

# Iraq Oil & Gas Report Q2 2011

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## Abstracts

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BMI forecasts that Iraq will account for 10.27% of Middle East (ME) regional oil demand by 2015, while providing 11.56% of supply. Middle East regional oil use rose to an estimated 7.40mn barrels per day (b/d) in 2010. It should average 7.70mn b/d in 2011 and then climb to around 8.70mn b/d by 2015. Regional oil production was 22.83mn b/d in 2001 and averaged an estimated 24.90mn b/d in 2010. After an estimated 25.21mn b/d in 2011, it is set to rise to 27.24mn b/d by 2015. Oil exports are growing steadily, because demand growth is lagging the pace of supply expansion. In 2001, the region was exporting an average of 17.85mn b/d. This total eased to an estimated 17.50mn b/d in 2010 and is forecast to reach 18.54mn b/d by 2015. Iraq has the greatest export growth potential, followed by Qatar.

In terms of natural gas, the region consumed an estimated 392bn cubic metres (bcm) in 2010, with demand of 482bcm targeted for 2015, representing 23.0% growth. Production of an estimated 467bcm in 2010 should reach 612bcm in 2015 (+31.0%), which implies net exports rising to 130bcm by the end of the period. In 2010, Iraq consumed an estimated 1.28% of the region's gas, with its market share forecast at 2.39% by 2015. It will have contributed 1.07% to estimated 2010 regional gas production and by 2015 could account for 2.94% of supply.

The 2010 full-year outturn was US\$77.45/bbl for OPEC crude, which delivered an average for North Sea Brent of US\$80.34/bbl and for West Texas Intermediate (WTI) of US\$79.61/bbl. The BMI price target of US\$77 was reached thanks to the early onset of particularly cold weather, which drove up demand for and the price of heating oil during the closing weeks of the year.

We set our 2011 supply, demand and price forecasts in early January, targeting global

oil demand growth of 1.53% and supply growth of 1.91%. With OECD inventories at the top of their five-year average range, we set a price forecast of US\$80/bbl average for the OPEC basket in 2011. The unprecedented wave of popular uprisings in the Middle East and North Africa (MENA) that followed the removal of Tunisian President Ben Ali on January 14 has obviously fundamentally altered our outlook, particularly since the unrest spread to Libya in mid-February.

Taking into account the risk premium that has been added to crude prices in response to actual and perceived threats to supply, we have now raised our benchmark OPEC basket price forecast from US\$80 to US\$90/bbl for 2011 and from US\$85 to US\$95/bbl for 2012. Based on our expectations for differentials, this gives a forecast for Brent at US\$94/bbl in 2011 and US\$99/bbl in 2012. We have kept our long-term price assumption of US\$90/bbl (OPEC basket) in place for the time being while we wait to see what path events in the MENA region take. We have also retained our existing supply and demand forecasts until the scheduled quarterly revision at the start of April.

Iraqi real GDP rose by an estimated 2.9% in 2010, and we are forecasting average annual growth of 5.7% in 2010-2015. We expect oil demand of an estimated 700,000b/d in 2010 to rise to 893,000b/d in 2015, depending on investment in infrastructure and the development of domestic production. International oil companies (IOCs) have signed production sharing agreements (PSAs) with the state, which should help accelerate the growth in oil output. Based on the efforts of national oil industry bodies, we are forecasting average oil production of 2.54mn b/d in 2011. December 2010 production was 2.44mn b/d, with 1.92mn b/d of exports. Further field reactivation work and the initial IOC efforts point to output of an estimated 3.15mn b/d in 2015. The government has much more ambitious targets, aiming for 0.5mn b/d annual output expansion and a long-term goal of 6.0mn b/d. However, there are major risks involving attacks on oil installations, Iraq's OPEC entitlement and the success of new energy policy in stimulating IOC investment.

Between 2010 and 2020, we are forecasting an increase in Iraqi oil production of 69.4%, with crude volumes rising steadily to 4.15mn b/d by the end of the 10-year forecast period. Oil consumption between 2010 and 2020 is set to increase by 62.9%, with growth slowing to an assumed 5.0% per annum towards the end of the period and the country using 1.14mn b/d by 2020. Gas production is expected to climb to 42bcm by the end of the period. With 2010-2020 demand growth of 281%, export potential should rise to 23bcm by 2020. Details of the BMI 10-year forecasts can be found in the appendix to this report.

Iraq ranks fourth, just ahead of Iran, in BMI's composite Business Environment ratings (BERs) table, which combines upstream and downstream scores. It occupies a respectable third place in BMI's updated upstream Business Environment ratings, but lags Qatar and the UAE by five points and three points respectively. The country's score benefits from exceptional oil and gas output growth potential, a substantial hydrocarbons reserves base and the region's highest reserves-to-production ratio (RPR). Current government control of the upstream industry and a high level of country-specific risk prevent Iraq from achieving a better overall score. Iraq is at the bottom of the league table in BMI's downstream Business Environment ratings, with a few high scores but further near-term progress up the rankings unlikely. It is ranked just behind Kuwait, in spite of a reasonable showing in terms of oil demand, oil and gas demand growth and likely refining capacity expansion.

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