochemicals for Mott MacDonald, which is conducting a feasibility study for ExxonMobil on a common seawater line from the Gulf to an as-yet undetermined location in Basra, explains the problem's scale: "This is a top-priority project in Iraq as all the oil fields require water injection to maintain production. The estimate is that over the next six to 10 years, over 10 million barrels of water a day will be needed to be injected into the fields to maintain production.

"Without this there is no point in continuing further development, because you will simply not be able to increase production. Our involvement in the Iraq water sector dates back to the 1940s, so as a group Mott MacDonald has a tremendous amount of information and experience in this area."

The proposed seawater line is part of a multibillion-dollar (US) water-injection project involving a collaboration of many of the IOCs operating in the fields south of Baghdad. Project-leader ExxonMobil is carrying out engineering, analysis and pre-scoping of the project, which will be designed to handle the 10- to 15 million barrels per day of water these fields will require.


James Adams, of ExxonMobil, explains the collaborative concept behind the project: "The oil ministry and IOCs recognize the critical need to provide a large-scale saline water-supply facility to the southern Iraq oil fields to maintain reservoir pressure and build production levels. The idea to manage this as a common facility, rather than each IOC developing its own facilities, was suggested by the Ministry of Oil. This will result in, by far, the best solution for the country." ■

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The Legal Framework

Regulations and laws are complex, but experts agree a comprehensive code is in place.

In addition to the physical challenges confronting investors in the Iraq oil industry, they must work within an abstract legal framework. The rules and regulations in Iraq constitute a complex and continually developing maze that must be carefully navigated. Still, foreign companies are not entering an anarchic state.

According to David Laurence, a partner at law firm Herbert Smith, "Iraq's legal system is a civil code system, based on the Egyptian civil code system, which is in turn based on the French civil code system. There are issues in the way the laws currently exist that could and should be addressed, but there is also a sophisticated foundation which you would find in any civil code jurisdiction."

Several points about the current legal framework are worth noting. First, the much discussed Petroleum Law, which has been awaiting parliamentary ratification for the past three and a half years, should not overly concern investors. In its current form, its implementation will have primary significance for the state rather than the private sector. Although it does recommend authorization of production-sharing agreements, as opposed to the current total service contracts, this should not be viewed as anything other than investor friendly.

Second, foreign companies should be aware that, in certain areas, international law or the laws of another country in which they operate may apply. An example of this is bribery legislation. Although Iraq has its own bribery legislation as set forward in the Iraqi Penal Code No. 111 of 1969, the general business culture of Iraq often strays dangerously close to what could be prosecuted under these foreign laws.

Finally, although the laws covering foreign investment are fairly comprehensive, many of these laws are still new, and liable to be affected by the political and bureaucratic framework that surrounds them. There are articles in Investment Law No. 13 to safeguard investors against retroactive amendments to the law and confiscation or nationalization, except by final court ruling. But companies must still be prepared to accept a certain amount of risk.

Sean Korney, a partner in the Dubai office of Baker Botts, is quick to point out the legal risks associated with investment in Iraq, but is just as quick to explain how these can be mitigated. "This is where a 'change in law' clause in an agreement can provide the investor with some comfort," he says. "This type of clause recognizes that the government has a right to make whatever laws it wants, but if those laws affect the basis of the agreement, the parties have the right to negotiate the necessary changes to the agreement in order to restore the balance of value for both parties so that it is as close to the original position as possible."

To ease the way for companies entering the Iraqi business environment, the National Investment Commission (NIC) is establishing a "one-stop shop". "The one-stop shop," explains Dr. Sami Al Araji, NIC chairman, "is empowered to follow up with different ministries over different provinces to try to find solutions and answers for the investor in the shortest time possible. We are actually looking to have offices or representatives from the different ministries in the one-stop shop of the NIC who are empowered to make the decisions required so that we can achieve decisions which used to take months in a few hours." ■

— HART ENERGY'S —

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HART

Security Solutions

Security experts are unanimous, albeit cautious, in their optimism.

