

# Yemen Oil Reporting

version 0.1

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# Yemen

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## Bab al-Mandab

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### Overview

The Bab al-Mandab is a maritime passage between Djibouti and Yemen that forms a "chokepoint". The definition of a chokepoint according to the U.S. Energy Information Administration is: "Chokepoints are narrow channels along widely used global sea routes. They are a critical part of global energy security due to the high volume of oil traded through their narrow straits."<sup>[1]</sup> In 2006, it was estimated that 3.3 Million barrels of oil per day passed through the Bab al-Mandab, with primary destinations being the United States and Europe. By comparison, in 2007 43 Million barrels of oil per day were transported by tankers, with a total of 85 Million barrels of oil having been produced per day in 2007.<sup>[1]</sup> Like all chokepoints, the passage is considered a strategic asset to global energy security.<sup>[1]</sup> <sup>[2]</sup> Past incidents in the Bab al-Mandab include the attack on the U.S.S. Cole in 2000 and an attack against a French oil tanker in 2002.<sup>[1]</sup> It was also the site of an Egyptian naval blockade against Israel during the 1973 (Yom Kippur) War.<sup>[2]</sup> At its narrowest point, the passage is only 18 miles wide. <sup>[1]</sup>

### U.S. Military presence

There is a significant military presence in the region, a consequence of the strategic value of the Bab al-Mandab. The U.S. established a military presence in both Somalia and Djibouti as a response to the September 11th attacks and growing concern that the Bab al-Mandab would be the site of a terrorist attack.<sup>[2]</sup> The name of the Naval base in Djibouti is Camp Lemonnier, a former base of the French Foreign Legion.<sup>[3]</sup> The base houses an intelligence center that has been called "the biggest and most modern intelligence center in the Middle East..."<sup>[4]</sup> The base is the home of Combined Joint Task Force-Horn of Africa (CJTF-HOA), a U.S. mission to provide security and stability in the region. CTF-HOA was formed in 2002 and currently operates in what is called the "Combined Joint Operating Area" of Sudan, Ethiopia, Djibouti, Kenya, and Seychelles. Prior to 2010, CTF-HOA was also operating in Somalia and Eritrea.<sup>[5]</sup> CJTF-HOA is providing demining, humanitarian, and counter-terrorism abilities to the area through this base.<sup>[6]</sup> The base currently has around 2,400 personnel and a now operation landing apron allowing aircraft as large as a C-17 to land and takeoff at the base instead of having to land at the nearby commercial airport. The name of the landing ramp is "enduring ramp" and is designed to reflect the intended longevity of the mission in Djibouti. <sup>[6]</sup>

In neighboring Ethiopia is a smaller camp, now called Camp United, that is home to U.S. efforts to train the Ethiopian Army's anti-terrorism battalions.<sup>[7]</sup>

A multi-nation coalition of warships organized as the Combined Joint Task Force-150 (CTF-150) is currently conducting Maritime Security Operations from the strait of Hormuz to the coast of Tanzania, including in its area of operations the Bab al-Mandab.<sup>[8]</sup>

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## Notes

- [1] |Energy Information Administration ([http://www.eia.doe.gov/cabs/World\\_Oil\\_Transit\\_Chokepoints/Full.html](http://www.eia.doe.gov/cabs/World_Oil_Transit_Chokepoints/Full.html))World Oil Transit Chokepoints
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- [6] |Security (<http://www.globalsecurity.org/military/facility/camp-lemonier.html>)Camp Le Monier/Lemonier/Lemonnier
- [7] |Global Security (<http://www.globalsecurity.org/military/facility/camp-united.htm>)Camp United
- [8] |Navy.mil (<http://www.cusnc.navy.mil/articles/2010/CMF045.html>)Achievements and Challenges Facing Commander CTF-150

# Export Terminals, Pipelines in Yemen

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## Background

From the U.S. Energy Information Administration: "Yemen's location on the Bab al Mandab, one of the world's most strategic shipping lanes through which an estimated 3.7 million barrels of oil pass daily, makes Yemen important to the global oil trade. Disruption to shipping in the Bab el-Mandab could prevent tankers in the Persian Gulf and the Gulf of Aden from reaching the Suez Canal/Sumed pipeline complex, requiring a costly diversion around the southern tip of Africa to reach western markets. Yemen's economy is heavily dependent on hydrocarbons, which account for 25 percent of GDP, over 70 percent of government revenues, and over 90 percent of foreign exchange earnings. Yemen is actively seeking to increase foreign investment in its energy sector, but concerns about piracy in the Gulf of Aden, which it shares with Somalia, may be limiting prospects for increased foreign investment in Yemen's oil and gas sectors. Declining oil revenues are weakening the government's ability to provide basic services."<sup>[1]</sup>

## Export Terminals and Pipelines

### Yemen LNG Company

The Yemen LNG Company has a liquefaction plant at Balhaf that receives 900,000 cubic feet of natural gas per day from a 200 mile long pipeline. The gas is taken from the Block 18 reserves. A second liquefaction plant is planned to be completed in late 2010.<sup>[2]</sup> In September of 2010, the pipeline for the Yemen LNG Company was damaged by an attack, believed to be from a terrorist organization. The pipeline was damaged but output continued.<sup>[3]</sup>

### Ras Isa Offshore Terminal and Marib-Ras Isa Pipeline

The Ras Isa Offshore export terminal lies in the Red Sea and is connected to the Marib-Ras Isa Pipeline. The Marib-Ras Isa Pipeline is 270 miles long and has a capacity of 300,000 barrels per day.<sup>[4]</sup> The terminal itself is a "Floating Storage and Offloading Vessel" or FSO named "SAFER" that is operated by Hunt Oil on behalf of the Yemeni government's Safer Exploration and Production Operations Company.<sup>[5]</sup>

### **Ash Shahir Export Terminal and Masila-Ash Shahir pipeline**

The Masila-Ash Shahir pipeline is 90 miles long and has a capacity of 300,000 barrels per day. It terminates at the Ash Shahir Export Terminal in the Gulf of Aden.<sup>[4]</sup>

### **Bir Ali Terminal and Shabwa-Bir Ali pipeline**

The Shabwa-Bir Ali pipeline is 130 miles long and terminates at the Bir Ali Terminal in the Gulf of Aden. It has a capacity of 135,000 barrels per day.<sup>[4]</sup>

### **Proposed Pipeline**

A 37 mile long pipeline from the Haban oil field, running to the Gulf of Aden export facilities has been proposed. The project was open to bids in January of 2010.<sup>[4]</sup>

## **Other Pipelines**

### **Jannah-Safir**

A pipeline from Jannah to facilities in Safir, Marib.<sup>[6]</sup> This pipeline has a capacity of 120,000 barrels per day and carries oil to production facilities in Marib.<sup>[6]</sup>

### **East Shabwa-Masila**

Running from East Shabwa to Masila.<sup>[6]</sup>

### **Shabwa-Rudhum**

According to OilandGasArticles.com "The Shabwa-Rudhum pipeline carries 135,000 barrels per day of oil from the Eyad-Shabwa block to the Rudham terminal on the gulf of Aden"<sup>[7]</sup>

### **Ayad-Rudhum**

Another pipeline, mentioned in some sources but not elaborated on. Likely to be another name for the Shabwa-Rudhum Pipeline.<sup>[8] [6]</sup>

## **Notes**

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- [4] | Energy Information Administration (<http://www.eia.doe.gov/cabs/Yemen/Oil.html>) Yemen Oil
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# Hunt Oil

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<b>Oilfields in Iraq</b>	Kurdistan
<b>Other Middle East</b>	Yemen
<b>Type</b>	Private Company <sup>[1]</sup>
<b>Founded</b>	1934
<b>Headquarters</b>	Dallas, Texas, USA
<b>Key People</b>	Ray Hunt CEO <sup>[2]</sup>
<b>Products</b>	Petroleum and products
<b>Revenue</b>	\$2.12 Billion (USD)(2010) <sup>[3]</sup>
<b>Operating Income</b>	Unknown
<b>Net Income</b>	Unknown
<b>Employees</b>	3,000 (2010) <sup>[3]</sup>
<b>Total Assets</b>	Unknown
<b>Total Equity</b>	Unknown
<b>Website</b>	huntoil.com

## Global Snapshot

### Current Global Profile

Hunt Oil is a private American Oil company founded in 1934 by H.L. Hunt, allegedly using his poker earnings.<sup>[4]</sup> Forbes lists Hunt Oil as the 156th largest private company in America.<sup>[5]</sup> It has current operations in the United States, Canada, Yemen, Peru, and Iraq/Kurdistan, as well as several other countries. It was the first company to sign an exploration and production sharing agreement with Kurdistan following the regions passing of their own oil laws.<sup>[6]</sup> There was some concern in the press about the connection between this oil deal and the Bush administration, given that CEO Ray Hunt was twice appointed two year terms on President Bush's Foreign Intelligence Advisory Board.<sup>[7]</sup> Hunt Oil is also involved in the the start-up of LNG projects in both Yemen and Peru, which are tapping into the discovered reserves of 10 Trillion Cubic Feet of natural gas in Yemen, and 13 Trillion Cubic Feet of natural gas in Peru.<sup>[8] [9]</sup>

### Block 18 controversy

In 2005, both Hunt Oil and Exxon Mobil filed suit against the Yemeni government in the International Chamber of Commerce over the decision of the Yemeni government to remove Hunt Oil as operator of Block 18, and install a Yemen state owned company instead. The original contract for Hunt Oil to act as operator was signed in 1982 (and put into effect in 1984 following the discovery of oil) as a 20 year agreement, however the company says that an extension to the contract was agreed upon in 2004, extending it by 5 years. The Yemen government says that the Yemeni parliament, however, rejected the extension. Given oil prices at the time, and with a daily production of 75,000 Barrels of oil, Block 18 was estimated to be worth \$1.6 Billion a year. Seeking arbitration against a sovereign state in such a manner, is very rare.<sup>[10]</sup> In 2008, the case was decided with Exxon Mobil and Hunt Oil losing in arbitration.<sup>[11]</sup>

