The Fourth Bid Round: Assessment of the Outcome.

Ahmed Mousa Jiyad
Iraq/ Development Consultancy and Research
Norway
Phone: (+47) 5659 5699 E-mail: mou-jiya@online.no

Introduction

After many postponements the fourth bid round took place on 30 and 31 May 2012. 12 exploration blocks were offered, but only three were awarded. With two thirds of the offered blocks receiving no bid must be a disappointing result for the ministry of oil-MoO, and many commentators would see this as obvious failure, and the balm-game began. But as always, there are different ways to look at the event and interpret its outcomes, from different perspectives, as this brief paper attempt to do.

A Replica of First Bid Round!?

It appears, at the outset, as if we are witnessing a replica of first bid round- June 2009 when only one field was awarded (Rumaila), then 100 days later IOCs began the race to accept the MoO Maximum Acceptable Remuneration Fee-MARF for West Qurna1, Zubair, and Missan oilfields (Buzurgan, Faqa and Abu Gharab), despite the big margin between the offered remuneration fees and the MARF.

However, the likelihood of such repetition is remote indeed for variety of reasons. Many of the IOCs competed severely in June-October 2009 to gain footholds in the Iraqi upstream sector. Also all the offered oilfields were producing with long known history, and have minimum business risk.

Unlike the case of the first bid round, most known IOCs did not demonstrate keen interest in this fourth bid round, and thus there was no serious competition. Also except one block, there were no pending offers on the remaining eight blocks. Finally, the business risk associated with exploration is much higher than with the previous ones in first bid round despite high prospectivity in Iraq generally.

As for block 12 the remuneration fee requested by the consortium Petrovietnam/ Premier Oil/Bashneft is \$ 9.85/boe, while MoO-MARF is \$5/boe. The consortium refused to reduce its fee to that of the ministry during the bidding day. Now since MARF is known the consortium has two options either reduce their fee and accept the MARF or face possible competition if and when the block would be included in future fifth bid round. For the consortium to accept the MARF they might change the participation interest of its components through increasing Petrovietnam share, probably on the expense of Premier Oil, for cost consideration (similar to what CNPC did for Rumaila oilfield) .

Differentials in Remuneration Fees

As was the case in the previous three bid rounds, this round demonstrates differentials in remuneration fees-RF, though the cases are few due to limited number of bids.

The first RF differential is among the competing consortiums. For block 8, the RF differential is \$5.15/boe, representing 96% of the lowest RF. But block 10 exhibits lower RF differentials of \$1.08/boe, representing 18% of the lowest RF.

The second RF differentials related to MoO-MARF, especially when it is over the bid RF by the IOCs. Information indicates that MARF was higher than the bid RF for all three awarded blocks. The case was more surprising for block 8, if the above information proven correct.

The winner, Pakistan Petroleum, offered $5.38/boe while its competitor Japex- Itochu consortium offered $ 10.57/boe, but MARF was reported to be higher than even what was proposed by Japex- Itochu consortium. This actually could raise two questions: the first is about the accuracy and reliability of Pakistan Petroleum economic model and its calculation, and the second is what could happen if this operator decides to withdraw. Should MoO accept Japex- Itochu consortium' offer or re-bid the block?

Surprising Block 9!

Another surprising case is related to oil-prone block 9. Since the announcement of these exploration blocks most industry sources expected fierce competition on this block due to its high prospectivity, as it is close to infrastructure and numerous producing and appraised oil fields in Iraq and Iran.

28 IOCs bought the data package, but only one consortium- Kuwait Energy/TAPO/Dragon Oil- made a bid and won it. The consortium offered $6.24/boe, which apparently lower than what the ministry was ready to pay, as one reporter claim.

It is worth recalling that Kuwait Energy/TAPO had acquired Siba gas field during the 3rd bid round, which is in close proximity to this block, and this might had affected the economic calculation and contributed to make a bid lower than MARF.

Purchase of Data Packages

Data packages for all offered blocks were purchased, but with different interests. The number of IOCs bought the data packages ranges between 13 and 36. However, the average number of IOCs who bought data packages for gas-prone blocks was 17 compared with 28 for oil-prone blocks. Moreover, three bids were on oil-prone blocks (9, 10 and 12). Even block 8, which is considered as gas-prone in this bid round, was in fact a result of enlargement of smaller blocks that were previously categorized and considered as "moderate oil" blocks.

Obviously, IOCs are more interested in oil than gas despite the possible 7 years moratorium on the development of the field in case of oil discovery. The implications are obvious; the MoO has to give the priority to gas-prone blocks in its Exploration Program under its current Plan 2011-14.

IOCs Participation

IOCs participation tells few indications. Japanese companies registered the highest participation with 9 companies, giving the impression they would drive hard competition to gain significant presence in Iraq petroleum. In reality, only one company (Inpex) managed to gain minor interest of 40% in the oil-prone block 10. Again reality seldom coincides with expectations!