Since 2007, Iraq has seen a steady and almost continuous decrease in violence and threat levels. Records for 2009 show 4,673 civilian deaths by the end of the year, compared to 22,586 to 24,159 civilian deaths in 2007. Incidents of bombings have fallen significantly in the same period and, since a 2004 peak of 229, kidnapping of foreigners has been on the decline.

One cannot afford to take this continued improvement for granted. As Roger Brown, director of Erinys, explains: "There has been a marked improvement in security conditions since 2007, and people can now move around and conduct their business with relative safety. However, it must be recognized that the security situation is subject to constant change and can vary depending on geographic location and local politics." Several worries are looming on the horizon that companies should be aware of.

The uncertainty resulting from the continually delayed formation of a new government, which has only recently been resolved, has presented what is possibly the most serious concern to the country and its investors. Previous uncertainty over the outcome has prevented foreign companies that have been awarded contracts from moving ahead as fast as they would like. This is slowing the economic growth that many Iraqis expect, causing restlessness and instability. According to Martin Rudd, vice president of Olive Group, "The biggest risk will come if Iraqi expectations are not met in terms of employment, infrastructure or economic recovery."

The withdrawal of the U.S. military also presents a concern, es-



The withdrawal of the U.S. military presents a concern in towns such as Basra; however, security continues to improve and experts are optimistic.

pecially in Baghdad and Basra. However, with the U.S. military presence being largely confined to their various military bases, the actual on-the-ground impact that this will make should be minimal.

Indeed, since the "surge" of 2007, the relevance of the U.S. military presence to the oil and gas community has been not so much its role in actively improving the security environment, but its ability to offer support to the private security companies on which foreign companies directly rely. The best of these private security companies have either always operated outside of the support of the U.S. military or have moved their operations in a more self-reliant direction in anticipation of American withdrawal. Erinys, for example, a company with a unique experience of Iraq derived from the fact that it set up the Iraq Oil Protection Force in 2003, has moved away from its reliance on U.S. support.

"Two years ago, 99% of our operations relied on the availability of American back-up. Today, we are self-sufficient and require very little outside support for our operations. We feel confident that we can operate in an environment that does not have U.S. military in it," says Roger Brown.

Many security companies are now building upon their knowledge of the country to offer additional services. Erinys has expanded its services to offer what is known as Erinys Bridgehead—a market entry service for companies interested in Iraq.

G4S, well-known as the largest security company in the world, has entered into a partnership with Upper Quartile to provide a similar market entry service. With Upper Quartile specializing in guiding companies through the difficult entry requirements of the Iraq market, G4S can concentrate on advising them on their security requirements.

Alongside these international security companies, local security companies are also trying to make their mark. Mesopotamian Lions for Security (MLS), part of the Agfa Jaffar Group, is a local company putting huge amounts of effort into becoming a world-class security provider. Unlike foreign companies, which have spent the best part of seven years obtaining knowledge and understanding of the country, MLS has a distinct natural advantage. To make full use of this advantage, it is working with Western consultants and experts to raise its capabilities and professionalism to a standard that will allow it to cater for the international oil and gas industry. When it reaches this, it will be a formidable new player on the market, having knowledge and relationships quite literally built over a lifetime. ■

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LOCAL PLAYERS

In-Country Resources

Significant training initiatives are under way from both international and Iraqi companies to develop the local workforce.

The need to promote the local industry should be obvious. Cut off from modern technology and procedures for decades and with businesses often fractured in an effort to escape the notice of the previous regime, Iraqi companies are often unable to perform work to international standards.