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### Amazon Spill controversy

According to amazonwatch.org, in 2005 the government of Peru threatened to revoke the pipeline concession it gave to Hunt Oil because the company had 4 liquid gas spills in just 15 months.<sup>[12]</sup>

### Corporate Social Responsibility

Hunt Oil has a subsidiary called Hunt Global Partnerships (HGL) that acts as the CSR arm of the company. The company focuses much of this effort in Peru. Their efforts include "the installation of water and sanitation systems (improved latrines), vented cook stoves (improved kitchens) and maternal waiting houses. In addition to the basic infrastructure associated with the programs, local residents receive detailed technical assistance related to health, hygiene, nutrition and local government planning."<sup>[13]</sup> After an earthquake in Peru damaged the San Juan de Dios Pisco Hospital, Hunt Oil partnered with Camisea consortium and helped to deliver new medical equipment.<sup>[13]</sup> HGL also has training programs that educate on budget planning, finances, and public investment projects. Finally, HGL is running an education project in Pisco province of Peru, hoping to raise academic achievement by twenty percent in reading comprehension, logical reasoning and communication skills and mathematics.<sup>[13]</sup>

### Middle East Projects

#### Yemen LNG Company

Hunt Oil has a 17.22% interest in the Yemen LNG Company (YLNG). The project aims to convert 1 Billion Cubic Feet of natural gas per day into 6.7 Million Tonnes of LNG per year. The Yemen LNG company signed 3 Sales and Purchase agreements with KOGAS, Suez, and TGP that will commit 100% of the output from the project and last 20 years. A 325Km pipeline with take gas from Yemen's block 18 to the liquefaction plant at Bal Haf.<sup>[14]</sup>

#### Yemen Oil Production

Jannah Hunt Oil Company holds a 15% interest and is the operator of block 5 in Yemen. Production is around 45,000 Barrels per day of oil.<sup>[14]</sup>

### Transparency

#### UN Global Compact

Hunt Oil is not a member of the U.N. Global Compact

### Notes

- [1] | Hunt Oil (<http://www.huntoil.com/status.asp>)Company Financial Status
- [2] | Nexen Management (<http://www.nexeninc.com/en/AboutUs/Management/MarvinRomanow.aspx>)
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- [9] | Hunt Oil (<http://www.huntoil.com/mainframe.asp?nav=navoverview.asp&body=overview.asp>)Operations Overview
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[12] | Amazonwatch.org ([http://www.amazonwatch.org/newsroom/view\\_news.php?id=1020](http://www.amazonwatch.org/newsroom/view_news.php?id=1020))Peru Threatens to Revoke Hunt Oil's Pipeline Concession After Repeated Spills in the Rainforest

[13] [<http://www.huntglobalpartnerships.com/>] Hunt Global Partnerships

[14] | Hunt Oil (<http://www.huntoil.com/mainframe.asp?nav=navoverview.asp&body=yemen.asp>)Projects in Yemen

## Nexen

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<b>Oilfields in Iraq</b>	None
<b>Other Middle East</b>	Yemen
<b>Type</b>	Public Company (Calgary, Alberta, Canada) <sup>[1]</sup> <sup>[2]</sup>
<b>Founded</b>	1971 (as Canadian Occidental Petroleum Ltd.) <sup>[1]</sup>
<b>Headquarters</b>	Calgary, Alberta, Canada
<b>Key People</b>	Marvin Romanow, President and CEO <sup>[3]</sup>
<b>Products</b>	Petroleum and products, petrochemicals
<b>Revenue</b>	\$5.8 Billion (Cdn)(2009) <sup>[4]</sup>
<b>Operating Income</b>	Unknown
<b>Net Income</b>	\$536 Million (Cdn) <sup>[5]</sup>
<b>Employees</b>	3,247 (2006) <sup>[2]</sup>
<b>Total Assets</b>	\$22 Billion Cdn (2009) <sup>[6]</sup>
<b>Total Equity</b>	\$7.64 Billion (2009) <sup>[6]</sup>
<b>Website</b>	nexeninc.com

## Overview

### Current Global Profile

Nexen is an international energy corporation, formerly known as OxyCan (the Canadian subsidiary of Occidental). They have operated for nearly 40 years, and have been profitable every year except for one.<sup>[1]</sup> They have operations in the North Sea (as the second largest oil producer there)<sup>[7]</sup>, Gulf of Mexico, Yemen, Canada, and Columbia. They claim to have nearly 10 Billion barrel of oil equivalent product in their portfolio, which includes proved and probable reserves. They are currently focused in 3 main strategic areas: Conventional Exploration and Development, Oil Sands, and Unconventional Gas.<sup>[8]</sup>

Nexen in Yemen began operations in 1993, and currently operates the country's largest oil projects. Of the 87 blocks in Yemen, Nexen has interest in two (blocks 14 and 51).<sup>[9]</sup> Block 14, the Masila project, is operated through a Production Sharing Agreement with 52% of the equity belonging to Nexen. The PSA expires in 2011 but Nexen is attempting to extend the contract by another 5 years.<sup>[10]</sup> For Block 51, the East Al Hajr Block, another PSA between the government of Yemen and Nexen (87.5%) and Yemen Company Tyco (12.5%), has been producing oil since 2004. Royalties to the government of Yemen are between 3%-10% depending on volume of production. The Yemen government also is paid a share of the "profit oil". In 2009, the partners (Nexen and TYCO) shares of Block 51 was about 53% (including recovery costs).<sup>[11]</sup>

## 2009 results and 2010 expectations

In 2009 the cash flow for Nexen was \$2.2 Billion dollars. The netbacks, otherwise known as profits per barrel, were \$38.59 Canadian Dollars compared to the Canadian average of \$26.84 Canadian Dollars per barrel. Nexen is proud of its ability to maintain low royalties for every barrel of oil equivalent of product, thus keeping its total amount of profit earned per barrel higher than other corporations. In 2009 the capital for the company was \$3.5 Billion. 40% of the Capital focused on the Oil Sands, 36% focused on Conventional Development, 10% on Conventional Exploration, 8% on Marketing, Corporate, and other expenses, and 6% into Shale Gas.<sup>[12]</sup>

For 2010, the company expects 4 to 6% growth in its overall production. The estimated capital for 2010 is \$2.5 Billion. Of this capital, the company plans to invest 49% into Conventional Development, 23% into Conventional Exploration, 16% into Oil Sands, 8% into Shale Gas, and 4% into Marketing, Corporate, and other expenses.

## Stock Market Listings

NXY:USA-United States-Common Stock

NXY:CN-Canada-Common Stock

CXY:GR-Germany-Common Stock

CXY:TH-Germany-Common Stock<sup>[13]</sup>

## CSR Activities

Nexen has been reporting its environmental, safety, and social improvement behaviors since 1996. Some of the highlights according to their 2009 sustainability report are:

- Nexen has adjusted the way it measures Carbon Emissions (causing a jump from 2008's emission total of 3.81 million tonnes of CO<sub>2</sub>, to 4.72 million tonnes of CO<sub>2</sub> in 2009).
- Every 3 years, Nexen's Yemen and Balzac facilities undergo Responsible Care reverification by independent auditors.
- There were 127 environment spills in 2009 and approximately 88% of the material was recovered.
- Nexen is participating in a wind energy project, and owns 50% of the 70.5 Megawatt Soderglen farm in Alberta, and owns 100% of the carbon credits from its production.
- Planting seeds in areas disturbed by seismic and corehole exploration, as well as sharing established infrastructure (roads, pipelines, etc...) with other companies to lessen the impact and changes on the land.
- Joining the Oil Sands Leadership Initiative (OSLI) with other companies interested in Oil Sands production and exploration. The OSLI shares resources and practices to try and make technological breakthroughs to help improve social and environmental performance in the oil sands.<sup>[12]</sup>

Nexen is also a member of the Corporate Social Responsibility Society.<sup>[14]</sup>

## Transparency

### EITI Supporter Status

Nexen is not currently an EITI supporting company<sup>[15]</sup>

### UN Global Compact

Nexen is an active member of the U.N. Global Compact and has been a participant since 2001. They have released 8 "Communication of Progress" reports since 2003.<sup>[16]</sup>

## Notes

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[11] | Nexen Operations (<http://www.nexeninc.com/en/Operations/ConventionalEandD/Yemen/EastAlHajrBlock.aspx>)East Al Hajr Block

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[14] | Corporate Social Responsibility Society (<http://csrsociety.ca/partners/20102011-partners/>)2010/2011 Partners

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# Occidental

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<b>Oilfields in Iraq</b>	Zubair
<b>Other Middle East</b>	Bahrain, Qatar, UAE, Libya, Yemen, Oman
<b>Type</b>	Public
<b>Founded</b>	1920
<b>Headquarters</b>	Los Angeles, California, USA
<b>Key People</b>	Ray R. Irani, Chairman, President and CEO
<b>Products</b>	Oil, Natural gas, Petrochemicals
<b>Revenue</b>	US\$20.21 billion (2008)
<b>Operating Income</b>	N/A
<b>Net Income</b>	US\$5.40 billion (2008)
<b>Employees</b>	8,886
<b>Total Assets</b>	N/A
<b>Total Equity</b>	N/A
<b>Website</b>	www.oxy.com

## Global Snapshot

### Global Profile

Occidental, often referred to as Oxy due to its abbreviation on the NYSE stock market, has three main segments- Oil and Gas; Chemical; and Midstream, Marketing, and Other.<sup>[1]</sup> Despite working in Latin America, North Africa and the Middle East as well as the USA, it generates two thirds of its revenue from the US, primarily from Texas and California.<sup>[2]</sup> In 2009 Oxy reported proved reserves of 3.2 billion barrels of oil equivalent in the US, the Middle East, North Africa, and Latin America<sup>[3]</sup> In 2009, Occidental completed the acquisition of interests in Phibro LLC, a energy trading firm.<sup>[4]</sup> In 2005, Occidental was one of 53 organisations which donated the maximum amount of \$250,000 towards George Bush's presidential inauguration.<sup>[5]</sup>

### Company Report Highlights

From 2009 Annual Report- In 2009, Occidental's net income followed the falling price of oil, down from \$6.9 billion in 2008 to \$2.9 billion in 2009, despite recording the highest production volume in their history, thus increasing worldwide production by 7% to 645,000 barrels of oil equivalent per day. The year end 2009 closing stock price of \$81.35 was also the highest year end price in company's history.

