

Addressing Human Resource and Development Concerns in Iraq's Oil and Gas Sector

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Brief Analysis

Many of the necessary reforms start with placing the institution in a competitive position internationally and allowing for decisions that maximize financial returns for the good of the Iraqi people, not individuals hoping to promote their own interests.

Since 2003, several major capital projects in Iraq's energy sector have not been reaping the returns that would allow the state to improve the economy. Why, then, are the few oil and gas plans that Iraq does have failing, while other similar projects in the Gulf region have succeeded?

Iraq's oil sector has been suffering since 2003 from the inevitable consequences of erratic decisions stemming from the way in which Iraq's oil and gas sector has been managed in the previous periods. The current structure of Iraq's political system has meant that this management has not yet been fairly forced to be held accountable for its failures, nor has it been able to prevent unproductive intervention from politicians, business people, or corruption.

Over a decade ago, the future envisioned for Iraq's energy sector was very different; In 2012, Iraq cooperated with the World Bank in preparing the [Integrated National Energy Strategy](https://documents.worldbank.org/en/publication/documents-reports/documentdetail/406941467995791680/integrated-national-energy-strategy-ines-final-report)

[\(https://documents.worldbank.org/en/publication/documents-reports/documentdetail/406941467995791680/integrated-national-energy-strategy-ines-final-report\)](https://documents.worldbank.org/en/publication/documents-reports/documentdetail/406941467995791680/integrated-national-energy-strategy-ines-final-report) INES (2013-2030) and with the International Energy Agency (IEA) in preparing a special report on energy prospects in Iraq. One of the most important results of these two activities was that Iraqi authorities became convinced of the need to seriously reconsider previously contracted production targets and to amend their existing contracts.

Yet the official call for a review of licensing contracts in September 2014 began a strong new coordinated campaign against them by those against oil sector reforms that competed with their own interests. These appeals culminated

in the House of Representatives imposing an article in the General Budget Law obligating the government and the Ministry of Oil to "amend the contracts for licensing rounds in order to protect Iraq's economic interests, increase oil production, reduce expenditures, and find a mechanism linking cost recovery according to oil prices."

These attempts were largely unrealistic, politically motivated, and personalized by political officials who had no experience in the oil industry and very limited knowledge of the contracts being discussed.

Addressing Iraq's Unrealistic Extraction Policies

There are serious risks facing the Iraqi fields and the surrounding areas in Basra as a result of the continuous withdrawal of oil without compensation by water injection in the reservoirs. The project of injecting water into oil reservoirs (Sea Water Injection Project) is vital to maintain the reservoir pressure the future of the sustainability of the oil production. Nevertheless, the project has been delayed from what was planned for more than ten years. The results of the delay are catastrophic and will lead to serious damage to oil reservoirs, and a decline in production rates. The continuous production of crude oil without sea water injection, has been a topic about which the Director General of the Reservoir has written extensively, and advised the Ministry of Oil and its affiliated companies to contract a specialized international company that has the finance, project management and technology to implement the project rather than pursuing traditional methods.

Consequently, Iraq must address this issue now in order to address the phenomena of continuous decline in production rates. Currently, a contract has been given to international oil company to provide water injection, but this is not enough for all of Iraq's producing fields in the future. At this point, it has meant that Iraq's oil reservoirs are in danger—no water for injection means no oil for production.

Moreover, the service contracts with the IOCs obligate the operators to produce oil in a certain rate without taking in consideration what the reservoir can realistically producing can without damage. From the point of view of reservoir engineering, the fields need to produce below the maximum efficient rate (MER), since production beyond the MER would damage the reservoir, leading to drastically reduced production over time over time and may increase associated water production..

Currently, Iraq's energy sector is characterized by a dependence on importing energy and the continued wasting of natural gas, a far cry from the plan initially laid out in 2012.

Management Failures: A Crisis of Human Resources

The crisis of the human resources who work in Iraqi oil is that they are by and large unaware of these challenges and tasks surrounding oil operations. It is necessary to inject new young blood into the oil field, and investing in a local workforce capable of saving Iraq's current weak situation in the whole of this sector, which is moving towards slippery slope due to political interventions in appointing unqualified individuals to administrative and technical positions in the management of the oil sector.. At a time when the majority of oil countries, if not all, have established various formations in the oil industry and updated their methods, Iraq must do the same. Joint ventures in other countries constitute financial buffers for the oil industry so as not to be exposed to financial bottlenecks when fluctuations occur in oil prices. There are a number of promising models, foremost of which is Saudi Arabia. The Kingdom's approach represents a pioneering experience through Aramco, which has made profits exceeding all of Iraq's oil revenues, as well as (ADNOC), and these profits outside government revenues, which are undoubtedly successful institutions.

While the oil sector suffers from chronic administrative, technical, and financial problems, limited leadership capabilities have made the situation worse. The quota method adopted by politicians in Iraq in choosing ministries means that competition is fierce, yet is often driven by political rather than technocratic considerations. As the former Iraqi oil minister and a member of the parliamentary energy committee have put it

<https://iraqieconomists.net/ar/2017/07/03/%d8%ad%d9%88%d8%a7%d8%b1-%d8%ae%d8%a7%d8%b5-%d9%85%d8%b9-%d9%88%d8%b2%d9%8a%d8%b1-%d8%a7%d9%84%d9%86%d9%81%d8%b7-%d8%a7%d9%84%d8%b9%d8%b1%d8%a7%d9%82%d9%8a-%d8%ac%d8%a8%d8%a7%d8%b1-%d8%a7%d9%84%d9%84/>), "Even if the ministry is subject to quotas, it must be treated as a ministry chosen with

a capable and competent leadership that possesses the necessary experience, and regardless of the qualifications that must be possessed by those entrusted with the leadership of a ministry, realizing that it is a source of sustainability for the wheel of life in Iraq with a rentier economy."