It is, however, reassuring that local companies are the first to recognize both what the issue is and the need to correct it. Ali Jaffar, CEO of Field Energy, a dynamic company which, along with Mesopotamian Lion Security, is part of the Agha Jaffar Group, voices this same concern. "Few Iraqi companies can claim that they have experience in the oil service industry. At Field Energy, we are trying to overcome this by forming joint ventures with international companies. We can gain experience and knowledge from them and they can use our knowledge to install management techniques that the state companies in Iraq can relate to."

According to Ali Shamara, chairman of Shamara Holding Group, which with 4,000 to 5,000 engineers is one of the largest private engineering Iraqi companies, "There is a gap between the standards expected by international companies and the standards that local companies are able to submit. Shamara is nearer the standard it needs to be than most local companies as we have spent time and effort developing our workforce."

Training

Although admitting its areas of weakness, the local industry is working to overcome them. Shamara Holding Group sends its employees to courses in Italy, France and the U.S. and incorporates a training clause into every contract it signs, ensuring it keeps up-to-date with any new equipment it imports or installs. Field Energy, which trains employees on its own courses as well as those organized by its international partners, has an innovative system in place whereby its expatriate employees are shadowed by their Iraqi staff.

Mobilization times are the best way to judge the advantage the local companies can bring to international partners. "The first thing that any company needs to do when it moves into a new market is mobi-



TigrisNet employees assemble a communications dish. The company provides internet service with a local content approaching 99% of its workforce.

lize its people and its resources,” explains Nazar Hindi, CEO of Sunline Petroleum Services. “In Iraq, this may take months for a foreign company. We can do it in a week. After that, it will save time and money if you are able to use local resources and set up a local supply chain.”

Local recruits

While partnering with local service companies does provide an important incentive for the development and progression of the local industry, once a company begins to establish any kind of direct physical presence and involvement in Iraq it must start recruiting local employees for its own operations. The reasons for this are many, not the least being that many of the contracts awarded by the Iraqi government contain clauses requiring a certain percentage of the contractor’s employees to be recruited locally.

Far from viewing this as a burden, most IOCs appear to be enthusiastically embracing this opportunity to develop the local workforce, and they stress the advantages. As James Adams of ExxonMobil says, “We have been very impressed by Iraqis at West Qurna-One taking initiative, rapidly deploying and using new practices and then taking them one step further and building in new advancements. ... What ExxonMobil is doing is bringing guidance, technology and industry-leading practices. We will only be successful if we can have extremely high levels of Iraqi involvement.”

Foster Wheeler has been participating in various training programs for the Ministry of Oil since it first reentered the country in 2004. “Our work for the PCO has involved some 175 projects in Iraq, upgrading and revamping facilities and the undertaking of a complete program of training for the Iraqi workforce,” says John McGregor Smith, manager of oil and gas.

“This training was actually the very first thing we did in the

Communications Upgrade

Conventional means of telecommunications are improving, however, difficulties remain. It is surprising how much progress certain companies have made towards providing reliable normalized services. TigrisNet, against all odds, is making great leaps forward in providing internet solutions not dissimilar to those expected in any other country. An Iraqi company backed by Western expertise, it can boast city-wide wireless network services, an ability to cover every location in the country and a remarkably reliable track record.

This reliability is built upon TigrisNet’s insistence on excess capacity between the customer and itself, and between it and the outside world. “In Basra, for example,” says Mike Labriola, “we have a couple of satellite antennas as well as fiber connectivity to our hub; we then provide the wireless link between our hub and the customer site. We connect to multiple satellite and fiber providers so that our customers don’t have to.”

As Iraq progresses, communications will become cheaper and more reliable. TigrisNet is already shifting its focus from satellite-based provision of internet to fiber optic-based provision of internet. This progress will be fueled by a corporate and public demand that has seen internet usage increase 10-fold in the past seven years. In the words of Labriola, “Iraq is the most promising internet market on earth.”

country; the human resource potential in Iraq is huge and we want to help develop it.”

