

**Suggestions for a new
Iraq Model for Upstream Petroleum**

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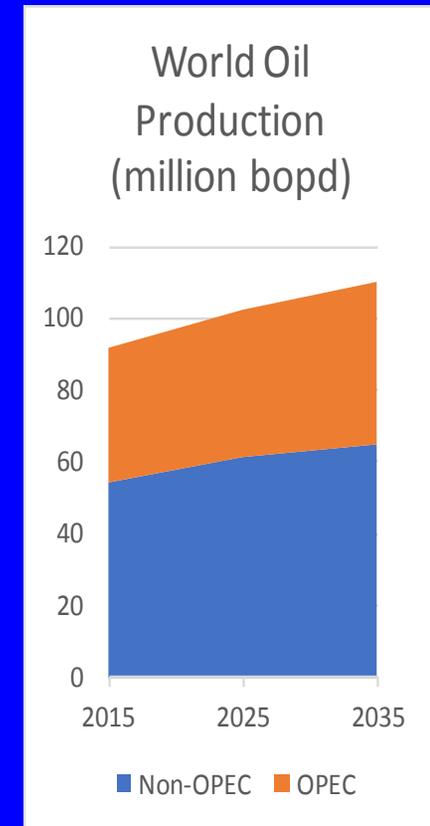
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International Environment for Oil

A number of “business as usual” predictions of OPEC oil production predict continued growth over the next 20 years.

However, continued growth of OPEC oil production is uncertain because of possibilities for a:

1. Slower global economic growth
2. Faster transition to a low-carbon world
3. Stronger development of shale oil

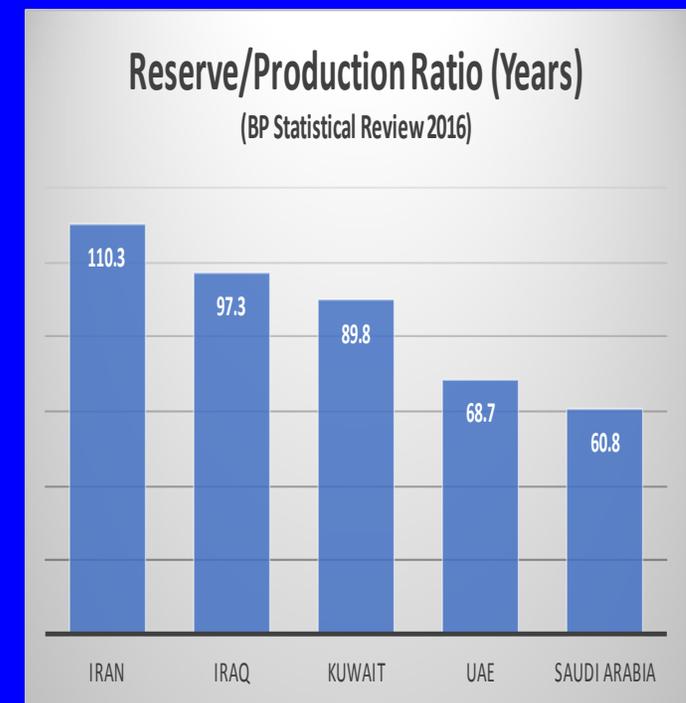


Situation of Iraq

Compared to some of the other OPEC countries, the Iraq Reserve/Production ratio is high. This means that on a relative basis the level of Iraq oil production has been too low during the last decades.

In order to fully benefit from its oil resources Iraq needs to find ways to strongly increase oil production during the coming decade despite the difficult international framework.

This can be best achieved by re-aligning the relationship with the international oil industry in Iraq with respect to current and future contracts.



Technical Services Contracts

The current Technical Services Contracts do not align the interests of Iraq and the Contractors.

Iraq takes 100% of the revenues remaining after the cost recovery and payment of remuneration.

Contractors receive more remuneration oil and more total oil if costs are higher. As a result, there no incentive for the contractor to be efficient. Cost control procedures as a result are cumbersome.

There is no alignment on oil price. The higher the price, the less incentive for the Contractor to invest.

The contracts make it difficult to increase rapidly oil production under favorable international conditions for Iraq.

New Iraq Model for Upstream Petroleum

A new Iraq Model for Upstream Petroleum should:

- ❑ Align the interests of the Government and the Contractor,**
- ❑ Be applicable to all conventional current and new oil fields,**
- ❑ Be easy to administer and be transparent,**
- ❑ Provide incentives to Contractors to reduce costs,**
- ❑ Provide for a very high share for Iraq,**
- ❑ Provide for the highest possible recovery of petroleum from the reservoirs, and**
- ❑ Be flexible, so Iraq and Contractors can seize quickly possible opportunities to increase production in the context of OPEC policies.**

New Iraq Model for Upstream Petroleum

From a fiscal perspective the following model would result in these conditions:

- ❑ A flexible maximum royalty to Iraq. The royalty would sensibly adjust to levels of production, oil price, well productivity, well depth, oil gravity and other conditions, and**
- ❑ A net revenue share to Iraq after deduction of the royalty.**

Such a fiscal system would encourage the Contractors to be cost efficient and would permit rapid increases in production where international conditions and OPEC policies so permit.

Because Iraq and Contractors are aligned, cost control would be less cumbersome.