Shell secures 25-year access to Iraq's oil, gas

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A joint venture between Royal Dutch Shell and Iraq's state-owned South Gas Co. could give Shell a 25-year monopoly on production and exports of natural gas in much of southern Iraq – the biggest foreign role in Iraq's oil and gas sector in four decades.

The planned venture, spelled out in a 16-page document obtained by United Press International, goes well beyond descriptions provided by Iraqi and Shell officials on Sept. 22, when they held a public signing ceremony in Baghdad.

The officials at the time described the agreement as:

• Limited to Basra province.

• Restricted to capturing gas that is burned off and therefore wasted in extracting and processing oil.

• Primarily intended to supply Iraq's domestic market.

In fact, the two signed what is known as a "heads of agreement" (HOA) – basically a rough draft of a contract – that establishes the management team, scope, purpose and other details of the joint venture's business plan.

Though nonbinding, the confidential document is telling.

The joint-venture company would give Shell the largest foreign role in Iraq's oil and gas sector since the 1960s, when Iraq expelled the world's big oil firms after 40 years of foreign control of exploration, production and exports.

The joint venture will be the "sole gas company engaged in business," as outlined in the HOA, "and providing gas for domestic and export markets and generating revenues from gas marketing activities."

"The ministry shall not pursue any discussions with the intention of entering into a project with a similar scope to that set out in this HOA with any third parties," the document states.

The joint venture would be "of a long term (25 years extendable)," according to the HOA. Iraq would own 51 percent and Shell 49 percent of the venture.

Iraq has the world's 10th-largest proven gas reserves, according to the U.S. Energy Information Administration, most of it located in southern Iraq.

Two to three times more reserves could be found when the region is fully explored, industry analysts say.

Iraq's government has tried and failed thus far to enact a national oil and gas law, in part because of a dispute over foreign participation.

The Shell joint venture reflects an attempt by the Oil Ministry to walk a fine line, attempting to push ahead despite a deadlocked parliament.

"The Ministry of Oil has the authority to sign the venture without going back to the parliament," said Assem Jihad, a spokesman for Iraq's Oil Ministry. "However, if the parliament requested clarity, we are ready to explain. The matter of fact is that this venture is for the interest of Iraq."

The joint venture, however, has stirred opposition in parliament.

"It is a long-term monopoly that allows Shell to export gas when Iraq is in need of that gas," said Jabir Khalifa Jabir, a member of the Shi'ite Fadhila Party and a member of the parliament's Oil and Gas Committee.

"This joint venture will include all of Basra and more likely to [encompass] the entire region of the south," said Mr. Jabir, whose party is the largest in Basra province.

He called the deal illegal and unconstitutional because local officials in Basra did not participate and warned that parliament should be involved if the venture develops new gas fields in the future.

Iraq's once top-shelf state-run oil and gas industry was devastated by Saddam Hussein's misuse, foreign sanctions and three wars in three decades. Infrastructure and equipment were harmed, and new technology and training were shut out.

Only 58 percent of demand for electricity in Iraq is being satisfied, according to the U.S. State Department's Iraq Weekly Status Report, in part because of shortages of oil and gas.

More than 60 percent of Iraq's natural gas production is burned or released into the air or reinjected into the ground because of insufficient infrastructure to transport and use the gas.

"Some 700 million standard cubic feet per day are currently being flared in the south of Iraq. The [joint venture] will initially focus on gathering this gas, hence reducing the flaring and turning this resource, currently being wasted, into value for Iraq," said Shell spokeswoman Kirsten Smart.

"Iraq's domestic market is where the initial focus will be. Ultimately, it's up to the Iraq government what happens to the gas," Miss Smart said.

Mr. Jihad denied that the joint venture would have a monopoly.

"It is only a partnership; there will not be monopoly of the gas. It is only the gas that is being wasted will be used, the gas that is currently wasted that will be exploited," he said.

"After Iraq takes its needs from gas, Shell will buy the surplus at the international price," he said.

The HOA defines the south of Iraq as the southernmost province and the oil and gas capital of Basra, though a map appendix to the HOA shows the contract territory extending for an unknown distance into the Persian Gulf.

In addition, the document says the joint venture can be extended to "any other areas as may be agreed by [Shell and the Oil Ministry]."

While the HOA does not bind the ministry and Shell to create the joint venture, it is a legal contract for 12 months, with a six-month automatic extension, during which it restricts the Iraqi Oil Ministry from negotiating with any other company or carrying out any work that could be interpreted as competing with Shell.

A six-member Joint Management Committee, with equal representation from Iraq and Shell, was due to begin work Oct. 22. All of the JMC decisions must be unanimous, though only one person each from the ministry and Shell is required for a quorum.

The JMC will determine "activities" of the joint venture, and Shell and the Oil Ministry will work together "in good faith with each other and shall not participate in any similar activities with any third parties."

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