In 2009, their worldwide proved reserves were split between 64% in North American assets, 7% in Latin America and 29% in the Middle East/North Africa region which is equal to 924 million barrels of oil equivalent.

For 2010, they have set out a plan to increase capital spending by approximately 19% to about \$4.3 billion.

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## Operations in Iraq

### History

Their 2009 service contract marks the start of Occidental's work in Iraq.

### 2009 Service Contracts

In 2009, a consortium consisting of Occidental together with Eni and Kogas signed a contract with the state owned South Oil Company and Missan Oil Company to develop the Zubair oil field. The consortium is led by by Eni, which has a 32.8% share, followed by Occidental with 23.44%, and Kogas with 18.75%<sup>[6]</sup>. The consortium has announced that they plan to increase production from the Zubair field to 1.2 million barrels of oil a day, investing approximately \$20 billion over the life of the 20 year contract which has the possibility of an extension to 25 years.<sup>[7]</sup>

## Transparency

### EITI Supporter Status

Occidental is not a supporter company of EITI.

### UN Global Compact

Occidental does not form part of the UN Global Compact.

## Operations in Other Middle East

see Occidental in Qatar

## References

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# Refineries

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## Background

From the U.S. Energy Information Administration: "Yemen's location on the Bab al Mandab, one of the world's most strategic shipping lanes through which an estimated 3.7 million barrels of oil pass daily, makes Yemen important to the global oil trade. Disruption to shipping in the Bab el-Mandab could prevent tankers in the Persian Gulf and the Gulf of Aden from reaching the Suez Canal/Sumed pipeline complex, requiring a costly diversion around the southern tip of Africa to reach western markets. Yemen's economy is heavily dependent on hydrocarbons, which account for 25 percent of GDP, over 70 percent of government revenues, and over 90 percent of foreign exchange earnings. Yemen is actively seeking to increase foreign investment in its energy sector, but concerns about piracy in the Gulf of Aden, which it shares with Somalia, may be limiting prospects for increased foreign investment in Yemen's oil and gas sectors. Declining oil revenues are weakening the government's ability to provide basic services."<sup>[1]</sup>

## Current Refineries

Aden Refinery: Operated by the Aden Refinery Corporation<sup>[2]</sup> Original capacity of 170,000 barrels per day now operating at 95,000 barrels per day.<sup>[3]</sup>

Marib Refinery: Operated by Yemen Hunt Oil. Current capacity of 10,000 barrels per day.<sup>[2]</sup>

## Recent History

Yemen has a refining capacity of 130,000 barrels per day from two refineries. One of the refinery's in Aden had a capacity (in 2002) of 120,000 barrels per day, although it was originally built to have a capacity of 170,000 barrels per day. Damage during the civil war in 1994 necessitated rebuilding part of the refinery, thus explaining its lowered output. By 2004, the output of the terminal had dropped to less than 95,000 barrels of oil per day.<sup>[3]</sup> The second refinery, in Marib, has a capacity of 10,000 barrels per day.<sup>[4]</sup>

In 2002, Yemen signed a contract with Hadramawt Refinery Company to build a 50,000 barrels per day oil refinery at Al Mukalla. The capacity for this refinery is expected to be raised to 100,000 barrels per day at a later date.<sup>[4]</sup> It was also reported that a refinery was also scheduled to be built at Ras'Isa by the al-Hashidi company, with a planned capacity of 120,000 barrels per day. This refinery's output has been slated to fill a mostly domestic demand for oil products.<sup>[4]</sup> As of 2010, however, it appears that neither of these new scheduled refineries have come online.<sup>[1]</sup> In was known that in 2006, a contract award was given to the Indian firm Furnace Fabrica India to build a refinery at Ras'Isa with a capacity of 45,000 barrels per day.<sup>[5]</sup> As of 2009, due to the worldwide economic crisis, the Ras'Isa refinery project was put on hold.<sup>[6]</sup>

## Notes

- [1] | Energy Information Administration (<http://www.eia.doe.gov/cabs/Yemen/Background.html>) Yemen Background
- [2] | Oil and Gas Directory ([http://www.oilandgasdirectory.com/ogd/res\\_prof/Yemen.pdf](http://www.oilandgasdirectory.com/ogd/res_prof/Yemen.pdf)) Republic of Yemen
- [3] | All Business (<http://www.allbusiness.com/mining/oil-gas-extraction-crude-petroleum-natural/165094-1.html>) Yemen-Little Aden Refinery
- [4] | Mbendi (<http://www.mbendi.com/indy/oilg/ogrf/as/ye/p0005.htm>) Oil Refining in Yemen
- [5] | Business Intelligence Middle East (<http://www.bi-me.com/main.php?id=4803&t=1&c=29&cg=2&mset=>) Furnace Fabrica awarded US\$700 million Yemeni refinery projects
- [6] | Yemen Post (<http://www.yemenpost.net/66/LocalNews/20083.htm>) World Financial Crisis Halts Refinery Project

## Safer

<b>Oilfields in Iraq</b>	None
<b>Other Middle East</b>	None
<b>Type</b>	State Owned Company <sup>[1]</sup>
<b>Founded</b>	1997
<b>Headquarters</b>	Sana'a, Yemen <sup>[1]</sup>
<b>Key People</b>	Mohammed Hussein Al-Haj, Executive Manager. Mr. Abdullrahman Alakwa'a, Vice Executive Manager
<b>Products</b>	Petroleum, Natural Gas
<b>Revenue</b>	\$1.7 Billion (USD)(2008)
<b>Operating Income</b>	Unknown
<b>Net Income</b>	Unknown
<b>Employees</b>	Unknown
<b>Total Assets</b>	Unknown
<b>Total Equity</b>	Unknown
<b>Website</b>	<a href="http://www.sepocye.com/">http://www.sepocye.com/</a>

## Global Snapshot

### Current Global Profile

The Safer Exploration and Production Operations Company (SEPOC), also known as just Safer, is a Yemen state owned company formed in 1997.<sup>[2]</sup> It is Yemen's second largest oil producer and Yemen's first largest gas producer.<sup>[3]</sup> It has assumed around 17 blocks in Yemen since inception, currently has 622 wells, and produces around 70,000 barrels of oil per day as well as 3 Billion Cubic Feet of natural gas per day.<sup>[3]</sup> <sup>[4]</sup> It assumed operations of Block 18 in November 2005.<sup>[2]</sup> Safer was at the center of a controversy over the operating rights to Block 18. Safer was chosen to replace a joint venture company (YEPC) that Hunt Oil and ExxonMobil had in Block 18.<sup>[5]</sup> In September of 2010 the company reported that it was able to reduce the cost of production for every barrel of oil from \$20-\$37 per barrel to \$9 per barrel. In 2008, the company's cost of production from Block 18 was \$180 Million, while revenue for the entire company in 2008 was \$1.7 Billion.<sup>[6]</sup> According to statements from executive chairman Mohammed al-Haj posted in the Yemen Observer: Safer "is planning to increase explorative activities to produce 50 million oil barrels and 750 billion cubic feet of gas in 2013."<sup>[7]</sup> As of today, the company lists among its achievements on its website that 28.55 Million barrels of oil have been produced by the company since start up. <sup>[4]</sup> However, other sources have listed the total amount of barrels of crude oil produced between 2005 and 2010 as

closer to 100 Million.<sup>[1]</sup>

## **Yemen LNG Company**

Safer is responsible for providing the natural gas necessary for the Yemen LNG Company to process LNG. The company currently plans to provide up to 1.2 Billion cubic feet of natural gas per day for the project, for the next 20 years. Safer also provides 100 Million to 150 Million Cubic Feet per day of natural gas for power generation in Yemen.<sup>[8]</sup>

## **Transparency**

### **EITI Supporter Status**

Safer Exploration and Production Operations Company is not an EITI supporter

### **U.N. Global Compact**

Safer Exploration and Production Operations Company is not a member of the U.N. Global Compact

## **Notes**

[1] | Yemen Oil and Gas Conference (<http://www.yemenogm.com/Site-Root/Sponsorship/Sponsor/>)Sponsors

[2] | Safer E&P Operations Co. (<http://www.sepocye.com/Default.aspx>)Main Page

[3] | <http://www.ogp.org.uk/highlights/issues/0810.pdf> | International Association of Oil and Gas Producers

[4] | SEPOCYE (<http://www.sepocye.com/Achievements.aspx>)Achievements

[5] | All Business (<http://www.allbusiness.com/sector-21-mining/oil-gas-extraction-crude/1183308-1.html>)Yemen-Safir-Ma'rib/Jawf Block 18

[6] | Zawya (<http://www.zawya.com/story.cfm/sidZAWYA20100919071307/Yemen:Saferreducescostofoilproduction>)Yemen:Safer reduces cost of oil production

[7] | Yemen Observer (<http://www.yobserver.com/local-news/10017481.html>)Yemen Safer plans to increase its production to reach 50 million oil barrels in 2013

[8] | Reuters (<http://uk.reuters.com/article/idUKL2966975420071029>)Yemen Safer to conclude LNG gas end Nov-Exec

# Small IOC operations in Yemen

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## Overview

Several corporations have minor activities in Yemen. They are listed on this page.

