

World Economic Situation and Prospects

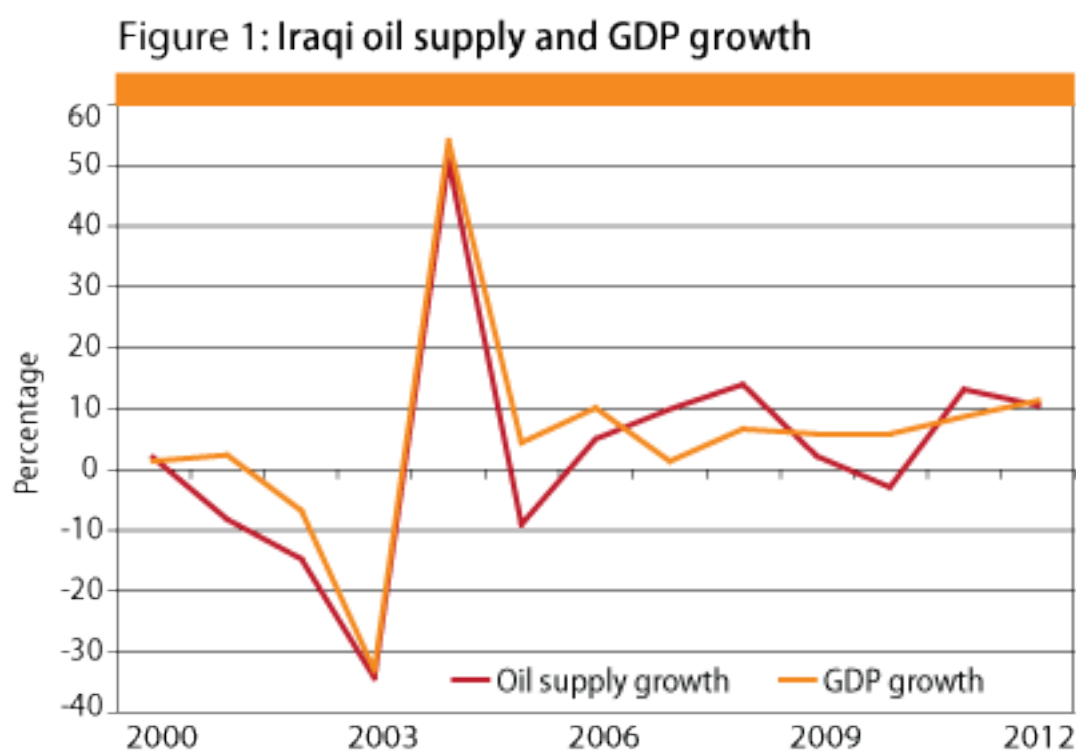
Weekly Highlights

Prepared by: Pierre Kohler

6 March 2013

Iraqi economic growth dependent on oil and foreign oil majors

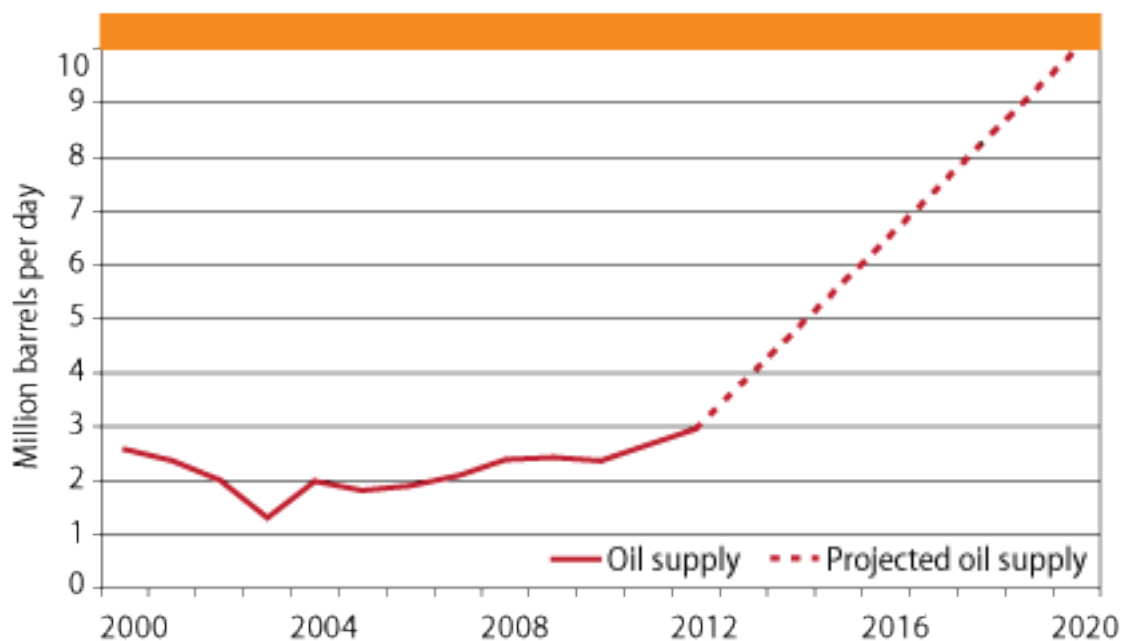
The Iraqi economy strongly depends on its oil sector, which accounts for nearly 60 per cent of GDP and 90 per cent of government revenues. Fluctuations in oil prices and domestic output are major determinants of economic growth (figure 1).



Source: International Energy Agency and DESA.

In order to finance its long-term economic development and diversification strategy, the Iraqi Government plans to expand oil output at an unprecedented average annual rate of 16.6 per cent over the next 8 years and raise oil production from currently 3 million barrels per day (mbd) to 10 mbd in 2020 (figure 2). As Iraq lacks the resources required to realize this ambitious undertaking alone, the Government heavily relies on foreign investments and collaboration with foreign oil majors.

Figure 2: Oil supply and the Iraqi Government projection



Source: International Energy Agency and Iraqi national development plan.

However, the growing involvement of several American and French oil majors in a dispute between the Government and the Kurdish Regional Government (KRG) over the sharing of oil revenues casts a shadow over their expected contribution to Iraq's economic development. Since 2011, foreign oil majors started to illegally bypass the Government and directly deal with the KRG that lured them with much more lucrative oil production sharing agreements, thereby also securing revenues beyond the control of the Government.

In recent months, tensions have been growing and in December 2012, the KRG stopped providing crude for Iraqi exports. In parallel, it increased its crude exports to Turkey using trucks. In February, an international oil company started drilling in the Kurdish region, despite the reiterated threat by the Iraqi Government that it would cancel its 60 per cent share in the \$50 billion West Qurna oil field project in southern Iraq. Such tensions hinder the orderly development of the Iraqi oil sector, overall revenue collection, and political stability.