

## Iraq oil deal puts pressure on Opec

Print

By Carola Hoyos in London

Published: November 5 2009 19:34 | Last updated: November 5 2009 19:34

**ExxonMobil** and **Royal Dutch Shell**, the two biggest western oil companies, on Thursday won the right to develop Iraq's giant West Qurna oilfield, raising the prospect of a big jump in Iraqi oil supplies.

The agreement is the third such deal this year and marks the first time a US-led consortium will re-enter Iraq's oil industry in more than 30 years. It is a blow to **Lukoil** of Russia, which had signed an agreement to develop West Qurna under Saddam Hussein and had been lobbying intensely for the field in the past weeks.

Hussein Shahrstani, Iraq's oil minister, has said he is now confident that within seven to 10 years his country will be able to boost its production of little more than 2m barrels a day to almost 10m b/d, more than 10 per cent of today's total global oil production. In the past, analysts doubted the target was achievable, mainly because of Iraq's difficult security and political climate. But even they agree now that the big increase is feasible.

A recent note by PFC Energy, the industry consultants, points out that the extra oil which foreign energy companies such as Exxon, **BP** and **Eni** have promised to tease out of other **Iraqi oilfields** adds up to about 4.7m b/d, while the fields that are likely to go under the hammer at Iraq's next oil auction will add at least another 3m b/d.

Even well before the middle of the next decade, Iraq will be able to raise its production enough that the **Organisation of Petroleum Exporting Countries**, the cartel, might have a big conundrum on its hands, PFC said.

"As prospects increase for Iraq to approach prewar [oil production] levels ... the issue of reincorporating Iraq into Opec's system of production targets will quickly re-emerge as a topic for negotiations," PFC said.

"The process of reaching a negotiated settlement could add further friction to what will already be a difficult process of managing oil markets during the global economy's weak recovery."

To boost oil prices, which have fallen by almost half since the global economic downturn took hold last year, Opec has set a maximum production level for each of its 13 members except Iraq.

Iraq has been exempt from any quota limits since the UN put sanctions on Saddam Hussein and took away Baghdad's control of the industry. The exemption continued after the US invasion of Iraq in 2003 to give the country a chance to recuperate. For years, exempting Iraq was painless because Iraq's production was constrained and oil prices have been strong, eliminating the need to cut output. But that has changed with the fall in the oil price.

More Iraqi production will weigh on prices, making Opec's members' already slipping compliance with the quota all the more problematic. But bringing Iraq back into the quota system will be one of the biggest tests of political will Opec has faced in decades.

Many of Opec's countries feel the quota system is unfair and want their allocation increased. Instead, they will now have to decrease their share of the pie to incorporate Iraq.

**Copyright** The Financial Times Limited 2009. Print a single copy of this article for personal use. [Contact us](#) if you wish to print more to distribute to others.

"FT" and "Financial Times" are trademarks of the Financial Times. [Privacy policy](#) | [Terms](#)  
© Copyright [The Financial Times](#) Ltd 2009.