## KoGas

Kogas is currently a shareholder in the Yemen LNG Company project. They are also the world's largest LNG importer, and are currently importing 2 MTPA LNG from the Yemen LNG Company.<sup>[1]</sup> Kogas has recently been the target of efforts by the Yemeni government to raise the price of the LNG that the Yemen LNG Company is selling to Kogas.<sup>[2]</sup> The Yemeni government feels that it is selling its LNG at far too low a price compared to other countries such as Qatar.<sup>[3]</sup> The contract that Yemen LNG Company has with Kogas is legally binding, however the Yemen government has stated that it will examine its legal options if it cannot get Kogas to relent.<sup>[4]</sup>

## DNO

DNO is headquartered in Oslo, Norway. The company maintains six assets in Yemen, all within the same Sayun-Masila Basin. The assets, as well as the shareholder percentages of DNO, are as follows:

- Block 32 Exploration and Production (38.05%) DNO is operator
- Block 43 Exploration and Production (56.67%) DNO is operator
- Block 47 Exploration (40%) DNO is operator
- Block 52 Exploration (57.78%) DNO is operator
- Block 53 Exploration and Production (24.45%) Dove Energy is operator
- Block 72 Exploration (30.6%) DNO is operator<sup>[5]</sup>

In the 4th Quarter of 2009, DNO reported that they produced 4,987 Barrels per day of Oil from Yemen.<sup>[6]</sup> On October 3rd, 2010, it was reported that DNO was awarded oil exploration rights in Block 48.<sup>[7]</sup>

## Sinopec

Sinopec is China's largest producer and marketer of oil products in China and all of Asia.<sup>[8]</sup> Sinopec has some minor involvement in Yemen, with partner Total. In 2007, Total and Sinopec signed a memorandum of understanding that allows Total to farm into two on-shore blocks in Yemen that were previously under control of only Sinopec and the Yemeni state owned Yemen General Corporation for Oil and Gas (YOGC).<sup>[9]</sup> The two blocks are numbered 69 and 71. Block 69 is 1,333 Square kilometers in the Marib Basin, Block 71 is 1,800 Square kilometers in the Masilah Basin. The current shareholder division for each of these blocks is: Sinopec (45.5%), Total (40%), YOGC (10%), and the Arabian group of companies (4.5%).<sup>[9]</sup>

Jiangsu Oilfield Company is a SINOPEC subsidiary that is also active in Yemen, exploring possible opportunities in Yemen.<sup>[10]</sup>

## Eni

In 2009, ENI reported that they had a new exploration lease Yemen.<sup>[11]</sup> This was likely a reference to the acquisition of British firm Burren by Eni, which had crude oil exploration projects in Yemen.<sup>[12]</sup>

## KNOC

The Korea National Oil Corporation is leading a consortium of South Korean companies that hold interest in two Yemen blocks, with oil fields there estimated to hold 750 Million barrels of Oil in reserve. The KNOC consortium has 95% interest in Block 39 (estimated to have 500 Million barrels) and 50% stake in Block 4 with 250 Million barrels in reserve.<sup>[13]</sup> Without the consortium, KNOC has only a 45.125% working interest in Block 39.<sup>[14]</sup> KNOC also has interest in Blocks 16 and 70, with a 45.125% working interest in the former and a 13% working interest in the latter.<sup>[14]</sup> Despite such a huge reserve in Block 4, it was reported in 2006 that the fields there (noted as being very complex) can only produce around 500 Barrels per day.<sup>[15]</sup> Since 2008, KNOC pipelines in Yemen have been attacked several times. Most recently in November of 2010.<sup>[16]</sup>

## OMV

The Austrian company OMV has three exploration licenses that it acquired in 2003. They are working on developing Yemen Block S2.<sup>[17]</sup> They have found some success in this block, which is next to block 2, of which OMV also has exploration rights.<sup>[18]</sup> The company was drawing 17,000 barrels per day from the Habban field in Yemen, but was hoping to almost double that amount to 30,000 barrels per day in January of 2010.<sup>[19]</sup> On October 3rd 2010, it was reported that OMV would be awarded exploration rights for Block 86 of Yemen.<sup>[7]</sup>

## Notes

- [1] |Yemen LNG Company ([http://www.yemenlng.com/ws/en/go.aspx?c=yln\\_g\\_share](http://www.yemenlng.com/ws/en/go.aspx?c=yln_g_share))Shareholders
- [2] |Businessweek.com (<http://www.businessweek.com/news/2010-11-07/yemen-lng-plans-to-raise-output-30-nearing-capacity.html>)Yemen LNG plans to raise output 30% nearing capacity
- [3] |Energyglobal.com ([http://www.energyglobal.com/sectors/liquid-natural-gas/articles/Yemen\\_LNG\\_seeking\\_higher\\_LNG\\_prices\\_from\\_Kogas.aspx](http://www.energyglobal.com/sectors/liquid-natural-gas/articles/Yemen_LNG_seeking_higher_LNG_prices_from_Kogas.aspx))Yemen LNG seeking higher LNG prices from Kogas
- [4] |Energyglobal.com ([http://www.energyglobal.com/sectors/liquid-natural-gas/articles/Yemen\\_LNG\\_seeking\\_higher\\_LNG\\_prices\\_from\\_Kogas.aspx](http://www.energyglobal.com/sectors/liquid-natural-gas/articles/Yemen_LNG_seeking_higher_LNG_prices_from_Kogas.aspx))Yemen LNG seeking higher LNG prices from Kogas
- [5] |DNO International ASA (<http://www.dno.no/Operations/Assets/>)Assets
- [6] |Reuters (<http://in.reuters.com/article/idINLDE60K0ED20100121>)Update 1-DNO says Yemen NI production fell in Q4
- [7] |Bloomberg (<http://www.bloomberg.com/news/2010-10-03/total-omv-dno-win-blocks-of-oil-and-exploration-concessions-in-yemen.html>)Total, OMV, DNO Win Blocks of Oil and Exploration Concessions in Yemen
- [8] |Zawya ([http://www.zawya.com/story.cfm/sidZAWYA20050115091641/Yemen and SINOPEC ink oil partnership agreements](http://www.zawya.com/story.cfm/sidZAWYA20050115091641/Yemen%20and%20SINOPEC%20ink%20oil%20partnership%20agreements))Yemen and SINOPEC ink oil partnership agreements
- [9] |OilVoice ([http://www.oilvoice.com/n/Total\\_Farms\\_Into\\_Two\\_Onshore\\_Blocks\\_in\\_Yemen\\_with\\_Sinopec/bf81bd1f.aspx](http://www.oilvoice.com/n/Total_Farms_Into_Two_Onshore_Blocks_in_Yemen_with_Sinopec/bf81bd1f.aspx))Total Farms Into Two Onshore Blocks in Yemen with Sinopec
- [10] |SINOPEC ([http://www.sdns.sinopec.com/about\\_sinopec/subsidiaries/oilfields/20080326/3022.shtml](http://www.sdns.sinopec.com/about_sinopec/subsidiaries/oilfields/20080326/3022.shtml))Subsidiaries
- [11] (<http://www.eni.com/attachments/publications/reports/reports-2009/fact-book-2009-eng.pdf>) |Eni Corporation|Factbook 2009
- [12] (<http://www.resourceinvestor.com/News/2007/12/Pages/Eni-s-Takeover-of-Burren-Shows-Way-to-Go-for-Rest.aspx>)resourceinvestor.com)Eni's Takeover of Burren Shows Way to Go for Rest of Pack
- [13] |Upstreamonline.com (<http://www.upstreamonline.com/incoming/article134373.ece>)KNOC Consortium pushes into Yemen
- [14] |Korea National Oil Corporation ([http://www.knoc.co.kr/ENG/sub03/sub03\\_1\\_5\\_2.jsp](http://www.knoc.co.kr/ENG/sub03/sub03_1_5_2.jsp))Operations Middle East
- [15] |AllBusiness.com (<http://www.allbusiness.com/sector-21-mining/oil-gas-extraction-crude/1183315-1.html>)Yemen-KNOC-West Iyad Block 4
- [16] |Upstreamonline.com ([http://www.upstreamonline.com/live/article235412.ece?WT.mc\\_id=rechargenews\\_rss](http://www.upstreamonline.com/live/article235412.ece?WT.mc_id=rechargenews_rss))KNOC starts Yemen pipe repair job
- [17] |OMV ([http://www.omv.com/portal/01/com/!ut/p/c5/04\\_SB8K8xLLM9MSSzPy8xBz94NQ8\\_Qj9KLN4XwNLDzrPUKNQRxNPA6cg01BvUwMI0C\\_IcFQEAOSpg\\_Y!/](http://www.omv.com/portal/01/com/!ut/p/c5/04_SB8K8xLLM9MSSzPy8xBz94NQ8_Qj9KLN4XwNLDzrPUKNQRxNPA6cg01BvUwMI0C_IcFQEAOSpg_Y!/))Move and More
- [18] |Middle East Business info (<http://www.ameinfo.com/71646.html>)OMV announces further exploration success in Yemen
- [19] |SteelGuru.com ([http://www.steelguru.com/middle\\_east\\_news/Austrian\\_OMV\\_plans\\_to\\_boost\\_Yemen\\_oil\\_production/127297.html](http://www.steelguru.com/middle_east_news/Austrian_OMV_plans_to_boost_Yemen_oil_production/127297.html))Austrian OMV plans to boost Yemen oil production

# Total in Yemen

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Project Name	Equity Stake
Yemen LNG	39.62% <sup>[1]</sup>
Block 10	28.57% <sup>[1]</sup>
Block 5	15% <sup>[1]</sup>
Block 69	40% <sup>[2]</sup>
Block 70	50.1% <sup>[2]</sup>
Block 71	40% <sup>[2]</sup>
Block 72	36% <sup>[2]</sup>

## Overview

French company Total is active in Yemen through several oil and LNG projects. It has been in Yemen since 1987 and current production stands at 62,000 barrels of oil equivalent per day. It is the operator of Yemen's Block 10 (28.57% equity) and is a partner in Block 5 (15%).<sup>[1]</sup> Yemen also holds a 36% interest in Block 72, a 40% interest in Blocks 69 and 71 and 50.1% stake in Block 70.<sup>[2]</sup>

