INTERVIEW

Deferring Investments in Iraq Would Have Very Negative Consequences for the Country but Also for the World,

Fatih Birol, Chief Economist of the **IEA**, tells **AOG**

- The two key aspects are the legal reforms affecting the hydrocarbon sector and the construction of the new industrial facilities needed.
- Iraq could account for 45% of the growth in world oil production during the current decade.

Photo AIE.

(Following is the text of a telephone interview conducted on 8 October with Mr. Fatih Birol, Chief Economist and Director, Global Energy Economics Directorate, at the **International Energy Agency** – see page 10 for his biography. The interview was devoted to a special report entitled *Iraq Energy Outlook* that the IEA published on 9 October. It forms part of the Agency's *World Energy Outlook* series, the 2012 edition of which will be published on 12 November. Other articles on Iraq in this issue can be found under the headings Top of the News, Iraq and Documents. **AOG** last published an interview with Mr. Birol on 1 December 2011).

AOG : *In the **International Energy Agency**'s* Iraq Energy Outlook, *three scenarios are outlined for the development of Iraqi **oil production** in the coming years (designated "central", "high" and "delayed"). According to you, which is the most likely scenario?*

■ **Fatih Birol** : The central scenario [Editor's note: which projects that Iraqi oil production will reach **6.1 million barrels/day** in 2020 and **8.3 million b/d** in 2035] seems most likely, but I cannot rule out the delayed scenario [Editor's note: In this scenario, Iraqi oil production rises to 4 million b/d in 2020 and 5.3 million b/d in 2035], since there are major legal and political problems in Iraq that have a big impact on the hydrocarbon sector.

AOG : *What is the principal obstacle or obstacles along the way to an increase in Iraqi oil production?*

■ **F. B.** : There are two key elements in this respect: the **legal reforms** affecting the hydrocarbon sector and the construction of **new industrial facilities**. As regards the first point, the current problems between the federal government and the regional governments are a major

obstacle. It is in everyone's immediate interest that these problems are resolved and that Iraq adopts a new **hydrocarbon law**. As for the new facilities required, they essentially relate to oil production, of course, but also to the **export and storage of oil** and **water injection** into oil reservoirs

AOG: *You point out in your report that, once the country's most pressing needs have been met, its aim of installing a* ***reasonable reserve of spare oil production capacity*** *will strengthen confidence on the world's oil markets. Could you explain Iraq's intentions in this particular respect?*

■ **F. B.**: Iraq could account for some 45% of the expected growth in world oil production during the current decade, and the country will soon become the world's second largest crude oil exporter after Saudi Arabia. This position will give it substantial responsibilities as regards the international oil market. Some Iraqi officials have made statements about spare production capacity in the future, and, although this is not a priority for now, this would make a welcome contribution to stabilizing the world oil market in the future.

AOG: *The* Iraq Energy Outlook *does not only review the Iraqi oil sector but also contains lengthy passages devoted to natural gas and the power sector, which pose major challenges for Iraq. The IEA even suggests that* ***natural gas*** *could play a far more important role than oil in the future electricity generation of Iraq.*

■ **F. B.**: Iraq possesses substantial gas resources, but they are largely under-exploited, since 60% of the associated natural gas it produces is flared at the moment. In particular, there is

Launch of the Iraq Energy Outlook in Baghdad on 10 October - Copyright OECD/IEA 2012.

> Dr. Fatih Birol
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Dr. Fatih Birol is the Chief Economist and Director of Global Energy Economics at the **International Energy Agency** in Paris. He is responsible for the IEA's flagship *World Energy Outlook* publication, which is recognized as the most authoritative source of strategic analysis of global energy markets. He is also the founder and chair of the **IEA Energy Business Council**, which provides a forum to enhance cooperation between the energy industry and energy policymakers.

Dr. Birol has been named by *Forbes Magazine* among the most powerful people in terms of influence on the world's energy scene. He is a member of the UN Secretary-General's '**High-level Group on Sustainable Energy for All**' and the Chairman of the **World Economic Forum**'s (Davos) Energy Advisory Board. Dr. Birol was awarded the Officer of the Order of Merit of the Italian Republic in 2012, the country's highest honour. In 2009, alongside awards from the Dutch and Polish governments, Dr. Birol received Germany's Federal Cross of Merit, the country's most prestigious decoration. He was awarded the Golden Honour Medal of Austria in 2007 and was made a Chevalier dans l'ordre des Palmes Académiques by France in 2006. These followed awards from the governments of Turkey in 2005 and the United States in 2004 and from the **Russian Academy of Sciences** in 2002. He is a past winner of the **International Association of Energy Economics**' annual award for outstanding contribution to the profession.

Prior to joining the IEA in 1995, Dr. Birol worked at the **Organization of the Petroleum Exporting Countries** (OPEC) in Vienna. A Turkish citizen, Dr. Birol was born in Ankara in 1958. He earned a BSc degree in power engineering from the **Technical University of Istanbul**. He received his MSc and PhD in energy economics from the **Technical University of Vienna**.

Source: IEA.

enormous potential for recovering associated gas in the **Basrah** region. We think Iraq should primarily utilize its gas for **power generation** and for its **petrochemical industry**. In export markets, the country could be a very competitive supplier, especially for deliveries to the European market.

AOG: *Let us return to your scenarios on the future development of Iraqi oil production. When one looks at the very tense relations between the federal government and the* ***Kurdistan Regional Government****, and bearing in mind that the draft oil bill presented by the government in 2007 has still not been adopted by Parliament, one can only say that your* ***delayed scenario*** *looks very probable.*

■ **F. B.**: It is clear that there is a significant likelihood of this scenario coming to pass. In developing it, we wanted to show the Iraqi authorities what the country would lose on these assumptions. The cumulative impact of the delayed scenario relative to the central scenario is huge, since the national wealth that would be lost could amount to **$3,000 billion** between now and 2035. The consequences of this scenario are very negative for Iraq, but also for the world, since it would very probably result in tighter oil markets and in a rise of around U.S.$15 in oil prices, which could reach **close to $140 per barrel in real terms** by 2035.

AOG: *Isn't the* ***high scenario****, which projects that Iraq will be producing* ***9.2 million b/d*** *of crude by 2020, totally unrealistic?*

■ **F. B.**: Iraq's oil potential is such that there could be a huge increase in its production in the coming years, but there are other factors at work over and beyond the country's resources and reserves which will make such an increase in production difficult. Even in producing countries that did not face political and infrastructure problems on this scale, we have barely seen such a large increase in such a short time before. This scenario is clearly not the most likely one at this point of time of the three we outline in this report.