

The Complete Guide To Global Oil Market Trading

Simon Watkins

SAMPLE

6. Flashpoint Iraq

There are four key things to know about Iraq from which spring all of its problems since the removal by the US of Saddam Hussein in 2003:

1. It has greater oil potential than even Saudi Arabia;
2. It has been – and is still – prevented from realising this potential by exceptional levels of endemic corruption at all levels of government, administration and business;
3. It is intimately tied into the dominant neighbour, Iran, through political, economic and military factors; and,
4. It is effectively split into two parts – southern Iraq, governed by the Federal Government of Iraq (FGI) based in Baghdad, and the northern (semi-autonomous) Kurdistan Region of Iraq (KRI), governed on a day-to-day basis by the Kurdistan Regional Government (KRG) centred in Erbil – that will be locked into a mutually destructive relationship until the northern area is granted full independence, which is unlikely to happen any time soon.

Oil Reserves Potentially Greater Than Saudi Arabia's

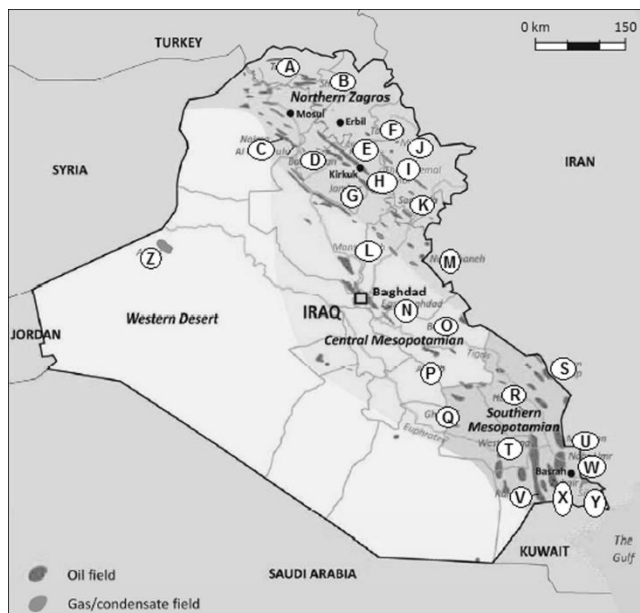
Even more so than Iran, Iraq remains the greatest relatively underdeveloped oil (and gas) frontier both in the Middle East and the world. Officially, it holds a very conservatively estimated 145 billion barrels of proven crude oil reserves (nearly 17% of the Middle East's total, around 8% of the globe's, and the fifth biggest on the planet), plus the 12th largest proven natural gas reserves, at almost 112 trillion cubic feet. Unofficially, as shown in detail below, it is extremely likely that it holds much more of both.

Currently, it can relatively easily produce between 4.4-4.7 million bpd of crude (its highest output was 4.83 million bpd), and it does so at the same world low operating cost ('lifting cost') as Saudi and Iran: around USD1-2 per barrel excluding capital expenditure or USD4-6 per barrel including capital expenditure. However, there remain in the Oil Ministry plans which would yield crude oil output of at least 12 million bpd for many years to come on the provisos that it was the recipient of sustained investment by good international oil companies and that this funding

actually ended up in oil sector development projects. Such output would easily trump that of any other country – including Russia and Saudi Arabia – except the US.

Amazingly to many, given the relatively advanced state of development across the global oil and gas sector, much of Iraq – north and south – remains comparatively unexplored. In basic geological terms, as delineated by the IEA, there are three main hydrocarbon basins of Iraq, each at a different stage of development, although none particularly advanced by international standards. The first is the ‘The Zagros Foldbelt’ in the north of Iraq, west of the Zagros mountains, that includes the super-giant Kirkuk reservoir and the other major fields in the KRG area and is also close to the Iranian border on the eastern side. This foldbelt continues into Iran itself. The second is the ‘Mesopotamian Foredeep Basin’, the location for most of Iraq’s super-giant fields, which in turn extends into Iran and also Kuwait and Saudi Arabia. The third is the ‘Widyan Basin-Interior Platform’ to the west and broadly overlapping with the Western Desert that extends into Saudi Arabia. This is also the least explored of these relatively minimally explored three main basins.

