



Commercial Activities in the New Iraq

A presentation hosted by the Japanese External Trade
Organization
Gaither Martin, Principal of Between Two Rivers, LLC.
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Financial status

- Strong growth and cash rich, inflation controlled, stable currency
- Debt reduction continues via IMF/Paris Club terms driving fiscal and monetary responsibility – external debt as % of GDP fell 181% to 42%
- \$44 billion in reserves/independent Central Bank
- 2008 imports over \$43 billion, double previous year, investment rising
- State owned bank financial burden, driving up interest rates

Year	Total Budget (billions USD)	Oil Revenues
2010	72.4	52.8 (est.)
2009	58.6	39.2
2008	71.2	61.9
2007	41	41
2006	34	31.3
2005	24.4	

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Japan

- Japanese companies continue to be most prominent in the oil sector, highlighted by visits last year from the Minister of Oil.
- The Japanese Government continues to influence the GOI through its \$5 billion dollar aid program.
- Multiple business forums have channeled information to private firms and allowed for feedback to policy makers.
- Security remains as the largest obstacle for Japanese firms.

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United States

- US commercial presence is lacking compared to military/diplomatic influence countrywide.
- US administration holding fast to troop drawdown deadlines, causing major firms to settle into “observation” mode.
- Lack of resolution on recent elections is also causing reticence for US firms.
- More than 120 US companies and 100 Iraqi companies participated in the June catalogue show in Baghdad.
- US firms seeking additional legal assurance for the Gol, such as the Gol’s commitment to the “New York Conventions” related to international arbitration.

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United Kingdom

- The UK’s diplomatic and commercial activities have mainly been focused in the south of Iraq.
- The UK has the second largest diplomatic presence in Iraq, however commercial assistance is limited.
- In March, ArcelorMittal announced its plans to invest \$130 million in a new steel mill in Sulaimaniyah complimenting Mittal’s previous plans to invest up to \$1billion in the Basrah Province.
- In May, the investment firm MerchanBridge was awarded a \$250 million, 15 year cement factory rehabilitation contract.
- The UK continues as a leader in Trade Missions and Commercial Conferences, as represented by the recently announce trade mission to Iraq in October of this year.

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Turkey

- Turkish exports to Iraq have grown from \$829 million in 2003, to over \$5 billion last year.
- Last year Turkey imported \$952 million in Iraqi goods.
- In 2009 Turkish companies won \$1.2 billion in Gol contracts up from \$242 million in 2003.
- Turkey and the Gol have signed 48 MOU's in a variety of sectors helping to spurn commercial growth.
- The Turkish Government has opened consular offices in Basra and Erbil.
- Business delegations and commercial conferences are regularly hosted by the Turkish Government.

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China

- In 2010 the Gol committed to doubling its oil exports to China.
- In February, China cancelled 80% of Iraq's \$9billion debt.
- Chinese energy companies signed 4 key deals culminating in 20% of Iraq's oil extraction.
- CNOOC and Sinochem are moving closer to finalizing a 2.5 billion barrel deal in the Maysan field in a public/private partnership with the Ministry of Oil.
- China continues as an export leader of consumer goods, food stuffs, and information technology to Iraq.
- China has a large diplomatic presence in Baghdad that is very active in promoting Chinese companies and goods as seen by the large debt cancellation.

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India

- Bilateral trade surged from \$407 million in 2009 to an expected \$6 billion in 2010.
- Principal Indian exports include sugar, dairy products, pharmaceuticals, iron, steel, tea, and machinery.
- In an effort to boost commercial activities both governments mutually agreed to the establishment of the India Iraq Economic Cooperation Council (www.indiairaq.com). The Council will facilitate trade activities through offices in Baghdad and New Delhi.
- Indian companies seek to regain their position as one of Iraq's largest prewar oil importers and commercial developers.
- In February, the Indian Government announced an agreement with the GoI to stock pile crude oil products as part of the MoO's five year plan to increase production.

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Russia

- Commercial engagement has been lead by Lukoil's signing of the 12.8 billion barrel, 20 year contract for the West Qurna-2 field.
- Efforts diplomatically and commercially have been hampered by attempts to renew Saddam era contracts.
- In 2009, PM Maliki became the first Iraqi leader to visit Russia since 1981. The PM's visit warmed relations between the countries and deepened diplomatic ties.
- Russia has established itself as a major supplier of arms and military equipment to the GOI.

