Challenges to Energy Development

IRAQ

Both efficient development and sustainable longevity of human organizations, including countries, companies, families etc., are together a function of a sound paradigm. This is based primarily on three pillars, namely *Participation* in decision-making, *Transparency* in performance and *Accountability* by results, and rests fundamentally on the concept of primal justice.

On the other hand, leadership, that system of people who are entrusted with the responsibility of the efficient harnessing of all the factors of production that facilitate the attainment of the objectives embodied in a sound paradigm, will create over time and space, a considerable hiatus. This hiatus will ultimately cause the gradual disintegration of the said organization.

Since the Agricultural Revolution, the history of nations has clearly and consistently revealed the inverse relationship between the leadership and the sound paradigm: the broader the gap, the faster is the total decline.

Iraq, which is the cradle of human civilization, has since then, experienced this cyclical nature of history. In the 21st century, Iraq is one of the richest hydrocarbon nations in the world with great potential for progress. Still, that is a vision, which may elude attainment unless swiftly and rationally addressed.

For the past three decades Iraq has been brutally burdened, economically, socially, politically and ethically, by continuous cross-border wars, internal ethnic and religious oppressive activities, mal-management of human and non-human resources, as well as a growing list of other negative factors. Any one of these could pose a present and imminent danger to the progress of the country and the welfare of its population.

However, in our opinion Iraq has all the right ingredients to regain its progressive path, but only with rational planning and firm resolve in its execution. With 153 billion barrels of proven reserves, Iraq maintains its rank as the fourth among the OPEC members after Venezuela, Saudi Arabia and Iran. Ninety five per cent of its budget is made up from revenues that originate in that sector. In addition Iraq’s resources include, but are not limited to, natural gas, sulphur, phosphate and fertile arable lands. Such numbers embody great opportunities as well as undoubtedly risky challenges.

Like most of the OPEC members Iraq’s revenues are highly sensitive to international prices, as observed by the drastic fluctuations over the past decade. Similarly, most are characterized by relying only on one factor of production, an intrinsically unhealthy economic state of affairs. The long period of sanctions, wars and upheavals must have contributed to the qualitative lack of higher levels of relative efficiency in managing oil and gas resources. Technological transfer to Iraq was almost absent for more than three decades.

Moreover, internally and regionally the country has undergone enormous losses and devastation among its population, property and productive installations. The ethnic and religious toll has been growing at an unprecedented rate. The insurgency of ISIL played such havoc in almost every sector of the economy that it could take decades to overcome the effects, or for the population to come to terms with the events that have occurred over the past six years, and still counting.

The dispute regarding the constitutional interpretation between the Federal Government and KRG on issues like management of the hydrocarbon assets and control and distribution of oil revenue is still a sour situation. Instead, divergence from the Federal Government is becoming gradually too strong for any amicable mediation. This has created further uncertainty regarding contractual, technical, financial and operational activities, and has greatly reduced much needed investments in this vital sector.

However, it appears that there is a bright light at the end of the dark tunnel. ISIL is slowly but effectively in retreat and should capitulate sooner rather than later. Still, the challenge thereafter will be just as great and will be reflected in rebuilding as well as in the rehabilitation of the returning millions of Iraqi refugees. The cost could well be a major drain on government finances.

With respect to the hydrocarbon industry, the recent relative recovery of international oil prices over the first four months of 2017 was welcome news, as we can detect from chart 2. Oil revenues in April increased by 37% over April 2016. Furthermore, the volume of exports was also higher than the previous year attesting to the capacity of Iraq to firm its oil exports. Yet it is uncertain if the gains will continue throughout the year for reasons related to OPEC’s policies, as well as the international economic and geopolitical expectations and events.

Still, despite the encouraging news the future of Iraq is vulnerable at best, for the following structural reasons:

1. Economy is fundamentally based on one factor. (Must diversify)
2. 95% of the budget is from oil revenues. (Reduce vulnerability to geo-economic political events, diversify markets e.g. Jordan pipeline)
3. ISIS destroyed 80% of the infrastructure; millions of refugees to return. (International financial commitment for a comprehensive rehabilitation and reconstruction program is imperative)
4. KRG cessation, disputes and divergent interests. (Loss of hydrocarbon assets/revenue)
5. The fabric of society is infested with ethnic, religious and ideological differences. (Government improvement is vital)
6. Foreign investment is negligible. (Improve laws, regulations, dispute settlement, bureaucracy, access to international finance)
7. Knowledge management. (Technology transfer, efficiency enhancement)

In summing up, these challenges are strongly interdependent. Unless intelligently, rationally and promptly rectified, they will adversely impinge on the vital financial resources required to shift Iraq back to its sustainable development path. The alternative is simply catastrophic.