

Thursday, September 16, 2021

## Geopolitics: Iraq Eyes Energy Sector Reboot

*A megadeal struck with TotalEnergies could free Iraq from years of oil sector drift, according to Energy Intelligence analysis. The deal promises critical progress in gas, power and oil development, and shows new awareness by Baghdad of its huge vulnerability to transition challenges. But deep political and institutional problems still pose risks to Iraq's newfound momentum.*

- **Iraq has — belatedly — woken up to the urgency of change.** The \$27 billion Total deal could be transformational for Iraq, combining progress on vital oil infrastructure, gas capture and power generation, and renewables. The deal represents a major step toward stabilizing and decarbonizing Iraq's energy sector, potentially laying foundations for further adaptation efforts — but huge risks remain. Progress on this complex, integrated project has been unusually decisive, after prior talks with Exxon and others floundered over many years. We detect a deep shift in perspective for some in Iraq's elite, with Harvard-educated Deputy Prime Minister Ali Allawi playing a pivotal role. Allawi argues Iraq — like other [slow-moving producer states](#) — faces existential transition risks, laid bare by last year's oil demand and price plunge. As well as expediting this deal, Allawi is readying a broader strategy for Iraq to adapt.
- **Addressing Iraq's gas and power woes is key.** Total unlocked the deal by aligning its proposal with Iraq's gas and power priorities. Baghdad needs to fast-track gas capture to combat perennial problems in power generation, with regular summer blackouts feeding political unrest. Iraq flared some 1.38 Bcf/d in July, over half its total associated gas. The project will capture gas from Ratawi (where Total is also set to expand oil output), plus Majnoon, West Qurna-2 and other fields. Other investment is planned by Shell's Basrah Gas venture. But we see dependence on costly Iranian imports persisting as domestic electricity needs soar. Total's deal was also helped by a 1 GW solar project to decarbonize the oil and gas projects, and high-level French political support.
- **Progress could bring wider benefits for oil investment.** The deal has broad implications for Iraq's oil sector, adrift after years of contractual wrangles. In a best-case scenario, it could maintain pressure and output at giant Basrah fields through the long-planned 5 million b/d seawater project, and support growth in Iraq's capacity (stalled at ~4.7 million b/d) and revenues. This would help rebuild investor interest after a general drift to the exit, helping mitigate concerns about both carbon emissions and slow progress on contracts among firms like BP, Lukoil, Eni and Petronas. The deal — if successful — could also become a model for future investment in Iraq, tying access to oil and gas resources to vital infrastructure and low-carbon projects.
- **But risks to successful implementation are very real.** Iraq's new impetus is fragile, and we will be watching October elections as a first key test. Progress on major energy projects continues to face [familiar challenges](#), including endemic political instability and regional tensions, as well as weak institutions and widespread corruption. The potential exit of the current leadership (which lacks a power base) and an untidy or delayed post-election transition could slow initiatives. Political divisions remain a major drag, as seen in slow progress toward reviving the Iraq National Oil Co. Security challenges persist, with US combat forces set to leave Iraq by year's end, while Iran-backed militias could resist major projects not seen as in Tehran's interests.
- **Iraq must do much more to weather future challenges.** Putting its energy sector on an even keel is an essential first step for Iraq. But our wider transition risk analysis indicates that much more is needed, with Iraq one of the world's most vulnerable producers. Iraq faces acute risks due to rapid population growth, extreme state reliance on oil revenues, a weak non-oil economy, and carbon-intensive oil production. We see Iraq's oil sector needing a radical overhaul, (1) further reducing widespread flaring and lowering carbon intensity, (2) showing flexibility to attract upstream investment, (3) enlarging storage and export capacity, and (4) overhauling and expanding inadequate downstream facilities. Iraq must also address deeper challenges, diversifying economic activity and broadening its state revenue base. Near term we will be watching for political stability through October's elections and the US troop exit; early progress on flaring reduction and electricity provision; and signs of revived investment interest from oil operators.