## Yemen LNG

Total is the major shareholder in the Yemen LNG Company (YLNG) project, with a 39.62%. State owned Yemen Gas Company holds 16.73%. Other shareholders include Hunt Oil Company (17.22%), SK Energy (9.55%), Korea Gas Corporation (Kogas) (6%), Hyundai (5.88%), and Yemen's General Authority for Social Security and Pensions (5%).<sup>[1]</sup> Yemen LNG's plant is a two-train plant capable of producing 6.7 Million Tonnes Per Annum (MTPA) or LNG. The natural gas is transported from Block 18 to the southern coast of Yemen via a 325km pipeline. Once on the coast, the natural gas is transformed into LNG.<sup>[3]</sup> The Yemeni state company of Safer owns the concession in Block 18 and is responsible for supplying 1.2 Billion Standard Cubic Feet per day of natural gas to Yemen LNG. The previous operator of Block 18 was Hunt Oil, along with ExxonMobil, who had their concession stripped by the Yemeni government.<sup>[4]</sup> The first LNG was loaded in 2009, and the total cost of the project was estimated to be \$4.5 Billion dollars, making Yemen LNG the largest ever capital investment for Yemen.<sup>[3]</sup>

The major buyers for this plant's LNG are GDF Suez SA and Korea Gas Corporation.<sup>[5]</sup> The contracts with these companies are set to last 20 years.<sup>[5]</sup> Gas prices vary greatly in different markets, and it is known that Korea Gas paid approximately \$193 for every ton of LNG from Yemen, compared to the \$689 per ton for LNG from Qatar.<sup>[5]</sup> The Yemeni parliament has expressed concern in the past about the established price of these contracts being well below average market prices.<sup>[6]</sup> There have also been fears of a conflict of interest formed by Total's heavy equity in Yemen LNG (YLNG) and the sales of LNG from YLNG to Total Gas.<sup>[6]</sup>

## The Blocks

Total holds equity in Block 10, currently at 28.57%.<sup>[1]</sup> Total acquired its stake in the Block in 1987 from the Marxist government of Aden. ConocoPhillips, KUFPEC, and Occidental were Total's partners at the time.<sup>[7]</sup> The current partners, excluding Total, are Occidental (28.57%), COMECO (28.57%), and KUFPEC (14.29%).<sup>[8]</sup> Average output of oil from this block dropped to about 22,000 Barrels per day in 2004, but rose to 35,000 Barrels per day in 2006.<sup>[7] [8]</sup>

Total is also a part-owner of Block 5, however the operator is Hunt Oil.<sup>[9]</sup> Block 5 contains 5 oil fields and is rich in natural gas as well.<sup>[8]</sup> In 2006, production from the block was 40,000 Barrels per day of oil.<sup>[8]</sup>

Total recently acquired a stake in Block 72 and, as of June 2010, is planning to build an exploratory well there.<sup>[10]</sup> Blocks 69 and 71 are planned to be developed, with Sinopec as Total's partner and the operator (45.5% share for Sinopec in both Blocks).<sup>[11]</sup>

## Notes

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- [2] | Moneyam (<http://moneyam.uk-wire.com/Article.aspx?id=20100630145000Z0233>)Yemen: Total Acquires an Interest in Block 72
- [3] | Total.com (<http://www.total.com/en/our-energies/natural-gas-/processing/projects-and-achievements/yemen-Ing-940894.html>)Yemen LNG, a project of the Total Group
- [4] | Reuters (<http://uk.reuters.com/article/idUKL2966975420071029>)Yemen Safer to conclude LNG gas end Nov-Exec
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- [6] | Middle East Transparent ([http://www.mettransparent.com/old/texts/jane\\_novak\\_yemen\\_s\\_natural\\_gas\\_who\\_benefits.htm](http://www.mettransparent.com/old/texts/jane_novak_yemen_s_natural_gas_who_benefits.htm))Yemen's Natural Gas: Who benefits?
- [7] | Allbusiness.com (<http://www.allbusiness.com/mining/oil-gas-extraction-crude-petroleum-natural/165105-1.html>)Yemen-Total's East Shabawa Block 10/10a
- [8] | Allbusiness.com (<http://www.allbusiness.com/sector-21-mining/oil-gas-extraction-crude/1183309-1.html>)Yemen- Hunt-Jannah Block 5
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- [10] | Oil and Gas Journal ([http://www.ogj.com/index/article-display.articles.oil-gas-journal.exploration-development-2.2010.06.total-says\\_well\\_planned.QP129867.dcmp=rss.page=1.html](http://www.ogj.com/index/article-display.articles.oil-gas-journal.exploration-development-2.2010.06.total-says_well_planned.QP129867.dcmp=rss.page=1.html))Total says well planned on Yemen Block 72
- [11] | Oil Voice ([http://www.oilvoice.com/n/Total\\_Farms\\_Into\\_Two\\_Onshore\\_Blocks\\_in\\_Yemen\\_with\\_Sinopec/bf81bd1f.aspx](http://www.oilvoice.com/n/Total_Farms_Into_Two_Onshore_Blocks_in_Yemen_with_Sinopec/bf81bd1f.aspx))Total Farms Into Two Onshore Blocks in Yemen with Sinopec

# Yemen LNG Company

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Company Name	Equity Stake
Total S.A.	39.62% <sup>[1]</sup>
Hunt Oil	17.22% <sup>[1]</sup>
Yemen Gas Company	16.73% <sup>[1]</sup>
SK Corporation	9.55% <sup>[1]</sup>
Kogas	6% <sup>[1]</sup>
Hyundai Corporation	5.88% <sup>[1]</sup>
G.A.S.S.P.	5% <sup>[1]</sup>

## Global Snapshot

### Current Global Profile

Yemen LNG Company is a an LNG project as well as a collection of several company shareholder groups; Total with 39.62% (lead operator), Hunt Oil with 17.22%, Yemen Gas Company with 16.73%, SK Corporation with 9.55%, KOGAS with 6%, Hyundai Corporation with 5.88%, and the General Authority for Social Security and Pensions at 5%.<sup>[1]</sup> The company is operating (Marib) Block 18, a massive gas reserve, and piping the gas 322km to the liquefaction plant at Balhaf.<sup>[2]</sup> The liquefaction plant consists of two trains, with the second train having come online earlier than scheduled. The company has 3 sales contracts with GDF-Suez, KOGAS, and Total Gas and Power that will take the entire maximum output (6.7 MTPA) of the plant.<sup>[3]</sup> Currently, however, the plant is only producing around 5 MTPA LNG, though the company plans to boost that number by nearly 30% (to 6.55 MTPA) by 2011.<sup>[4]</sup> At an output of 6.7 MTPA LNG per year, it will take approximatley 20 years to exhaust the gas reserves in block 18. The Yemen LNG project is the country's largest ever industrial investment, costing around \$4.5 Billion.<sup>[5]</sup> Deliveries from the project have so far reached Mexico, Korea, China, Spain, and the U.S.<sup>[6]</sup> The Yemen LNG Company is hoping to bring in significant revenue to Yemen to replace declining oil production. Crude Oil has traditionally been 75% of the entire Yemeni income, and oil production production is expected to be only 260,000 barrels per day in Yemen, compared to 440,000 barrels per day in 2001.<sup>[4]</sup> The company has diverted at least 35 shipments of LNG from the U.S. to the Asian markets, seeking a higher buying price of LNG. The company is also hoping to reach an agreement with KOGAS to increase the price of LNG that KOGAS is buying. An agreement has yet to be reached.<sup>[4]</sup>

The Yemen LNG Company is the beginning of what is hoped to be a growing natural gas infrastructure in Yemen. A planned industrial city in Hodiedah is planned to house petrochemical plants, heavy manufacturing, cement plants, and power stations. The entire industrial complex will be powered by gas. The project is estimated to cost around \$20 Billion USD.<sup>[7]</sup>

## Pipeline Bombing

At 4:00AM on September 13th, an explosion occurred at the Yemen LNG Company pipeline in Shabwa province. The LNG flow was disrupted by the event, however no injuries occurred. The Yemeni government reinforced security along the pipeline in response. The terror group Al-Qaida is believed to be behind the sabotage.<sup>[8]</sup>

## CSR Activities

### Environment

The company has produced an Environment and Social Impact Assessment (ESIA) to identify possible damage or problems caused by the company activities, as well as producing an Environment and Social Management Plan which outlines what actions the company must take to mitigate these issues and prevent/respond to these problems. The ESIA is World Bank compliant.<sup>[9]</sup> The company has a strategy, called a sustainable development and environmental (SDE) strategy. The 3 objectives of the strategy are:

1. To minimize or mitigate any possible harm or damage, whether to populations, wildlife or the environment, ensuring the residual impact is neither nil, negligible or moderate at most.
2. To provide proper offset or compensation to international standards where impact cannot be fully redressed
3. To establish a positive and enduring legacy in Yemen.<sup>[10]</sup>

The Yemen LNG Company recognizes that placing the plant at Balhaf has had an impact on the use of the Balhaf bay by traditional fishermen, however the company claims that the location was the best choice in line with technical needs and limitation to the impact on people and the environment.<sup>[10]</sup> The company has also used silt curtains to try and minimize damage to coral reefs in the Balhaf bay, and has even repositioned coral reefs to new areas in an attempt to limit damage to them.<sup>[11]</sup> A 2 year assessment done by Creocan was completed in 2008 and outlines Yemen LNG Company's impact on coral reefs at the Balhaf bay. Issues such as water contamination, chemical management, and waste management and coastal zone management have all been recognized as potential problems and the company has been proactive in limiting opportunities where spills, contamination, or other damage might occur.<sup>[12] [13] [14] [15]</sup>

### Social

The Yemen LNG Company has undertaken efforts of "Yemenisation" to try and increase the number of Yemeni workers at the company facilities. Current plans call for eventual replacement of expatriate personnel with Yemeni citizens. The company claims that it will only recruit foreign nationals when it is not possible to find a Yemeni national with the needed qualifications.<sup>[16]</sup> The company also has Liaisons in local communities to facilitate communication with local leaders and to act as points of contact for community members.

