

“White Paper” Reforms for the Oil and Gas Sectors: Paving the Way for Better Use of Iraq’s Resources?

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Brief Analysis

Increasing natural gas production and enhancing the oil industry are critical to reviving Iraq's economy.

Iraq's White Paper includes several measures to develop and reform the country's oil and gas industry. These steps will help increase efficiency and production, explore untapped resources and diversify Iraq's fossil fuels industry more towards natural gas.

The goal of the White Paper initiative (<http://iraqieconomists.net/ar/2020/10/13/%D8%AE%D9%84%D9%8A%D8%A9-%D8%A7%D9%84%D8%B7%D9%88%D8%A7%D8%B1%D8%A6-%D9%84%D9%84%D8%A7%D8%B5%D9%84%D8%A7%D8%AD-%D8%A7%D9%84%D9%85%D8%A7%D9%84%D9%8A-%D8%A7%D9%84%D8%AA%D9%82%D8%B1%D9%8A%D8%B1-%D8%A7/>), launched in October 2020, was to address the state's budget deficit, restructure the economy, improve the performance of financial institutions and establish systematic programs and plans to address the difficult economic circumstances the [country is facing](#). In order for the White Paper initiative to achieve these goals, it has included significant reforms for Iraq's oil and gas sectors.

Iraq has a rentier economy highly reliant on government spending, and the Iraqi government is [95% dependent](#) on oil rents to cover those expenditures. As a result, the collapse in global oil prices during the first half of 2020 put overbearing strain on the Iraqi economy, and the Iraqi government has had to resort to domestic and foreign loans in order to cover government salaries and other public expenditures, and to make up the financial deficit.

Budgetary issues and foreign debt have been a source of tension in Iraqi politics. After much debate, representatives from Kurdistan blocs of the Iraqi parliament angrily pulled out of the voting session on November 12, 2020, in which the Iraqi Council of Representatives [approved a borrowing bill](#)

([budget deficit](https://ar.parliament.iq/2020/11/12/%d9%85%d8%ac%d9%84%d8%b3-%d8%a7%d9%84%d9%86%d9%88%d8%a7%d8%a8-%d9%8a%d8%b5%d9%88%d8%aa-%d8%b9%d9%84%d9%89-%d9%82%d8%a7%d9%86%d9%88%d9%86-%d8%aa%d9%85%d9%88%d9%8a%d9%84-%d8%a7%d9%84%d8%b9%d8%ac%d8%b2/?cf_chi_jschl_tk_=1917555bb8dc15ff54509627f5dae34f4b0b4dd5-1610131876-0-Aek0ym1j7udqOP8PYVN1mC3NYODLqt5jVcVD0Nqk6hfbPb-Cj70GSN5fzqEaTzK-om-qD8p4wOKOJVHKKgJ28Kmbiqp3a7mA5rhtaQZIBXIMTewZvJ_HvbMHOoRN4clSpTOOu9JqEZHxzm-hvQFj6cZyqkg7HgvoiJ3U6Blvg0GFejio3x5iqaUI_RyMwwk29EjxcUWqOteWKAHcWRsEGi7vLo2KPXynwHXRuZqqxlxRbPPWt96TRgvesNOQjcdYxk-9kuk1oGjMITZaWiXN1DS6H8xbPJjh-dpn_EQnCUroXI77YTNxH1I_4D2mYK-IpiCwsMVAEeAawstrQXz2i2oSqyY1XT9-JrFlevNeg2qkjQgJjMTvkRy5_dPy3FSynGo-tAeS4NnNmSwtBFJHSUZn4kx11JzJyOfvTxTBOjh3TFRflirChY01wbaS80kCGUQvkhrtAGih9ETS28APBhFRHxp3_kwi0fjJYfya8ah1vtg1D_dzQFNvtPZajirSCGRJGvFWvxfllLizkJnBRKS4V1X1oelkufWW3Krf0esTdseWvRYPeVMoCCiUnRilDQEvkPu8UHEgfOTXKj7k) that would address the <a href=) from 2020.

The development and reform of the Iraqi oil and gas sectors has therefore become a crucial issue in light of the country's current challenges. As part of this development, Iraq should turn towards gas development to diversify its economy as oil-dependent Gulf countries have done. Increased diversification in the energy sector towards more natural gas extraction could help address current and future economic challenges related to Iraq's rentier economy. Developing these sectors through revitalizing the gas sector and making use of untapped gas fields is almost sure to increase the country's revenues and provide funds to the state treasury.

