

# Towards a Baghdad-Moscow Axis? Russia's Massive Oil Projects in Iraq

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Global Research, June 17, 2020

[South Front](#) 16 June 2020

Region: [Middle East & North Africa, Russia and FSU](#)

Theme: [Oil and Energy](#)

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***In Iraq, a seldom mentioned and noteworthy oil cooperation is carried out between Baghdad and Moscow. Russian companies, namely Rosneft and Lukoil have developed new oil fields in Iraq.***

## **A notable project is Lukoil's West Qurna-2.**

West Qurna-2 field [is located](#) in the southern part of Iraq, 65 kilometers north-west of Basra, a major seaport city, and is one of the world's largest fields. The field's initial recoverable reserves come to around 14 billion barrels. Its total geological reserves sit at 35 billion barrels of oil.

On December 12, 2009 the consortium of PJSC LUKOIL and Statoil, a Norwegian company, was awarded a contract for the development of West Qurna-2 field, one of the world's largest fields. On January 31, 2010, a services contract was signed for the development and production at West Qurna-2. The contract was ratified by the Cabinet of Ministers of the Republic of Iraq.

A supplement agreement to the contract was signed in January 2013 that outlined the target contractual production (1.2 million barrels of oil per day) for the target production period of 19.5 years, and a 25-year extension of the contract term.

It has been producing oil since March 29<sup>th</sup>, 2014.

This was a result of short-term and large-scale field development. This included mine clearance, drilling of 48 production wells, preparation of 5 well sites and construction of large production facilities: oil treatment plants with a capacity of more than 400 thousand barrels per day, a gas turbine power plant with a capacity of 126 MW, water intake on the Euphrates River, an export pipeline of 102 km in length, additional reservoirs at the oil terminal with a total volume of about 200 thousand cubic meters, as well as numerous infrastructure facilities, including a shift camp for 1000 people, access roads, infield pipelines, a security perimeter and more.



In total for 2014-2020. More than 120 million tons of oil were produced. 120 production wells and 48 injection wells were drilled. The current production level is 400 thousand barrels per day from the Mishrif reservoir.

The current level of production is 400 thousand barrels per day from the Mishrif formation, which is almost 10% of Iraqi oil exports.

Since the start of the Service contract, LUKOIL has invested about \$ 9 billion in the project.

In 2019, LUKOIL commenced drilling of new production wells as part of the second development phase. The Company concluded contracts to drill 57 production wells, including 54 wells at Mishrif formation and 3 wells at Yamama formation. The drilling campaign will ramp up production at West Qurna-2 from the current level of 400 thousand barrels per day to 480 thousand barrels per day in 2020.

75% of the project is under Lukoil's ownership. The other 25% are owned by the North Oil Company (NOC), a state-owned company being a part of the Iraqi Oil Ministry. Notably, NOC does not incur any costs receiving only its share (25%) in the remuneration.

### **Another notable oil field developed and discovered by Russia is the Salman oilfield in Block 12 in Iraq.**



This [happened](#) in May 2018.

Bashneft International B.V., a Rosneft subsidiary, has discovered a new oil field named Salman, following the drilling of the first exploration well in Block 12 in the Republic of Iraq.

The exploration well was successfully drilled to the depth of 4,277 meters resulting in an oil flow that allows counting on discovering commercial reserves.

The Company considers this discovery an important landmark in upstream projects abroad.

Block 12 is located in the southwest Iraq, in an unexplored area of the Arabian Plate, approximately 80 km to the south of the city of As-Samawah and 130 km to the west of the city of Nasiriyah. It has an area of 7,680 sq km. Bashneft International B.V. is an operator of the project.

Bashneft International B.V. owns 70% of the project. Premier Oil (30%) and South Oil Company also participate in the project.

A contract for exploration, development and production at Block 12 was signed in November 2012.

The compulsory geological exploration program at Block 12 included 2D seismic surveys in the amount of 2,000 km and drilling 1 exploration well.

Upon confirmation of commercial stocks, the contract will be valid for 20 years. The premium for produced oil will be \$5 per barrel.



### **The interest Russian companies have in working in Iraq dates even before the Saddam Hussein era.**

The first company to return to post-Saddam Iraq was LUKOIL, which did not lose interest in projects in this country both during the Iraqi sanction period (1990-2003) and after the overthrow of the regime of Saddam Hussein.

The biggest project it involved itself in was the above-described West Qurna-2.

Obviously, despite the risks remaining in Iraq, LUKOIL's strategy was designed for the long term. This is due to the expansion of LUKOIL's activities when, in 2012, the company, together with the Japanese INPEX CORPORATION, acquired the right to exploration and subsequent development of Block 10.

In 2017, LUKOIL and INPEX successfully completed the tests of the first exploratory well, Erisu 1 at Block 10.

The company is now striving to increase production at West Qurna-2 from the current 400,000 to 480,000 barrels per day in 2020. The contractual framework for LUKOIL's work in Iraq is being updated on a mutually beneficial basis between the government and the company. So, in 2013, the contract was extended until 2035.

In January 2010, the Russian company Gazprom Neft received the status of the operator of a large Badra field, winning a tender in a consortium with Kogas (Korea), Petronas (Malaysia), and TRAO (Turkey).

However, in addition to this, Gazprom Neft has fields and in Iraqi Kurdistan the company acts as the operator of two projects in Iraqi Kurdistan - Jackal and Garmian. The Garmian block also includes the development of the Sarkal field, in which Gazprom Neft plans to increase oil production.

As described above, Bashneft developed Block 12 in the provinces of Musanna and Najaf. Nevertheless, with the growing political interest of Russia in the region, the positions of Russian energy companies, including Rosneft, were strengthened. In this context, in 2017, within the framework of the 21st St. Petersburg International Economic Forum, Rosneft entered into an Investment Agreement with the Government of Iraqi Kurdistan (according to open sources, the deal amounted to \$4 billion).

In addition to the fields in the oil-bearing Kirkuk, which at that time were controlled by the Kurds, Rosneft also switched over the significant oil infrastructure of Iraqi Kurdistan.

The key was the acquisition by Rosneft of the status of operator and ownership of 60% of the Kirkuk-Ceyhan oil pipeline, which had already been modernized and increased throughput from 700 thousand to 950 thousand barrels per day.

In 2018, exploration was announced and Rosneft began operations in Iraqi Kurdistan at the Batil, Zawita, Qasrok, Harir-Bejil and Darato fields, each of which is 80% owned by a Russian company.



**The visit of Russian Foreign Minister Sergei Lavrov in October 2019 to Iraq was the first in 5 years.** Together with Lavrov, the head of Soyuzneftegaz Yuri Shafranik, the director of Gazprom Neft Alexander Dyukov, representatives of Rosneft and Technopromexport went to Baghdad and Erbil.

## However, no major transactions were announced.

This appeared as a slowdown in Russia-Iraqi relations. Despite this, during Sergey Lavrov's visit, a number of memorandums of cooperation were signed, which could become the basis for further building up the Russian presence in Iraq.

Reportedly, according to Russian officials, Russian companies could potentially invest up to \$45 billion in Iraq by 2035.

The key Russian private companies and state corporations, whose leaders are members of the Russian ruling elite, are represented in Iraq.

These same elites determine the importance of projects in this country for the Russian decision makers.

At the same time, in Iraq itself, Russia interacts with both Erbil and Baghdad. In the event of a conflict, Russian companies demonstrate flexibility and manage to maintain their position.

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