## Notes

[1] | Yemen LNG Company ([http://www.yemenlng.com/ws/en/go.aspx?c=yln\\_g\\_share](http://www.yemenlng.com/ws/en/go.aspx?c=yln_g_share))About Us

[2] | Reuters U.K. (<http://uk.reuters.com/article/idUKL959162220091015>)Five Facts About Yemen LNG

[3] | Yemen LNG Company ([http://www.yemenlng.com/ws/en/go.aspx?c=yln\\_g\\_gance](http://www.yemenlng.com/ws/en/go.aspx?c=yln_g_gance))At a Glance

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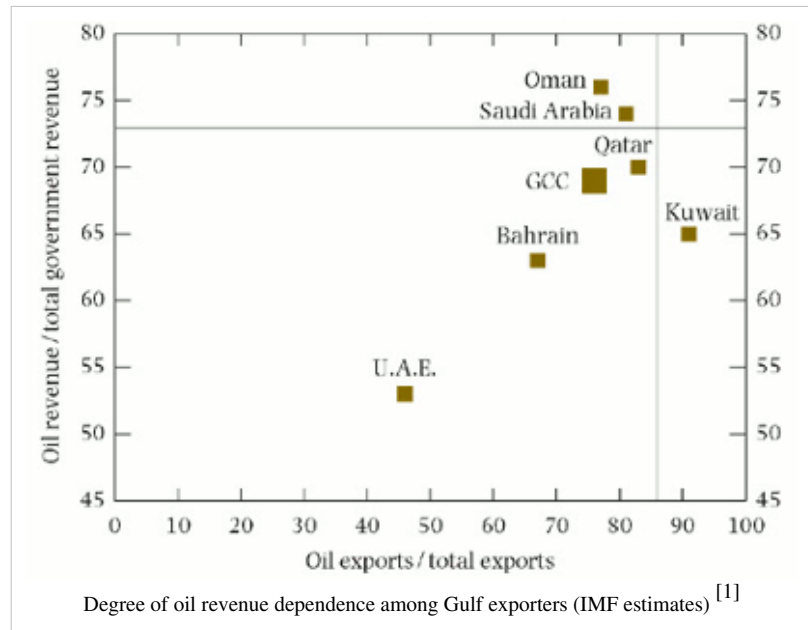
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# Resource Transparency

## Dependency on oil revenues

There are two different measures of oil revenue dependence, as can be seen in the figure on the right. The first is the ratio of oil revenues to fiscal revenue, or the total income of the government. The second is the ratio of oil revenues to total exports. The IMF estimated that of the Gulf producers the United Arab Emirates had the least oil dependence, with oil accounting for just over half of government income, and just under half of exports<sup>[1]</sup>. Qatar, by contrast, showed a ratio of 70% of government revenues, and 80% of total exports.



The International Monetary Fund identified at least 30 countries where revenues from oil and gas accounted for at least 25% of government income during the years 2005-8 and where sufficient information was available for meaningful analysis<sup>[2]</sup>:

Algeria, Angola, Azerbaijan, Bahrain, Bolivia, Brunei, Cameroon, Chad, Congo, Ecuador, Equatorial Guinea, Gabon, Indonesia, Iran, Kazakhstan, Kuwait, Libya, Mexico, Nigeria, Norway, Oman, Qatar, Russia, Saudi Arabia, Sudan, Timor-Leste, Trinidad and Tobago, UAE, Venezuela, Vietnam, and Yemen.

Iraq was not included in this list because of the lack of data, but experts estimate that over 90% of the government's income comes from oil.

It is important to note that oil revenue dependence is not related to the quantity of oil produced or exported. Yemen which exported about 160,000 barrels of oil a day in early 2010 has higher degrees of dependence on oil revenues than Saudi Arabia, which exported about 8 million barrels a day in the same period, or 50 times more.

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# Energy Governance Weak Points

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## Pre-Production Stage

### Exploration Licenses

Oil and gas production often works in two stages, with licenses given to explore given regions at a first stage, and then separate arrangements made once oil or gas is discovered. Given that prediction is so hard, and the potential rewards are so great, even the license to explore certain areas can be an opportunity for corruption. For example, in 1999 Nigeria granted a series of exploration licenses for offshore to companies which did not have any experience on oil production<sup>[1]</sup>. In Iraq, this has not been an issue in recent years because the industry has focused simply in producing out of known reserves.

### Production Awards

Once discoveries have been made, the right to produce is again an opportunity for corruption. In some cases, the company which made the discovery already has agreed terms to go ahead and produce the oil. But especially in post-conflict countries licenses may be obtained without due process. A 2004 review of companies extracting minerals in Liberia found that only 45 out of 70 operating companies had proper licenses<sup>[2]</sup>. In other cases, officials in host governments can use the threat of renegotiation or revocation of production rights to extort illegal payments from companies.

Many economists regard auctions as the best way to manage both corruption and asymmetry of information between governments and companies at the production award stage<sup>[3]</sup>. But corruption is possible even with an auction process, since a company and a government official can collude over subsequent modifications and renegotiations to the contract<sup>[4]</sup>.

## Production Stage

### Import licenses, dues, levies

Once a company is producing in the country, the host government has a range of tools by which it can effectively change conditions for operating companies, which have now sunk large investments and so have incentives to keep producing even in the face of extra burdens. This is known to the economists as a "time-inconsistency" problem<sup>[5]</sup>. This ability to hold the company to ransom over its sunk investment can either be exploited for public interest - as when the government of Abdul Kraim Qassem raised port fees in Basra Oil Terminal by 1200% overnight as part of its struggle with the Iraq Petroleum Company,<sup>[6]</sup> - or it can be used for private gain by influential officials in the host government.

Among such blocking tools are licenses to import equipment needed to produce, such as has happened in Angola<sup>[7]</sup>, transit fees in ports and along pipelines, such as happened in the Iraqi industry when it fell into disagreement with neighbouring Syria, and more recently between Ukraine and Russia<sup>[8]</sup>, and changes in various forms of corporate and other taxes.

## Support Service Contracts

The oil industry, like most of the global economy in the last few decades, has taken to outsourcing aggressively. This means that even when a top level operating license has been granted under public scrutiny through an auction process, the primary operator then issues licenses, which could be worth hundreds of millions of dollars, to other companies to implement various activities to fulfil the contract with the host government. Such secondary support contracts rarely come under the same scrutiny as the primary contracts signed with the host government.

## Cost Recovery Accounting

Many oil contracts make provisions for an oil company to recover the heavy investment it has made to discover and then produce oil and gas. This can typically be on a sliding scale over time, where a large part of oil revenues are awarded to the company to cover their costs in the beginning, but the proportion gradually diminishes over time<sup>[9]</sup>. Big oil companies often have sophisticated accounting methods, and can, for example, find ways to increase costs to decrease profits in one country with relatively high taxation, transferring the profits to another country where corporate taxes are lower. In some cases, multinational companies engage in complex transactions between several subsidiary companies across different legal jurisdictions which result in above market "costs", which they can then reclaim out of the oil revenues produced by their production,<sup>[10]</sup>.

All of these issues can be disputes between a host government and an oil company, as has happened in Indonesia in 2009-10 with cost recovery accounting<sup>[11]</sup>. Equally, they can be bribery opportunities for an individual official in the host government.

## Theft

*See separate article on oil theft*

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# Natural Resource Charter

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The Natural Resource Charter is described as an international convention in the making, an attempt to spread best practice and governance issues across the energy and extractive industries worldwide. As such it is the latest development in the resource transparency movement.

## Foundation of Charter

The charter was conceived by economist Paul Collier, as he worked on his book the Plundered Planet. Recognising the precedent set by the EITI, the charter is an attempt to extend the principles of good governance across every area of natural resource management.

A draft of the charter was announced in February 2009<sup>[1]</sup>. As well as Collier, the charter was sponsored by a number of distinguished academics and the Revenue Watch Institute.

Collier's idea is that natural resources are key to the development of many countries, particularly in Africa. But the reason so many countries have suffered from the Resource Curse is a series of breaks in a crucial chain of decisions required to ensure effective exploitation of resources: the lack of sufficient investment in the discovery process, failure to impose adequate taxation, shortage of domestic investment of revenue, and the need to 'invest in investments' by building civil service capacity to manage investment portfolios.

## Precepts

The charter is made up of a number of precepts, or basic principles. These are thought to be universally applicable to all natural resource producing countries, in the same way as the Universal Declaration of Human Rights. Each of the principles has a detailed explanation and an accompanying document on ways to achieve it on the charter's website<sup>[2]</sup>.

### Overarching Issues

- Precept 1: The development of natural resources should be designed to secure maximum benefit for the citizens of the host country.
- Precept 2: Extractive resources are public assets and decisions around their exploitation should be transparent and subject to informed public oversight.

### Upstream Issues

- Precept 3: Competition is a critical mechanism to secure value and integrity.
- Precept 4: Fiscal terms must be robust to changing circumstances and ensure the country gets the full value from its resources.
- Precept 5: National resource companies should be competitive and commercial operations. They should avoid conducting regulatory functions or other activities.
- Precept 6: Resource projects may have serious environmental and social effects which must be accounted for and mitigated at all stages of the project cycle.
- Precept 7: Resource revenues should be used primarily to promote sustained economic growth through enabling and maintaining high levels of domestic investment.

### Downstream Issues

- Precept 8: Effective utilization of resource revenues requires that domestic expenditure be built up gradually smoothed to take account of revenue volatility.
  - Precept 9: Government should use resource wealth as an opportunity to secure effective public expenditure and to increase the efficiency of public spending.
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- Precept 10: Government policy should facilitate private sector investments in response to new opportunities and structural changes associated with resource wealth.

### **Global Responsibility**

- Precept 11: The home governments of extractive companies and international capital centers should require and enforce best practice.
- Precept 12: All extraction companies should follow best practice in contracting, operations and payments.

## **Institution**

The charter is at present a draft put together by a group of leading international scholars. In March 2010, the charter announced that it had an advisory board which includes former president of Mexico Ernest Zedillo, and African businessman Mo Ibrahim.

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# **Oil theft**

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Outright physical theft has been one of the major weak points in Iraq's industry since the 1990s, particularly with oil from Kirkuk.

