

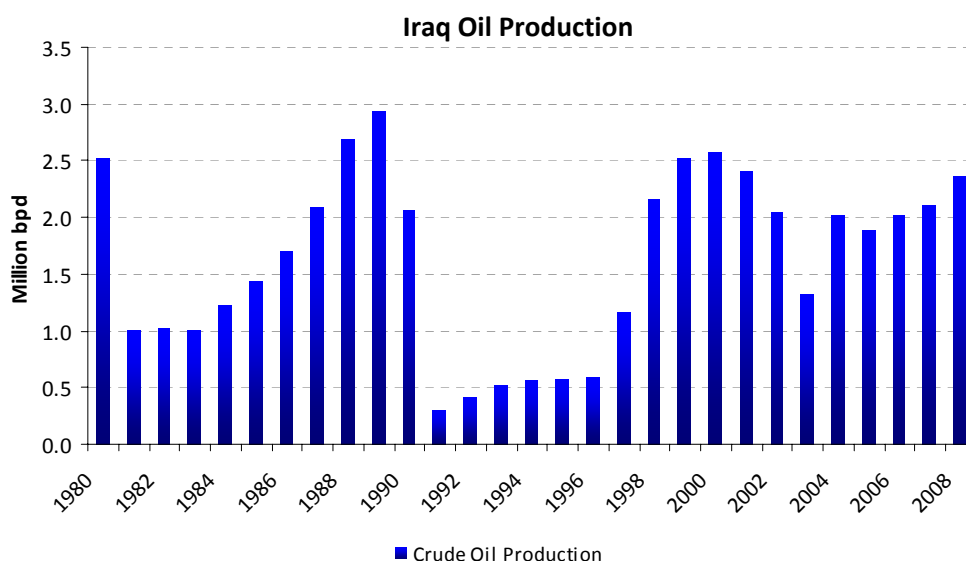


## Between Iraq and a Hard Place

In recent weeks, Iraq has made headlines again; however this time not because of casualties, war or civil strife. After more than half a decade of instability and reconstruction, the oil-rich nation is now pressing the opportunities to host foreign commerce. Nestled between the two largest proven reserves of oil, Saudi Arabia and Iran, Iraq follows suit as the third largest proven conventional oil-reserve at approximately 115 billion bbls. Unlike many of its Middle-Eastern counterparts, the past five years have created a difficult environment to compete in the commercial oil trade, however this is about to change. On June 16<sup>th</sup>, the Iraqi Oil Ministry opened up its borders to foreign oil investment with the declaration of an auction on six oil fields and two gas fields.

After one round of bidding which took place on June 30<sup>th</sup>, BP and China National Petroleum Co. (CNPC) emerged with a contract of \$2 per bbl on the Rumaila field down from their asking bid of \$3.99 per bbl. Despite this step in the right direction, many other oil companies still seem a bit skeptical of developing oil in Iraq, perhaps due to a lack of knowledge of the location and the lower rate of return earned on each barrel produced.

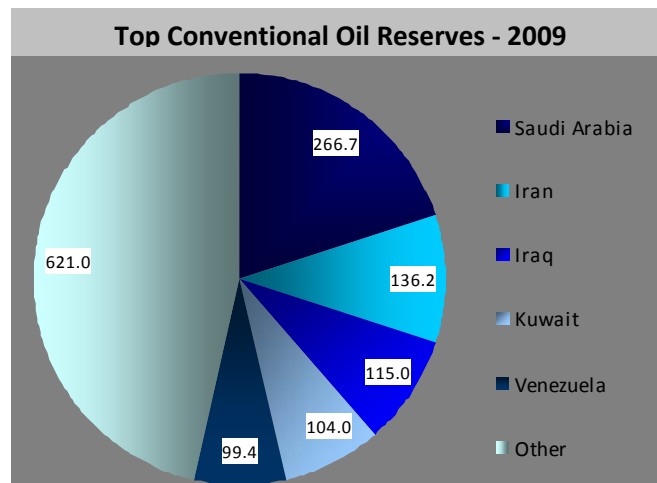
As seen in the chart below, production fluctuations in Iraq should create opportunities.



## Oil Rich

There are approximately 71 oil fields located within Iraq. The Rumaila field, which was awarded to BP and CNPC is located in Southern Iraq - not far from Basrah. According to press releases, six oil fields were offered in the first round of bidding – five of which were not scooped up and will be reoffered in the next round. In contrast, two natural gas fields, which were offered but not won in the first round will, not be available in the second round. Instead the fields will be set up by an Iraqi national oil company yet to be determined.

Below is a chart of the top five conventional oil reserve bearing countries. Iraq seems to have taken a more latent position relative to other powerhouse producers but tremendous potential lurks underground.



Source: EIA

However, approaching Iraq for its black gold is a little trickier, or so it seems by the recent bidding. Without a doubt, the newly formed consortium and their successful contract will help to alleviate some uneasiness related to breaking into the Iraqi market and working with the Oil Ministry. That said there does seem to be grumblings from internal resistance to foreign operators. Even though there may have been talk of the Oil Ministry's aggressive contract price, this is certainly a step towards a brighter future - even if it is just a small one.

For shipowners, Iraq presents double potential with liftings from Ceyhan in the Mediterranean and Basrah in the South on the Arabian Gulf. The Rumaylah field sits just outside of Basrah, which is conveniently located near the Arabian Gulf. The other undeveloped fields, which total over 45 are spread across the country, with many ways to bring their oil to the water. Oil produced in Iraq can be piped north to the Ceyhan terminal or south to the Arabian Gulf, near Basrah. Current Iraq oil production is roughly

2.4 million bbls/day - in a few years the goal is 4 million bbls per day with the help of a few new friends and a newly formed contract. This incremental output estimate might be lofty at present, but even 2 mbd of sustained capacity could create incremental demand for 24 VLCCs, assuming the cargoes go west.

Although the crude oil market is soft today, Iraq has demonstrated forward thinking. By opening to investment today they are helping to stabilize political relationships and cash flows for years to come.