This bid round had seen for the first time the full absence of the big western IOCs. In fact the western-hemisphere companies, regardless of their size and image, could have been fully absent, but Premier Oil (UK) made co-bid for blocks 10 and 12, though without success.

On the other hand new comers increased the number of IOCs involvements in upstream petroleum in Iraq. Pakistan Petroleum, Inpex (Japan) and Dragon Oil (UAE) are among the

successful newcomers, while PetroVietnam, Bashneft (Russia) Itochu (Japan) and Premier Oil are among the un-successful newcomers.
The IOCs which consolidated their positions during this bid round are Lukoil (Russia), Japex (Japan), TAPO (Turkey) and Kuwait Energy (Kuwait).

Signature Bonuses
Signature bonuses were of moderate double-digits values compared with the three digits values in first and second bid rounds and zero signature bonuses for the third (gas fields) bid round. Signature bonuses in this bid round are $15 million for each of blocks 1, 8, 11 and 12; $20 million for blocks 3, 4, 5, 6 and 7; and $25 for blocks 2, 9 and 10. Consequently MoO would collect $65 million signature bonuses from the awarded three blocks.

The Minimum Obligations
Each winning consortium is obliged during the first five years of the Exploration Period to spend “minimum expenditure” to execute “minimum work program”. The minimum expenditure ranges between $90 million for block 9 and $130 million for block 6. As for minimum work program it comprises one exploration well for each block and conduct seismic surveys (2-D seismic or equivalent in 3-D) in the Contract Area, including processing and interpretation thereof. The scale of the seismic surveys ranges between 900 km for block 9 and 2250km for block 6.

The Comparison of Remuneration Fees
The comparison of the remuneration fees of this bid round with those offered in the previous bid rounds and concluded directly, such as Alahdab oilfields is important measure to assess this bid round.
As mentioned above the RF for the oil-prone block 9 is $6.24/boe and for the oil-prone block 10 is $5.99/boe. While the RF for block 9 is slightly higher (by $0.24/boe) than the highest RF for Alahdab (awarded in 2008) and Najma (awarded in bid round two), the RF for block 10 is less by one cent than those for Alahdab and for Najma.
The comparison of the gas-prone block 8 is more significant. Pakistan Petroleum offered $5.38/boe, and this is lower than all RF for the three gas fields offered during the third bid round: Akkas ($5.5); Siba ($7.5) and Manssuriya ($7.0), the latter is located in the same geographical area of Diyala Province. If the signature bonus of $15 million, which Pakistan Petroleum will pay, is added it becomes clearer the performance of this bid round for the ministry.

The above clearly indicates that the ministry scored, once again, good results regarding the remuneration fees of the newly awarded three exploration block in this bid round.

The Way Forward
In the immediate aftermath of the bid round the Oil Minister Abdul Kareem Luaibi made two statements one related to a new fifth bid round and the other on the exploration program.

Regarding the proposed new fifth bid round he reportedly said Iraq has more than 60 blocks ready to be offered, and preparations would start in few months for the launch of a fifth round in which 10 to 15 oil and gas blocks would be put on offer and this requires more than a year to prepare for bidding.

Actually there are no compelling reasons for holding a fifth bid round in such a pace. With the new three exploration service contracts the ministry has now a total of 18 contracts covering 17 oil and gas fields and 3 exploration blocks. Managing these contracts in an orderly and effective way is not an easy job considering the human and institutional capacity constraints the ministry encounters. As many signals indicate, some of the concluded contracts might be subject to revision pertaining to their plateau production target, which could entail serious renegotiation of the related contracts. This if happen would require more time and efforts that could stretch the ministry's capacities to the limit. Moreover, the ministry has many other important fields and sub-sector projects to manage as outlined in its current plan. Finally, if eventually the ministry reduces the plateau production target for the first two bid rounds to a level commensurate with what many industry sources envisage then "resource replenishment" argument becomes less convincing for such hasty fifth bid round, though admittedly developing unexplored blocks takes long time-lead.