Three Huge Hydrocarbons Basins Running Through Iraq



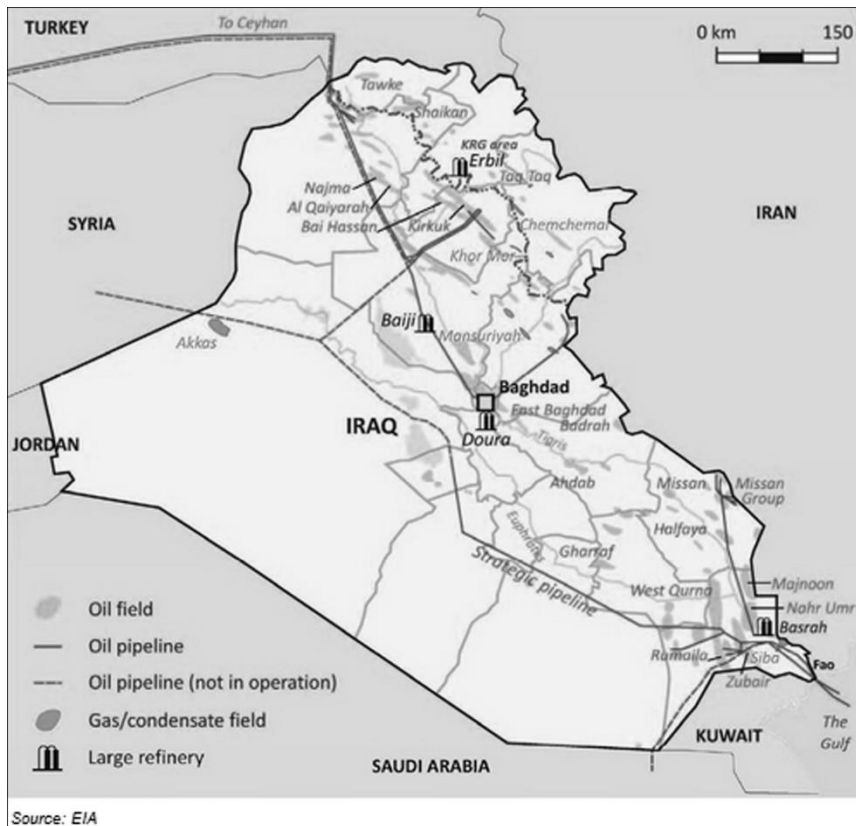
[Chart Key: A = Tawke, B = Shaikan, C (1) = Najma, C (2) = Al Qayyarah, D = Bai Hassan, E = Kirkuk, F = Taq, G = Jambur, H = Khormor, I = ChemChemal, J = Miran, K = Sarqala, L = Mansuriyah, M = Naft Khaneh, N = East Baghdad, O = Badra, P = Ahdab, Q = Gharaf, R = Halfaya, S = Missan Group, T = West Qurna, U = Majnoon, V = Rumaila, W = Nabr Umr, X = Zubair, Y = Siba, Z = Akkas

Source: IEA]

In October 2010, Iraq’s Oil Ministry increased its figure for the country’s proven reserves to 143 billion barrels, almost 25% more than the previous 115 billion barrels, virtually where we are now. This increase – unlike those notably seen in Saudi Arabia and the UAE in recent years (see above) – did reflect reality. In fact, it may well turn out to be a huge underestimate as, at the same time as producing the official reserves figures, the Oil Ministry stated that Iraq’s

undiscovered resources amounted to around 215 billion barrels. This was also a figure that had been arrived at in a 1997 detailed study by respected oil and gas firm Petrolog.

Literally In Some Cases Barely Scratching The Surface Of Its Resources



Even this, though, did not include the parts of northern Iraq in the semi-autonomous region of Kurdistan, administered by the KRG. Prior to the recent rise in exploration activity in the KRG area, more than half of the exploratory wells in Iraq had been drilled prior to 1962, a time when technical limits and a low oil price gave a much tighter definition of a commercially successful well than would be the case today, as highlighted by the IEA. Based on the previous limited exploration and development of oil fields in the KRG area, the proven oil reserves figure was first put at around 4 billion barrels. This has been subsequently upgraded by the KRG to around 45 billion barrels but, again, this may well be a very conservative estimate.

Even Conservative Estimates Show Huge Further Potential

	Proven reserves, end-2017	Ultimately recoverable resources	Cumulative production, end-2017	Remaining recoverable resources	Remaining % of URR
Southern Mesopotamian	113	164	25	139	85%
West Qurna	47	55	3	53	95%
Rumaila	17	35	16	19	55%
Majnoon	13	15	1	15	96%
Zubair	7	11	3	8	70%
Central Mesopotamian	13	19	0	18	98%
East Baghdad	9	10	0	10	98%
Northern Zagros Fold Belt	23	62	19	42	69%
Kirkuk	7	25	16	8	34%
Western Desert	0	1	0	1	100%
Total Iraq	149	246	45	201	82%

Note: Proven reserves are approximately broken down by basin, based on information provided by the Iraqi Ministry of Oil, supplemented with company presentations. Figures include crude oil and natural gas liquids. URR = ultimately recoverable resources

Source: IEA

Even using the most conservative figures, Iraq has thus far produced only around 15% of its ultimately recoverable oil resources, compared with 23% for the Middle East as a whole, according to the IEA. Further exploration is highly likely to add substantially to the proven reserves figure over the coming decades, particularly given the high success rate of drilled prospects in Iraq. For example, less than half of the potential hydrocarbon-bearing geological prospects identified by geophysical means in Iraq have been drilled but, of these, oil has been found in 65% of them. In sum, the IEA puts the level of ultimately recoverable resources at around 246 billion barrels (crude and natural gas liquids).

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