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Baker Institute study says Iraq faces hurdles in becoming oil leader

LOS ANGELES, Aug. 4

By **Eric Watkins**

Oil Diplomacy Editor

Iraq's large oil-production potential could put it in a position to vie for leadership with Saudi Arabia in the world oil scene in the coming decades. But Baghdad and Riyadh each might have difficulty meeting rising demand for oil, according to a study released by Rice University's Baker Institute for Public Policy.

"Failure to progress quickly on water injection, pipeline, electricity, and natural gas facilities will limit the ability of independent oil companies to translate upstream oil-field expansion successes into continued export increases," said Amy Myers Jaffe, author of the study along with Jareer Ellass and Meghan O'Sullivan.

"Political decentralization inside Iraq, social tensions and electricity shortages remain barriers to large-scale repair and construction of infrastructure that is needed before export levels can rise," said Jaffe in the study entitled "Iraqi Oil Potential and Implications for Global Oil Markets and OPEC Politics."

"The health of Iraq's energy sector will likely be a major determinant in setting Iraq's overall trajectory," said O'Sullivan, the Jeane Kirkpatrick Professor of the Practice of International Affairs at Harvard University's Kennedy School.

Jaffe and her colleagues argue that ambitious targets set by the government of Iraq may not be reachable in the short-to-intermediate term while international oil companies operating in southern Iraq continue to experience infrastructure development problems.

The study concludes that while operational and logistical factors will play a large role in determining whether Iraq reaches its energy potential, political factors will be equally important.

Essential to the smooth development of Iraq's energy potential is resolution or management of several political issues – including ongoing challenges to political stability, difficult power-sharing arrangements at the national level between political parties and growing pressures for provincial empowerment.

The authors say that Iraq's logistical and political challenges come at the same time that the costs for Saudi Arabia to continue to expand and maintain sufficient spare capacity to influence global markets have increased dramatically.

Future investment in a new tranche of Saudi production capacity is likely to be even more expensive because the kingdom will have to shift to areas that have more complex geology and require greater technological intervention.

But Saudi Arabia also faces competing priorities with higher spending requirements on social services and defense in light of new regional and internal challenges, which calls into question whether sufficient spending on spare oil production capability will be maintained.

The study notes that Iraq's ability to reach its energy potential should be of broad regional and international concern,

given how the country's development has major implications for global energy security.

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