Thankfully, as the White Paper appears now, it includes effective and thorough steps for the development and reform of the oil and gas sectors that could create tangible positive change in the current economic system. In combination with a host of other reforms, these measures could create sustainable development for the country's economic structure once the Iraqi parliament votes to bring these proposed policies into effect.

Natural Gas

Of the approximately 132 trillion standard cubic feet (scf) of [gas](https://openei.org/wiki/Republic_of_Iraq_-_Ministry_of_Oil) in Iraq's proven natural gas reserves, only around 1.5 trillion have been utilized thus far as a byproduct of oil extraction. And even this small amount related to oil production could be more efficiently managed. An additional 1.2 trillion scf of natural gas produced during oil extraction have been burned off through flaring, resulting in financial losses for Iraq estimated around \$2.5 billion per year.

To achieve optimal efficiency, the Iraqi Ministry of Oil aims to extract all natural gas resources inadvertently produced through oil production and to stop wasting gas through flaring by the [end of 2023](https://www.spglobal.com/platts/en/market-insights/latest-news/metals/071620-middle-east-gas-flaring-drops-but-zero-targets-still-a-long-way-off). It also plans to begin exploiting untapped natural gas fields through gas licensing rounds open to foreign energy companies—there are a host of global companies that have expressed interest in competing to invest in these gas fields.

The White Paper aims to develop the administrative and financial structure of the gas sector that will help achieve the afore-mentioned goals. As a part of this process, the paper includes the establishment a national gas company and the creation of a policy for the gas sector that better utilizes national gas reserves through extracting associated gas (instead of flaring it) and developing natural gas fields. Furthermore, the White Paper aims to open the natural gas industry in Iraq to global companies through gas licensing round contracts, and to build integrated petrochemical complexes in several of the gas fields (Ratawi, Missan, and Nassiriya).

Hopefully, with the successful implementation of these projects, Iraq can establish greater resource independence by eliminating the country's dependence on imported natural gas.

The White Paper also aims to improve the efficiency of the oil sector's performance in order to increase state revenues. In addition to new laws and regulations for the oil sector, the paper proposes amendments to existing laws like the Law on Refineries, the Law on the Sale and Import of Petroleum Products, the Law Regulating the Ministry of Oil, and the National Oil Company Law.

The White Paper also aims to reform the infrastructure of the (domestic) transport network for natural gas, gas liquids, petroleum products, and crude oil. In addition, the paper proposes efforts to standardize network operations and expand export infrastructure. Furthermore, the paper proposes steps to increase production and the productive capacity of existing fields [after Iraq's non-compliance with the OPEC plus agreement.](#) (0)

Other Steps

Other steps involved in the development and reform of the oil and gas industries include expediting efforts to establish a national oil company and establishing an administrative and financial structure for the company in preparation for its separation from the Ministry of Oil. This process will also require developing oil fields and means for production and sales, as well as increasing areas under exploration. The country also needs to work towards attracting leading global companies in the oil and gas industry (such as Chevron, Exxon Mobil, Baker Hughes, Shell, and BP) to invest in Iraq so the country can benefit from their technical knowledge and expertise.

Furthermore, in order to ensure the success of the White Paper, the Iraqi government will need to involve economic experts, academics and civil society organizations in the process of drawing up a potential roadmap for economic reform so that the plan becomes more comprehensive. The oil industry is not exempt from this requirement, and with a well-informed and disciplined application of the White Paper's reforms to the oil and gas industry, Iraq stands to make significant gains in resolving its current economic issues and restoring a healthy national budget.

Nevertheless, the implementation of the White Paper confronts several challenges, most notably rampant corruption, which stands as a barrier to all reform efforts and cripples the Iraqi government's efforts to support and empower its monitoring agencies and judicial institutions. The elimination of corruption in state apparatuses entails concerted efforts and close coordination among all states institutions as well as genuine legal and administrative reforms. Otherwise, the absence of anti-corruption efforts will make it difficult for Iraq to proceed with economic and financial reforms proposed by the White Paper. Moreover, illegal arms possession which threatens the country's national security and civil peace also represent a major threat to the process of economic reforms and create unfavorable environment for foreign investment and negatively impact the economy as a whole.

If Iraq can sufficiently address these issues and implement the ideas of the White Paper, the country's natural resources can become a critical pillar in its economic revival. ❖

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