For Mott MacDonald, 60% to 70% of its in-country employees are locally recruited and trained, with that figure set to increase dramatically in the near future. “Mott MacDonald will be aiming to have at least 90% of our staff in Iraq as Iraqis. This localization model is our standard in most countries in which we operate,” says Charles Ellinas, of Mott MacDonald. Impressively and importantly, this local content already includes those employees in middle-management positions.

The smaller players have made even more impressive progress. TigrisNet, (www.tigrisnet.net, not to be confused with www.tigrisnet.com), the provider of what is probably the most reliable and widespread internet service in the country, has a local content reaching an incredible 99% of its workforce. Its decision to operate from the “Red Zone,” rather than shelter behind the concrete fortifications of the U.S. military bases, facilitated its ability to communicate with, recruit and train the local workforce.

American Iraqi Solutions Group (AISG) is a company for which one of its foundation principles was “Iraqis First.” Christopher (Kifer) Andress elaborates: “Our business model has always been to develop local talent, from a personnel perspective as well as from a vendor and sub-contractor perspective. Indeed, the whole focus of the company has been to develop the local content and people up to Western standards.” Some 75% of AISG’s 1,000-plus employees are Iraqi nationals. ■



Gas flares in Rumaila oil field should be lessened by efforts currently under way by a Shell-led joint venture to capture associated gas from Rumaila, Zubair, West Qurna Phase One and Majnoon oil fields.

Corporate Social Responsibility

Companies must invest in the social equation for long-term success.

The combination of the intricate web of sectarian divides and the still-volatile nature of Iraq means that a company's ability to form positive relationships with the local community takes on an importance beyond that of merely fulfilling its corporate obligations. Petronor's Hans Hoiskar, a man who has worked in Iraq for the past 16 years, sees this very clearly: "Every international oil company that was awarded a contract in the first and second bid rounds signed contracts for 20 years. So they are going to be here for 20 years. They are already an important part of the politics and the economy of Iraq, but they need to continue to play a part in the society as well.

"If you are seen as a foreign element that is, not integrated into society and not showing a respect for the culture, then there will always be an excuse for violence and criminal activity towards you."

For the IOCs, it is understandably too early to have laid down definite plans for corporate social responsibility initiatives, however, most have taken pains to demonstrate their commitment to the country. Petronas plans to continue the focus on education and human capital development that it has implemented to great effect in other parts of the world and, right from the beginning, has demonstrated a willingness to support the local industry. "Our base camp in Garraf is currently being constructed by a local Iraqi com-

pany, which demonstrates our commitment towards making a difference to the Iraqis in terms of business and job opportunities, improvement of economy and livelihood," says Abdul Wahab, of Petronas.

Shell, having been in Iraq slightly longer because of its South Iraq Gas Joint Venture, deserves some praise for its efforts to engage the local community. "It was very important to send the right message from the start," explains Mounir Bouaziz of Shell.

"We had the first joint management committee meeting in Basra, we have visited and refurbished vocational training centers and we organized town hall meetings to start the dialogue with local communities. The result is that there is a positive established relationship between Shell and the local communities." ■



Mounir Bouaziz, vice president, Middle East and North Africa, Shell Upstream International, stresses the importance of building relationships.

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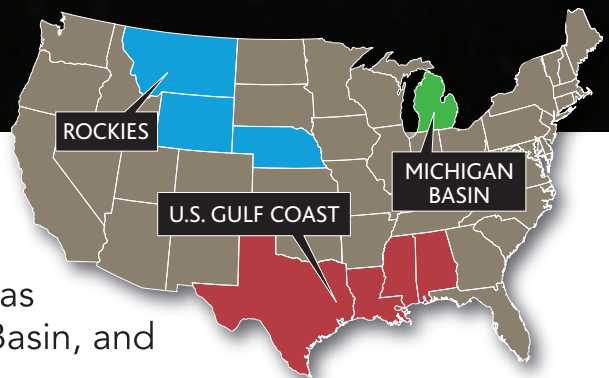
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