



***Assessing Iraq's First Gas Contracts:
Critical for the Development of Electricity
Production Capacity, Disputed on Local
and Labor Rights, Leaving Room for Action***

Summary: The lack of electricity production capacity is a danger to citizens' health, to national industry, and overall stability. Power outages for most Iraqis occur for 18 hours a day. The current Iraqi electricity market cannot even produce half of the demand. Despite a massive gap in actual production of electricity, Iraq has substantial potential resources to meet demand, particularly gas. However assessing Iraq's first gas development contracts must also take into account local and labor rights, a topic requiring continued and augmented action by the Iraqi government, foreign companies, NGOs and civil society.



The Dangers of Electricity Shortages

The lack of electricity production capacity is a danger to citizens' health, to national industry, and overall stability. Power outages for most Iraqis occur for 18 hours a day. The current Iraqi electricity market cannot even produce half of the demand. This harms Iraqi industry which cannot depend upon the electricity supply. As temperatures now regularly rise above 50°C/120°F in the shade, even the most basic cooling devices only have access to the national electricity grid for less than 5 hours a day. Electricity-specific unrest has been recorded in every Iraqi province in the last two years. That makes it one of the few protest issues to spread across the country as a whole before the short-lived Iraqi Spring of 2011. Unrest due to electricity shortages, such as those which occurred in Basra on the 19th of June last year leading to multi-province unrest which forced the resignation of the electricity minister, left dead in their wakes. Even an attack on a provincial governor has been carried under the banner of demanding increased electricity supplies specifically. Such electricity-shortage-based unrest was so disconcerting to authorities that some provincial governors have illicitly diverted power for their provinces from the central grid. The central government, under Prime Minister Nuri al-Maliki, began demanding that all protests require a license from the Interior Ministry, in direct response to electricity shortage protests. He then ordered the Interior Ministry to refuse all requests therefore.

Gas Development Critical to Developing Electricity Production

Despite a massive gap in actual production of electricity, Iraq has substantial potential resources to meet demand, particularly gas. Iraq has the fifth largest gas reserves in the Middle East and eleventh largest in the world. Electricity plants could easily and efficiently use gas as fuel. Indeed many of Iraq's electricity stations are currently designed to do so but run instead on heavy oil, which wears down the equipment faster. This is due to a significantly underdeveloped Iraqi gas industry. Iraq's non-associated gas fields are largely untouched. More than half of gas available for development in the coming years comes from Iraq's oil fields. But this associated gas (some 1.5 billion cubic feet per day) is currently flared and therefore wasted, for lack of infrastructure. Flared gas is both a waste of valuable finite energy resources, as well as damaging to the environment. While the government, for the foreseeable future, will continue to rely on sales of crude oil for most of its revenue, its gas supply can and should fuel the nation's power stations by all capitalist calculations of economy as well as social-safety-net conceptions of the national interest.

The Deals

The four gas development deals signed in little more than a month between June and July 2011, both represent major steps toward developing the national gas industry and Iraq's very first ones. They are the centerpiece of Iraq's master plan to boost electricity production to keep up with demand that is double the rate of supply. Contracts for the development of three virgin gas fields were signed in mid-June. They cover the Akkas field in al-Anbar in the West, the Mansouriyah field in Diyala in the North East, and the Siba field in Basra in the South, together representing one tenth of all Iraqi gas reserves. July 12th a parallel deal for the capture and use of the associated gas from the Basra oil fields of Rumaila, Zubair and West Qurna I, was added as well, dubbed the Basra Gas Company. Output from the virgin fields and the capture of gas associated with current oil production mentioned above, each are to bring more than 700 million cubic feet/day online within six years.