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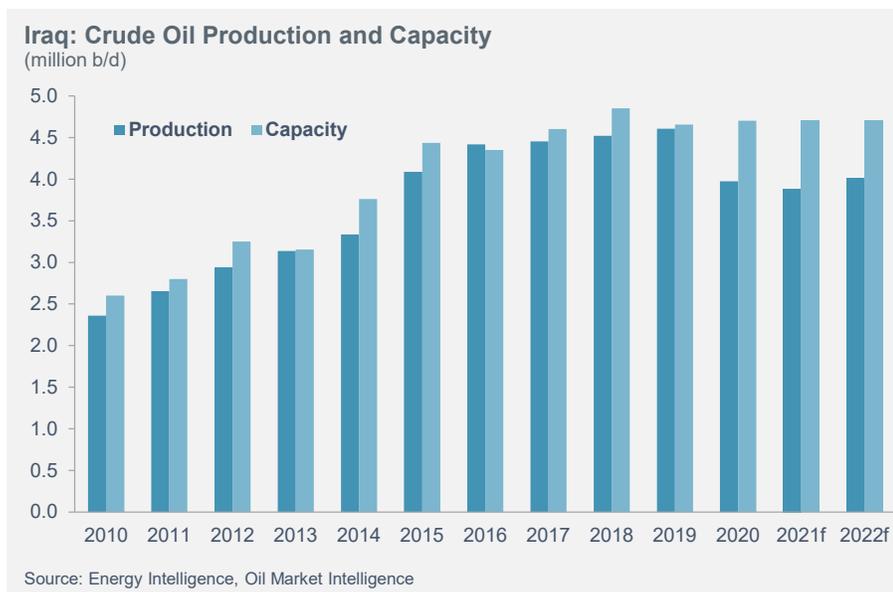
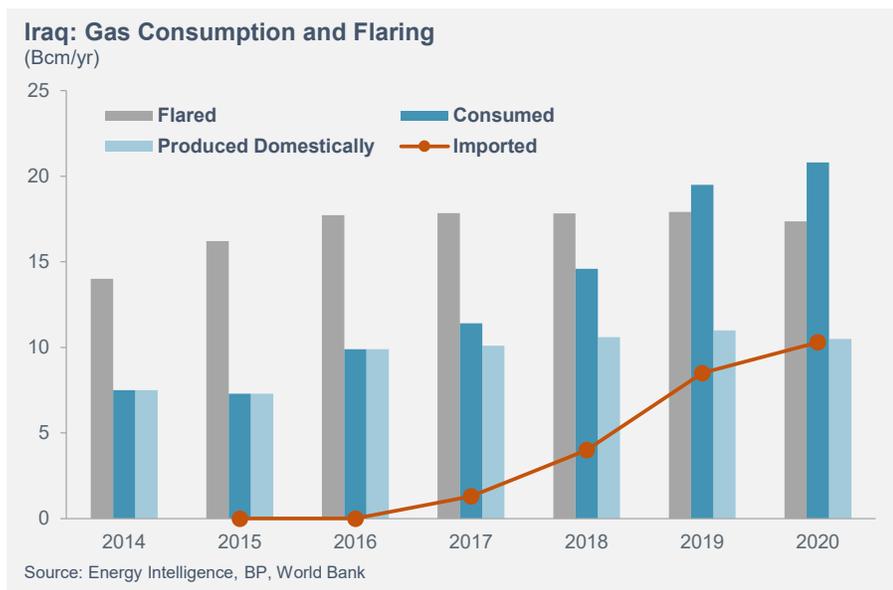
## Energy Intelligence EXPERTS

**Rafiq Latta**  
Senior Correspondent  
+357 9978 4063  
[rlatta@energyintel.com](mailto:rlatta@energyintel.com)

**Simon Martelli**  
Senior Correspondent  
+44 (0)20 7518 2226  
[smartelli@energyintel.com](mailto:smartelli@energyintel.com)

**Colby Connelly**  
Research Analyst  
+1 202 662 7073  
[cconnelly@energyintel.com](mailto:cconnelly@energyintel.com)

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### Energy Intelligence Premium CONTACTS

**Sales:**  
Geoff Wright,  
*Global Head of Sales & Marketing*  
+1 646 616 0836  
gwright@energyintel.com

**Content:**  
Alex Martinos, *Editor, EI Premium*  
+44 (0)20 7518 2248  
amartin@energyintel.com