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South Korea

- In February a 58 person delegation visited Baghdad and the KRG continuing the commercial momentum achieved by previous business delegations.
- Culminating from the visit, the company STX signed an MOU with the Ministry of Industry and Minerals to build a \$3.2 billion petrochemical complex in the Basra Province.
- Additionally, SK Energy and the Ministry of Oil agreed to conduct a joint survey on a new refinery in Baghdad.
- South Korea ranks third in the total number of exports to Iraq.
- The South Korean Government continues to be instrumental in assisting private companies in dealing with the intricacies of political dynamics within Iraq.

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Sector Brief – Oil & Gas



- 115 billion in oil reserves; 112 trillion cubic feet in gas (60% flared)
- \$75 billion investment to raise production from 2.5 to 7 mbpd
 - GoI 2010 capital budget for oil is \$3.2 billion
 - Budget execution climbs to 50%
 - Gap via foreign investment – recent oil deals
 - Majors yes, but second tier players too
- KRG – Baghdad dispute
 - Lessons learned – risks and situational awareness!
- Challenges
 - Absence of comprehensive national oil law to lay out int'l participation, revenue sharing and role of MoO state companies
 - Weak supportive infrastructure
- Moving forward, nevertheless

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Main Oil Deals

	Companies/Consortia	Province	Production Target (bpd)	Remuneration Fee/barrel
KRG Region				
Tawke	DNO International (55%) Genel Enerji (25%), KRG (25%)	Dohuk	100,000	
Taq Taq	Addax (45%), Genel Enerji (55%)	Irbil	180,000	
Sangaw	Sterling Energy (53%), Addax (27%), Korean National Oil Company (20%)	Sulimaniya		
Miran W 1	Heritage Oil (50%), KRG (50%)	Sulimaniya	10,000	
Dohuk PSC	DNO International (40%) Genel Enerji (40%), KRG (20%)	Dohuk		
Kalar Bawanoor Block 44	Western/Zagros (40%), KRG (25%) Talisman Energy Inc. (40%)	Sulimaniya		
South Region				
Oil and Gas Fields				
Majnoon	Royal Dutch Shell (60%), Petronas (40%)	Basrah	1.8 million	\$1.39
West Qurna Phase-2	Lukoil (56.25%), Statoil (18.75%) North Oil Company (25%)	Basrah	1.8 million	\$1.15
Halfaya	CNPC (50%), Petronas (25%), Total (25%)	Maysan	535,000	\$1.4
Garraf	Petronas (60), Japex (40%)	Thi Qar	230,000	\$1.49
Badra	Gazprom (40%); TPAO (10%) Kogas (30%); Petronas (20%)	Wasit	170,000	\$5.50
Zubair	ENI (32.81%); Occidental (23.44%) Korea Gas Corp (18.75%) Missan Oil Company (25%)	Basrah	1.2 million	\$2.00
W. Qurna Phase 1	ExxonMobil (60%), Oil Exploration Co (25%) Royal Dutch Shell (15%)	Basrah	2,325 million	
Rumaila	British Petroleum (38%) CNPC (37%), South Oil Company (25%)	Basrah	2.85 million	\$2.00
Adhab	CNPC (75%) State Oil Marketing Organization (25%)	Wasit	115,000	\$6.00 - \$3.00
Central Region				
Qaiyarah	Sonangol (100%)	Nineveh	120,000	\$5.00
Najmah	Sonangol (100%)	Nineveh	110,000	\$6.00
East Baghdad	No bidders	Baghdad Salah ad Din	400,000 est.	NA