Local Protests Demand Concessions to Local (Consumption, Employment and Industry) Interests

Popular forces and authorities at the provincial level protested against each of the above mentioned gas deals before their signature. These provincial protests disputed the insufficient consideration given to local consumption, employment, and industry interests by the plans. When, on 20 October 2010, then Oil Minister Hussain al-Shahristani announced the winning tenders for the Akkas, Mansouriya, and Siba gas fields in the third licensing round, in Basra, there were calls for the oil industry to be nationalized. In Diyala, people insisted that they be told about the investment contracts with international companies, before they were signed. In the province of al-Anbar, some tribal leaders dramatically threatened to demand independence and hundreds of people came out on the streets in protest in Ramadi and Fallujah alone, as hundreds had done before them in May 2010, against recognizing the contracts without assurances that there would be no export of raw natural gas from the Akkas field. These protesters insisted that output instead should be processed locally into value-added energy products and sold on the domestic market, as fuel for local power plants producing local energy. In the defense of this demand they rightly pointed out the efficiencies of local use rather than transportation of the electricity at losses of power over long tracts of land. They also frequently cited feelings of neglect by the central government, which they said has failed to provide adequate financing for reconstruction and services.

In an atmosphere of severe under-provision of services by the national government, assurances that the central government will receive a reasonable portion of the profits of the development of local natural resources has unsurprisingly proved insufficient to convince citizens that the province from which resources are mined will benefit in the end too. Such fear has not been confined to regions with particular ethno-sectarian makeup, such as the Sunni West. Rather it has surfaced in the South, East and even on occasion in the generally much better served and secured North as well. Such local protests held up the signing of the Akkas, Maysouriya and Siba field deals for 8 months even after the final official auction.

Uneven Concessions to Local Interests

Protest against the initial terms of the gas deals occurred across all potential producer provinces; however the level of concessions to local demands varied considerably.

On the development of the Akkas field in al-Anbar, for example, the concessions were impressive. Considerations of the local Anbar community's demands included promises of the Oil Ministry and foreign partners to provide power plants, petrochemical factories and other gas-related industries relevant to the province's needs, as well as the installation of gas pipes to transport gas to local power stations. First rights to signing contracts for the construction of these facilities are to go to Iraqi companies. Only surplus in excess of the province's requirement of 250 megawatts of electricity and 1800 megawatts to the Heet Thermal Station are to be exported. The Oil Ministry further estimated that the projects could provide jobs for as many as 85% of the province's unemployed.

By contrast in the Basra Gas Company deal the terms were less impressive. According to sources within the ministry, the Oil Ministry wanted the gas prices to be subsidized, while Shell and Mitsubishi were asking for global market prices. Iraq eventually agreed to increase prices for the gas that would be purchased from the Basra Gas Company. Questions were also raised about the non-competitive position of Shell in the signing which differed from the auctioning of other gas development contracts, as well as the priority given to foreign companies in exporting gas.

The Role of Provincial Authorities: Why al-Anbar Got Major Concessions and Others Did Not

Arguments between provincial and central government authorities have been ongoing at a diplomatic level in nearly all of the resource rich regions of Iraq, regardless of the ethnic or sectarian makeup of the majority of their inhabitants. The Kurdish Regional Government has long sought to sign contracts on its own, while companies signed by the KRG in bilateral agreements were then blacklisted by the national oil ministry in their own auctions. Shiite-dominated Basra, the country's largest base of oil-production, like the Sunni-dominated province of al-Anbar, has been roiled by conflicts between residents and oil authorities. Some local Basra politicians have even tried to employ the supposed insufficient benefit from local natural resources as a reason for turning Basra into a federal region of its own.

What is notable in the latest round of discussions is that in the Anbar field deals, is that first, the local authorities have succeeded in actually attaining the lion's share of what they wanted. Those that preceded them have not. Furthermore, the provincial authorities demands will probably be quite beneficial to the people of the province.

The key to local authorities success in achieving their demands varied considerably from province to province. Working within the legislative framework, threatening and helping activate civil protest, and threatening not to coordinate with gas companies against security threats, were some of the methods employed. Then the Anbar authorities simply waited. After waiting some two years the national Oil Ministry eventually came to the provincial authorities to "clarify" their and the foreign developers' position, under pressure from foreign companies which steadfastly refused to sign without assurances from the provincial authorities about their safety. The "clarification" of the national Ministry of Oil simply meant giving in to nearly all the stated demands.