Currently, administrative and financial corruption is rampant in Iraq and is difficult to control. Such is the case also in the country's energy sector; it is easy to file a complaint against any employee, which somewhere keeps on file. Even if the employee is not convicted, this complaint remains in their employee record and the employee can later become subject to dismissal or blackmail, with the record used as an excuse.

Addressing Infrastructure Failures

Currently, Iraq faces a need to invest in order to address its energy consumption; while expensive to implement, associate gas capture can drive additional revenues—estimated at seven billion dollars—and contribute to electricity power stations that can provide some of Iraq's current energy deficit. It is also necessary to accelerate the use of associated gas and increase the capacity of surface facilities to cope with expanded production. Gas capture is also important to prevent the destruction of the environment, in the liquidation of heavy fuel oil, and turn it into an exportable product.

It is necessary to reduce Iraq's import of oil products, it is illogical and poor economics in a country that produces oil or resorts to import oil products. This crisis can be overcome by increasing the contribution of the private sector and involving it with specific production of improved gasoline, while setting foundations and standards to ensure the profits of the Ministry of Oil, reducing dependence on imported gas oil for power stations, and using crude oil or gas instead. This is possible, in addition to implementing an urgent and rapid plan in gas investment through the leasing plan of processing plants and processing facilities and their development, as was done in the Nasiriyah field in 2017, with the adoption of an accelerated action plan to increase and develop petroleum products in operating refineries such as fats and others, which drain large budgets due to daily use and consumption need.

In order to address these issues, it is necessary to involve the private sector. But although it is important to support the Iraqi private sector's participation in the development the oil and gas fields, the development of a giant field through a recently incorporated local company, or granting the right to develop a gas field to a foreign company whose history and capabilities are questionable, may not be a realistic solution. Rather, an international partnership with experienced companies will allow for some local participation without conducting an experiment in a sector that is the backbone of the country's economy.

Alongside an international partnership, it is necessary to adopt a new version of the federal oil and gas law that enjoys the support of the main components of the political process, and to approve it after understanding its objectives. This is no small feat, given that such a law was discussed once and dismissed for lack of consensus. Nevertheless, this should be a legislative priority given its potential to develop the effectiveness of advancement and performance.

The work to achieve the refining capacity of two million barrels per day, including one million barrels per day for export purposes through national effort and investment, and seeking to modernize the current refinery facilities, with the need to review production mechanisms, product quality and sector structuring. The Dora refinery need to relocate to another location on the outskirts of Baghdad. Its current location constitutes an obstacle in pollution and taking into account the development of the capital. The refinery has become a burden on it despite its importance,

although establishment of modern transmission and distribution networks.

The support and revitalization of the field of oil and gas exploration is also key for its potential to provide significant additions to the country's oil reserve, and to achieve significant additions in the free gas reserve. Therefore, exploration must be conducted with the aim of expansion.

It is also necessary to re-examine the comprehensive structure of the field of distribution of oil products, modernize management mechanisms and facilities, expand the involvement of the private sector, promote and develop the field of oil manufacturing, and modernize manufacturing and mechanization mechanisms.

Reinvisioning Exports and Marketing

Iraq lost the most important elements of export supplements by destroying its petroleum fleet as a result of the wars it fought. It is necessary to advance and develop the Tanker Oil Transport company, and the need for Iraq to have a large transport fleet to transport Iraqi oil through its own resources or enter into partnerships that enable us to own supertankers in the first phase. This would enable the company to work on the high oceans and establish tanks or supertankers on the high seas in order to market in a way (ON SPOT) as it passed through

The problem of Iraqi export ports, many of whose projects have been postponed, remains an obstacle to the export of oil. The expansion and development of export ports in the south could reach a capacity of six million barrels per day. In addition, the re-completion of the Iraqi-Turkish line project with a capacity of one million barrels per day and the establishment of a pipeline network for the whole of Iraq to transport oil products, in addition to building and expanding oil storage warehouses in Al-Faw to reach 70 million barrels and more, would all benefit Iraq's export efforts.

In tandem, it is important to develop and modernize the work of the marketing sector in pursuit of finding diverse and multiple opportunities for crude oil and oil products by entering into a contribution or partnership with a number of large refineries in South Korea, China, as well as other Asian or African countries, and entering into a partnership or contribution with some international companies to establish a large and stable Iraqi oil store. Iraq should likewise conduct periodic and scientific surveys and reviews of the state of the global oil markets and fluctuations in supply and demand, providing better data to help mitigate the sudden changes in those markets from the country's economy.

Many of these necessary reforms start with a need for a distinguished management capable of placing the institution in a competitive position internationally and allowing for decisions that maximize financial returns for the good of the Iraqi people, not individuals hoping to promote their own interests. Once technocratic competencies are in place, Iraq can begin to address many of the structural necessities that have been delayed or avoided over the past decade to allow for Iraq to maintain its oil revenues in the future. ❖

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