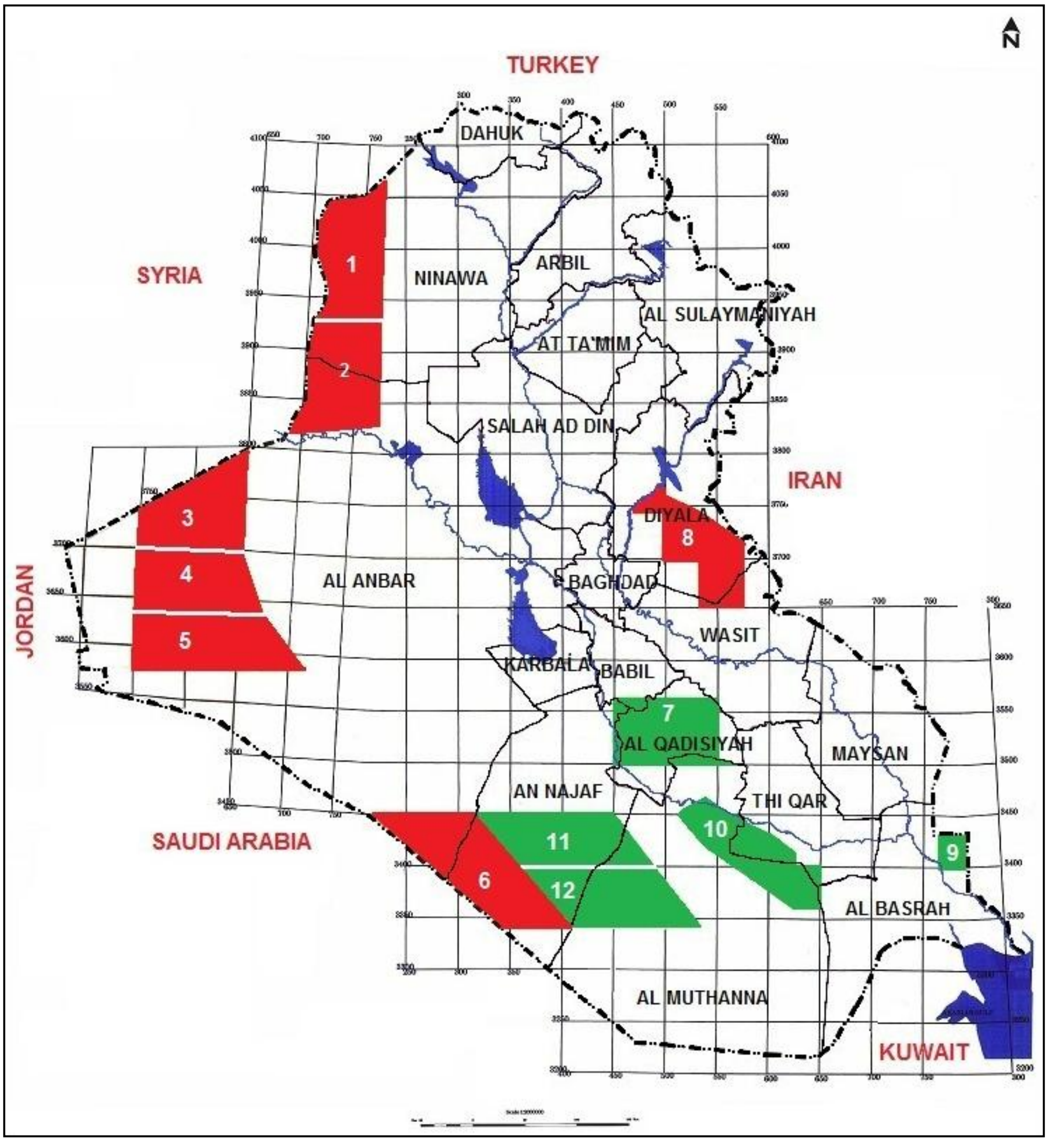
Few remarks are worth mentioning regarding the minister's second comment on the exploration program. The said program is already incorporated in the ministry's plan 2011-14, the summary of which was dated February 2011. In addition to holding this recent fourth bid round the exploration program comprise launching massive exploration operations throughout the country using national efforts and capacity, and drilling 12 (10) exploration wells (in other areas) across the country. Annual investment allocation of the program would be 18.6%, 22.4%, 26.8% and 32.2% for its four years respectively. In this regard Oil Exploration Company-OEC of the ministry has increased the number of its seismic operational divisions into three, and additional two would come soon. However, so far only one exploration well was completed in "Aldheima" oilfield east of Missan province, as stated by the minister in his interview with the government owned Alsabah Newspaper on 2 June 2012 (http://www.alsabaah.com/ArticleShow.aspx?ID=28344).

Obviously more is needed to accomplish the number of exploration wells targeted in the program. Moreover, neither the exploration program nor the plan of the ministry envisages a fifth bid round for exploration blocks.

Final Remarks.

Probably the outcome of this forth bid round was rather disappointing for some judging by the number of awarded blocks, and many attribute this to what they call "poor" or "tough" terms. However, the comparative analysis of the remuneration fees could indicates otherwise. Though big IOCs were absent, still many newcomers, with less impressive credentials than known IOCS, get involved in upstream petroleum in the country.

Instead of working on preparing another fifth round for more exploration blocks, it is much better for the ministry of oil to abandon this idea for many years and focus its attention and channel its resources to the many important contracts conclude already on one hand energize its exploration program to deliver stated targets therein. Finally, serious thinking should be given to exploration of gas-prone areas through ordinary term-defined service contracts to support the OEC efforts.


TURKEY
SYRIA
IRAN
JORDAN
SAUDI ARABIA
KUWAIT
DAHUK
NINAWA
ARBIL
AL SULAYMANIYAH
AT TA'MIM
SALAH AD DIN
DIYALA
AL ANBAR
BAGHDAD
WASIT
KARBALA
BABIL
AL QADISIYAH
MAYSAN
AN NAJAF
THI QAR
AL BASRAH
AL MUTHANNA
1
2
3
4
5
6
7
8
9
10
11
12
N