By contrast the Basra Gas Company the ministry was more pressed to reach a deal since the gas, by virtue of being associated with already developed oil production, was being continuously flared and therefore lost during the negotiations. In the Anbar fields undeveloped gas simply remained under the earth. In addition, provincial authorities in Basra, unlike in al-Anbar put up little resistance to the national level plan by giving specific proposals regarding local value-added gas production, employment demands, or labor rights. To the contrary, Basra authorities' past actions have shown them to be active in suppressing rather than encouraging the demands of labor in regard to natural resource development in the province, be it foreign or Iraqi run. Basra workers have engaged in independent unionized action in the natural resource extraction sector previously despite the lack of a legal mandate to do so. The oil unions have stopped or threatened to stop production as well as holding rallies over issues like legislation, pay and treatment. In response, they have been fined, targeted by local security forces, or even been relocated to areas hundreds of miles away from their families. In February 2011, 16 workers were fined nearly \$60,000 for work stoppage at the Basra refinery, a sum difficult to imagine, much less pay for such individuals. As a result of the weaker civil society participation and lack of pressure from provincial level authorities on the terms of the contracts in the negotiation of the southern deals, the Basra gas-development deals had notably less favorable terms for the local community's workers and industry.

Need for Increased Monitoring by Government, Foreign Companies, and Civil Society

To reach the recent gas deals the national authorities have been negotiating a fine line between rushing as much as possible to get the gas online, and trying to provide local benefit in the way the gas is extracted. The labor and local market issues associated with gas extraction however, will require

continued and increased monitoring to ensure it does not result in unrest. Such oversight must come internally from foreign companies working on the fields, as well as externally from the central government and labor rights organizations.

The absence of laws on gas production and exports, as well as protection for the right of all workers to unionize are serious gaps in Iraqi legislation. Currently many Iraqi workers are forbidden from forming independent unions not formally sanctioned and controlled by the state. This regulation dates from the pre-2003. Iraq is a signatory to international workers rights agreements, and the 2005 constitution called for a new labor law. However the drafting has since languished. Such legislative gaps must be sewn up by Iraqi lawmakers, and then implemented by local authorities.

Foreign companies for their part must be alert about their employment processes and conceptions of how to “give back” to local communities. During the period following the occupation of Iraq in 2003 foreign companies have often heavily relied on foreign labor at all levels of their operations in the name of the security of their facilities. However such reliance on foreign labor, when labor with equal qualification exists for the same positions locally, itself directly fueled discontent that contributed to the insecurity of their operations. Foreign employers must also be wary of middlemen. Jobbers in other natural resource extraction operations in the South have been known to take commissions of as much as \$2,500 from people seeking jobs in the foreign companies. Finally, heavy reliance on extremely short term contracts for employees and lack of sales of gas at prices that could encourage gas-based value-added production locally also increase public discontent toward these companies. Investment in value-added local gas industry is far more valuable to the local communities than projects such as parks, and recognized as such by them. Previous protests show that people demand sustainable employment, and investment in overall livelihood development, not short-term handouts.

Civil society as well as provincial authorities have and should continue to demand transparent discussion of the terms of contracts given to foreign and national companies regarding the development of their resources. This most minimal level of participation is clearly guaranteed provincial level actors by Article No. 109 of the Iraqi Constitution which mandates that the federal government should manage oil and gas “with the producing governorates and regional governments”. As the case of al-Anbar shows, civil society and provincial authorities in particular can have a critical role in pushing for local development priorities and labor rights as well which national authorities are unable to achieve on their own.

These first steps in the development of Iraq’s national gas resources are critical to increasing the supply of electricity. This is an important objective in itself. However an increase in the provision of electricity without other social and market planning regarding the development of Iraq’s finite gas resources is insufficient. Sustainable market-sound alternatives to make resource extraction appealing to local communities, especially regarding gas, are available. Such alternatives immerse with the combined efforts of local and national government, foreign companies, the pressure of civil society and can also draw upon the ongoing humanitarian presence in Iraq today.

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26 July 2011