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Sector Brief – Oil & Gas

- Market for goods and services \$1.3 billion (2010), \$8 billion (2011)
- Secondary & tertiary opportunities
 - Oil pipelines, pumps, pigs traps, valves and drill bits (supply and production), well heads and blow out preventers
 - Drilling rigs, well drilling and repair sub-contracts
 - Upgrading and developing new refinery capacity
 - Smaller scale, provincial based production sharing agreements
 - Asphalt production, storage depot facilities, oil/gas export terminals rehabilitation and expansion, offshore buoys
 - Petrochemical factory construction and rehabilitation
 - Energy saving and environment related technology
 - Mine/UXO removal
 - Insurance products
 - Housing, sewage plants, roads to service energy project development
 - Air cargo and personnel support (plane and helicopter), airstrips and helipads
 - Indigenous vendor development

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Sector Brief - Power

- Electricity consumption rising 15% yearly
- Demand at 13,000 MW, 7,000 MG generated
- GoI plan to boost generation to 24,000 MW over four years at cost of \$4.5 billion
- 2009 capital budget \$3.4 billion
- 2008 purchase of \$3 billion in gas turbine generators from GE plus another \$2 billion from other suppliers...and counting
- Billions in generator installation contracts set for years
- Demand for efficient technologies

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Sector Brief - Construction

- Estimated \$400 billion in construction needs
- Across the board investment needs
 - transportation: repair 24,000 miles of roadway, 1100 bridges; upgrading airports and seaports, railway
 - 1.5 million housing units shortage; 2 million more by 2015
 - Cement production meeting 20% of domestic needs; 19 licenses granted to rehab/build cement plants valued at \$3 billion.
 - Building equipment and materials – bricks, marble, ceramic, etc.
 - 6% of population covered by sewerage treatment plants
 - Water supply systems
 - Hospital/health clinics construction and corresponding equipment, drugs, supplies; MoH allocation of \$4 billion (2009)
 - “Sports City” complex in Basra for 2013 Gulf Games

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Sector Brief - Agribusiness

- 30 million+ population demanding higher quality food products
- 8.3% of GDP, employs 25% of population
- Key to economic diversification and sustainable employment
- Government promoting public and private sector investment in production
- No supermarkets, inchoate distribution networks, no economies of scale
- Low level of capital investment and technology and high soil salinity
- Oil for Food legacy (PDS) distorting markets, promoting corruption, consuming 10% of government budget
- Weak domestic credit system/failed gov't programs/poor legal framework

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Sector Brief - Agribusiness

- Sales of equipment and technology
- Exports of frozen food products – imports 65% of basic food needs
 - Poultry - Brazil exports nearly \$200 million in 2009
 - Commodity imports for 2010 (est): 3 million tons wheat, 1 million ton rice, 720,000 tons sugar
- Processed vegetables and other edible oils
- Slaughterhouse, meat processing, livestock production
- Dairy and dairy products
- Cold storage facilities
- Canning and packaging
- Animal vaccines
- Pesticides
- Franchising international brands

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Sector Brief - Telecommunications

- Mobile subscription 20 million since 2003 winning Gol \$3.75 billion in license fees
 - Gol set to issue this year 4th GSM and 3G licenses
- \$1 billion national wireless rollout program
- Internet users at very low 300,000
- Electronic banking services – mobile banking, EFTs, credit cards
- Other Opportunities:
 - Fiber optic network installation and maintenance
 - Data hosting centers, switches and other equipment
 - Post office computerization

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Lessons Learned

- Establishing an office – business registration, name brand recognition, presence, commitment
- In country partners – joint ventures, legal representative agent, consultants, due diligence!
- Understanding the procurement and contracting process/identifying sole source opportunities
- Confirm availability of funding – is it in the budget?
- Awareness of sectarian sensitivities/establishing cross sectarian relationships/KRG vs Baghdad; Access to Decision Makers
- Situational awareness – security
- Japanese consortium?

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BTR - Background

- **Gaither Martin** is a Principal with Between Two Rivers, LLC, a Washington, DC based consulting company with an office in Baghdad, Iraq. Martin previously worked at the US Department of State where he was a program coordinator in the Bureau of Democracy, Human Rights, and Labor for Iraq. For several years, he worked closely with Iraqi leaders in the US Embassy Baghdad where he was the Senior Advisor the Minister of Planning and Development Cooperation.
- **Between Two Rivers, LLC** assists companies in identifying commercial opportunities in Iraq, advises foreign governments on political and commercial trends in the country and works closely with Iraqi leaders in promoting their economic development.
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