## **Metering**

Iraq has suffered a lack of correct metering from its wellheads and pipelines since at least 2003. The International Advisory and Monitoring Board (IAMB), created in 2003 to oversee management of Iraq's natural resources during a transitional period, said in 2006 that years of requesting an accurate metering system had brought no results<sup>[1]</sup>. The Coalition Provisional Authority had commissioned Kellogg, Brown and Root (KBR) to restore Iraq's production capacity after the war, and KBR later stated they surpassed pre-war production of 2 million barrels a day to reach 2.4 million barrels a day by December 2003. But no metering system was installed, despite the fact that KBR is a subsidiary of Halliburton, an oil services company and one of the leading suppliers of state of the art oil meters<sup>[2]</sup>.

IAMB first expressed concern at the lack of metering in July 2004<sup>[3]</sup>. As of mid-2010, the UN was still asking for accurate oil metering<sup>[4]</sup>.

The lack of metering leads to the potential for large quantities to be stolen, since even a 1% discrepancy in the manifest of a ULCC tanker with 350,000 tonnes dead weight capacity would be equivalent to 500 entire truckloads of about 1,000 gallons each. Ghaith Abul-Ahad reported in the Guardian that one tribe in Basra was paying \$250,000 a week to armed gunmen to secure the Basra Oil Terminal while they loaded tankers with unmetered cargoes of oil<sup>[5]</sup>

## Bunkering

Bunkering involves tapping oil pipelines and other major facilities to gather oil, storing it illegally, and then shipping it out in consignments which, unlike false metering, are entirely illegal. There has been much bunkering in the south of Iraq since the industry became deregulated as a result of sanctions in the 1990s.

## Trucking

Iraq's oil industry has relied heavily, on road transport at various times during its history, notably during the Iran-Iraq war in the 1980s when up to 250,000 barrels of oil a day were transported to Jordan and Turkey<sup>[6]</sup>, and again in the 1990s, when the government of Saddam Hussein was attempting to export the maximum amount of oil outside the parameters of sanctions and the Oil for Food Program.

After 2003, illegal trucking has continued, sometimes on a large scale. In one operation in 2006, police seized 400,000 barrels of oil destined for Syria and worth an estimated \$28 million on the black market<sup>[7]</sup>.

## Connection to Insurgency

Since 2003 there have been hundreds of attacks on Iraq's oil industry, but analysts think that many such attacks, which are billed as political acts of insurgency, may in fact be the work of organized crime syndicates in order to maximise the potential for theft. Pipelines are damaged in order to force transport of oil by truck, so it can be stolen<sup>[8]</sup>. Then Finance Minister Ali Allawi estimated insurgents were getting between 40% and 50% of Iraq's oil revenues<sup>[8]</sup>.

## Fuel Products and Gasoline

In Iraq, demand for fuel products rose sharply after the 2003 war because more cars were on the road and the electricity grid virtually collapsed leading to use of private generators<sup>[9]</sup>. This sharply increased the motivation to steal gasoline in large quantities, a trade that had begun under the Oil for Food Program in the 1990s, particularly as Iraq could not produce enough gasoline and fuel products for its own needs and had to import them, while also subsidising them on the local market.

The Ministry of Oil's Inspector General reported that theft was occurring both in shipments of oil products entering Iraq from Turkey and Kuwait<sup>[10]</sup>. This kind of activity reached a peak in 2004-5, when gasoline was officially only 3 US cents per gallon while fetching over a dollar a gallon the black market. The inspector general's report stated that between September 2005 and February 2005 an average of nine trucks of imported oil products a day left Basra for the interior of Iraq but never arrived<sup>[10]</sup>.

The subsidies also made refined products that were being produced inside Iraq a target for theft, especially those coming from the Baiji Refinery, where in 2007 the US Department of Defence estimated 70% of the output was being stolen<sup>[11]</sup>. The number of retail petrol outlets near Baiji from just eight in 2003 to over 50 by 2008 as the station owners could gain access to oil products at the subsidised price and then resell them on the black market<sup>[12]</sup>.

Policies led by Oil Minister Hussein Shahrstani to reduce and then remove subsidies on fuel had greatly reduced this category of smuggling and theft in Iraq by mid-2010 compared to levels in 2004-5<sup>[13]</sup>.

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## Resource Curse

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The "Resource Curse" is the idea that the presence of large amounts of natural resources, relative to other sources of income for a state or a society, actually leads to negative social, political and economic effects rather than positive ones. The Resource Curse is a direct result of dependency on oil revenues. As the resource transparency movement has gained ground much research has been carried out into the weak points in the chain of oil production at which corruption and abuses can occur.

### History and current status of the Idea

The idea that natural resources resulted in poor outcomes has been in play since the 1950s, when it was hotly contested by the ideological camps of the Left and Right.

Empirical data began to accumulate support the idea over time. In the 1970s, Gobind Nankani, a vice-president at the World Bank, showed that a group of mineral exporting countries grew on average by 1.5% per year during the period 1960 to 1976, about half the growth in a control group of non resource-rich countries.<sup>[1]</sup> In 1988, a study commissioned by the World Bank examined the windfalls accruing to six oil-rich countries during the boom of the 1970s and concluded that those states had performed less well than other, resource-poor countries<sup>[2]</sup>.

### Sachs work in the 1990s

Jeffrey Sachs and Andrew Warner's *Natural Resource Abundance and Economic Growth* at the end of the 1990s examined 97 countries over a period of 18 years, 1971 to 1989, and found that states with a high abundance of natural resource exports had abnormally slow economic growth in general, relative to other countries. The study became the basis of a growing recognition of the need to address the problems that natural resource abundance can create in developing societies.

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## **Opponents of the term "Resource Curse"**

Some economists have resisted the term "resource curse" because they say it sounds fatalistic<sup>[3]</sup>. Oxford professor Paul Collier suggests that the term poses the problem the wrong way round, since he estimates there are more natural resources in developed countries than in developing ones. The dominance of natural resource industries in some developing country economies is simply, he states, due to the fact that they have had few other options for economic development, which in turn is due to a whole host of political and social factors.<sup>[4]</sup> Collier argues that for the world's "Bottom Billion" - the poorest billion people on the planet - a greater problem is rather that their natural resources have not been discovered or developed enough.

## **Survey of major institutions attitudes to the idea of resource curse**

### **International Institutions**

The International Monetary Fund has published papers recently discussing how to address the resource curse in Nigeria<sup>[5]</sup> and Botswana.<sup>[6]</sup> The World Bank uses the term "Resource Curse"<sup>[7]</sup> <sup>[8]</sup> while arguing that it is not inevitable and can be avoided by good governance. But some critics have challenged whether the policies the World Bank has pursued are effective, notably in the case of their support for an oil pipeline from Chad through Cameroon which was tied to poverty alleviation policies.<sup>[9]</sup>

### **Oil Companies**

In recent years, energy companies have started to acknowledge the challenges that natural resource revenues can present to developing countries.

"The reality of the problems which have afflicted a number of different countries as a result of natural resource development is undeniable. I am convinced that there are things we can do to mitigate many of the problems but it would be quite wrong to start from a position of denial," said NJ Butler, then vice-president of British Petroleum, in a speech in 2004<sup>[10]</sup>.

Exxon Mobil has rejected use of the term Resource Curse but says it supports the EITI process because it acknowledges that good governance is necessary to deliver benefits from oil production, and that transparency is a part of that.<sup>[11]</sup>

## **Economic Causes**

### **Dutch Disease**

So-called Dutch disease is the effect on a country's economy when it earns a lot of revenues from exporting a natural resource. It was named after the Netherlands to explain a decline in manufacturing through the 1960s after a major natural gas field was discovered at the end of the 1950s.

The theory is that oil exports earn a lot of foreign currency which tends to lead to a rise in the exchange rate of the local currency. That makes exports from other sectors uncompetitive, and so the natural resource starts to dominate all exports. At the same time, the earning power of the oil sector draws in labour and capital, and therefore also adversely affects all other sectors of the economy, whether they are export-oriented or not.

## Correlation between oil and debt

Economists have long noted the link between oil revenues and higher fiscal spending. Venezuela during the 1970s oil boom is a famous case, where President Carlos Andres Perez increased public spending dramatically, leading the country into debt. The fact that all government spending, as well as liquidity in the economy as a whole, rises and falls unpredictably with the fluctuations in the price of oil and other commodities is a severe management problem.

A 2005 study by the Institute for Public Policy Reform analysed data from 101 countries for the period 1991 to 2002 and concluded there was a statistical correlation between increased oil production and exports, and public debt in the producing country.<sup>[12]</sup>

## Political Causes

### Weakening of the state

Many political scientists have outlined a Resource Curse which both makes rulers in a state unaccountable, and state institutions weak. They are unaccountable because resource revenues allow them not to have to raise taxes in order to provide welfare and public services (to a greater or lesser extent depending on the degree of their resource wealth). And they are weak because the institutions of the state never develop under real discipline, through meritocracy and against measured goals and results. The most notable exponent of this theory has been Professor Terry Lynn Karl, who studied Venezuela, Nigeria, Algeria and Iran.<sup>[13]</sup>

### Conflicts

Analysts of the resource curse point to many cases where natural resource wealth creates or exacerbates conflicts, either between states or within them. Notable cases include:

- Southern Sudan, where the presence of oil is renewing tensions between the Khartoum government and southern separatists.
- The Cabinda region of Angola, which is oil-rich. A secessionist movement has flourished in the region since the discovery of oil.
- Nigeria, where the concentration of oil in the Niger Delta was a contributing factor to the Nigerian Civil War of 1966-70, and ever since has been a cause of constant unrest.

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## Resource transparency movement

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Many organisations work in the resource transparency area, such as Transparency International, Global Witness and the Revenue Watch Institute.

### History

What might be called a coherent movement for resource transparency really evolved in the 1990s on two different tracks.

First, NGOs like Transparency International (TI) and Global Witness were founded<sup>[1]</sup>. TI was dedicated to changing the legal and regulatory environment which governs the way business in general is done, and Global Witness was set up to investigate and expose individual cases of corruption, especially those related to mining industries and oil and gas.

The issue of transparency around natural resources gained great public attention in Western countries with the exposure of the "**Blood for Diamonds**" scandal<sup>[2]</sup> in which it became clear that wars in some African countries were being prolonged by the fact that both governments and rebel factions could finance themselves through selling precious stones onto world markets.

In parallel to the projects of individual organisations, there were several large initiatives from multilateral international organisations.

In 1997, the OECD approved an anti-bribery convention, which urged member states to pass laws making it illegal for companies under their jurisdiction to use bribery anywhere in the world<sup>[3]</sup>.

In 2003, the United Nations General Assembly passed the **United Nations Convention Against Corruption**. Since that time, over 130 countries have signed up to the convention, which obliges them to introduce a wide range of measures in their own laws to combat corruption<sup>[4]</sup>.

These two tracks, of civil society activism and international treaties and conventions, are mutually reinforcing.

### EITI

EITI, itself founded in 2002, can be considered as inbetween the two tracks, since it is an international initiative which formally and specifically engages the civil society sector.

### Natural Resource Charter

In 2009, a group of independent experts set up a website and loose organisation called the Natural Resource Charter which seeks to lay out guidelines for best practice right across the energy industry, embracing the EITI but extending beyond it<sup>[5]</sup>.

The charter is governed by an advisory board which includes the former president of Mexico, Ernesto Zedillo, and the African businessman Mo Ibrahim<sup>[6]</sup>. The founder of the charter was economist Paul Collier, the leading world scholar on the link between natural resources and problems in development<sup>[7]</sup>.

## Activities in Iraq

### Transparency International

**Transparency International** operates a system of national chapters around the world, and often writes reports on corruption in specific countries. Nevertheless, they have neither activity in Iraq, having confined themselves simply to including Iraq in the Corruption Perception Index, which has been published globally since 1995<sup>[8]</sup>. In 2009, Iraq ranked 176th out of 180 countries surveyed.

### Revenue Watch Institute

The Revenue Watch Institute has been active in Iraq since shortly after the 2003 war. In April 2006, RWI held a seminar in Beirut gathering over 50 specialists and experts in the oil industry<sup>[9]</sup>.

It founded a website specific to Iraq and published many reports and analyses of issues relating to management of Iraqi oil<sup>[10]</sup>.

RWI activity in Iraq seems to have tapered off since 2008, though the organization is reported to be preparing an initiative to engage with Iraq's new EITI process.

### Global Witness

Global Witness has not published any dedicated report on Iraq's oil industry, either before or after 2003. But the organisation has made various related press releases, calling on the USA and UK to implement transparent management of the industry immediately after the war<sup>[11]</sup>.

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# Transparency of global oil companies(TI report)

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In April 2008, Transparency International issued a report on the transparency of information provided by 42 major oil and gas companies around the world.<sup>[1]</sup>

## Findings

The report summarised its analysis into several main findings:

- Overall transparency in the energy industry is still low. Over two thirds of the 42 companies reviewed fell into the middle or low performance categories.
- There is a big difference between companies in the amount of information they publish, proving that transparency is possible. Some international oil companies operating in Iraq, like Shell and Statoil scored highly (in other words, were relatively open in the information they publish), while others, like Exxon Mobil, and the China National Petroleum Corporation, scored below average.
- Good practice is strongly influenced by regulations in the home country of the oil company, where it has its headquarters. Thus, two of the top scoring companies, Statoil and Talisman Energy, come from Norway and Canada respectively, both countries with stricter transparency requirements than many other countries.
- A company tends to perform at about the same level of transparency right around the world. This means the argument that companies cannot disclose information because of constraints put on them by a particular host government is not always correct.
- Transparency is helped systematically by changes in regulation. This can either be in the home country of an oil company, such as requirements for listing on its stock market, which therefore affect the operations of that oil company in many countries around the world; or at a host country level, such as Iraq's commitment to sign up to the EITI process.
- There was little difference in levels of transparency between companies who have declared their support for the EITI process, and those that have not.

## Recommendations

- Companies should pro-actively publish more information.
- Home countries of major oil companies should require them to publish more information about their payments and activities. The case of Canada and Norway demonstrates how effective this is.
- Host countries of oil companies (such as Iraq, for instance) should join initiatives such as EITI to increase the requirements of transparency by themselves, but also by the international oil companies operating in their territory.
- Regulatory agencies everywhere could help transparency by establishing uniform standards for how information is published. Currently different formats make it hard to compare one company report to another.

## Grades of companies operating in Iraq

Among the companies analysed, the following are also operating in Iraq:

**High Performance Transparency:** the Transparency International report specified high overall performance as disclosing payments made on a country-by-country basis, either in all their countries of operation or in some of them, instead of simply releasing one global figure. Also high performers have gone beyond transparency requirements which are legally mandatory.

- Shell
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- Statoil

**Middle Performance Transparency:** this is defined as mainly disclosing revenues and payments by aggregated geographical areas (such as "the Middle East" or "Africa") rather than by individual country, and also not publishing full details of any anti-corruption program that exists within the company.

- British Petroleum
- Conoco Phillips
- Eni
- Total
- Exxon Mobil
- Repsol

**Low Performing Transparency:** this is defined as providing almost no information relevant to resource transparency.

- China National Offshore Oil Corporation
- China National Petroleum Corporation
- Lukoil
- Petronas

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- [1] 2008 Report on Revenue Transparency of Oil and Gas Companies ([http://www.transparency.org/news\\_room/latest\\_news/press\\_releases/2008/2008\\_04\\_28\\_prt\\_report\\_launch](http://www.transparency.org/news_room/latest_news/press_releases/2008/2008_04_28_prt_report_launch)), press release on TI website

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# Background

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## Definition of reserves

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Different systems have been used to classify reserves of oil and gas since the industry first developed in the nineteenth century. But the most widely used definitions today are provided by the Petroleum Resources Management System of the American Society of Petroleum Engineers.<sup>[1]</sup>

### Reserves

#### Proven Reserves

Proven reserves are those that a company is more than 90% certain of extracting under existing market conditions. They are often reserves that fall within the extraction of existing infrastructure such as wells and associated transport infrastructure. The category of proven reserves is often prescribed in the regulations of various financial markets as the key definition of a company's energy assets, and so the amount of proven reserves a company has access to will influence its share price, and the amount of capital available to it for investment. Proven reserves are also known by the phrase **P1**.

Proven reserves are usually quoted by the holding company and are not subject to external audit. Iraq's proven reserves are stated by the government to be 114 billion barrels of crude oil, a figure which has stayed constant since 2001.<sup>[2]</sup>

British Petroleum publishes a Statistical Review every year which includes proven reserves for over 50 producing countries.<sup>[2]</sup>

#### Probable Reserves

Probable reserves are reserves which are known to exist and are recoverable under current market and technological conditions, but which the company is less certain of extracting than proven reserves. The threshold for probable reserves is 50% certainty of recovery, as opposed to 90% for proven reserves. Reasons for the difference could be that the reserves lie outside the extractive capacity of existing wells, so need new investment, or that various licenses for production and transportation are required from the host country. Probable and proven reserves are often lumped together in a definition known as **P2**.

#### Possible Reserves

Possible reserves, like probable reserves, are recoverable under existing macro conditions of oil price and technology. But they reach only a 10% degree of certainty on the part of the holding company. Proven, probable and possible reserves are lumped together in a definition known as **P3**.

#### Contingent Resources

Contingent resources are those which are known to exist but which may be too expensive or technologically challenging to extract under current conditions. For example, an oil field may exist so far out to sea that it will be too expensive to drill and produce unless the price of oil rises higher than it is today.

Which resources are classified as contingent is therefore a moving picture, depending on the development of technology.

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Iraq has almost no contingent reserves as its known oil fields are all recoverable under current market and technology conditions.

## Other Key Definitions

### Notes

[1] SPE: Petroleum Reserves Definition (<http://www.spe.org/industry/reserves/>), approved by SPE Board 2007

[2] BP Statistical Review 2009 (<http://www.bp.com/statisticalreview>)

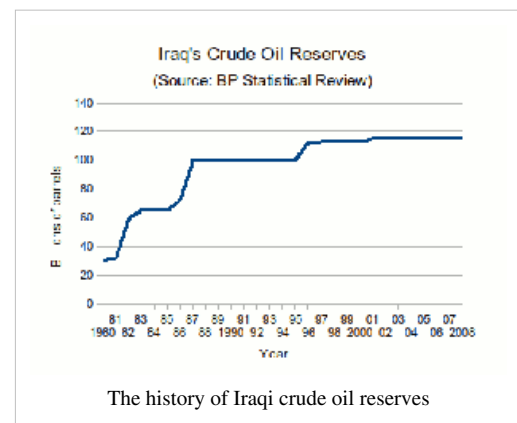
# Iraqi hydrocarbon reserves

## Oil

### Proven Reserves

#### BP Statistical Review

Iraq's official reserve estimate for crude oil proven reserves has risen to 115 billion barrels (bbl) today from 34 billion barrels in 1980<sup>[1]</sup>. The major part of this increase in the estimates came during the 1980s, as can be seen from the graph on the right.



There have been three significant leaps in the estimate during this time.

- In 1982, early in the war with Iran, reserves estimates nearly doubled from 32 billion to 59 billion barrels.
- In 1987, as the Iraqi economy was suffering from the long war with Iran, and as it appeared that OPEC was about to base production quotas on stated reserves, the figure jumped from 72 billion barrels to exactly 100 billion barrels.
- In 1996, as the United Nations was finalising terms of the Oil For Food program which would allow Iraq to export oil again after a total ban for several years, the estimate jumped from 100 billion to 112 billion barrels.<sup>[1]</sup>

However, as with other OPEC producers, it is not clear if the current estimate of 115 billion barrels also includes oil that has already been produced. The United States Geological Survey's World Petroleum Outlook of 2000 estimated that of the 100 billion barrel figure that was then being used, 22 billion barrels had already been produced, leaving only 78 billion barrels yet to be recovered from the proven reserves<sup>[2]</sup>.

### Estimates for Ultimately Recoverable Crude Oil

Since Iraq is the least explored of the oil-rich countries, there have been numerous claims of huge undiscovered reserves there as well - oil thought to exist, and expected to become economically recoverable - to the tune of hundreds of billions of barrels. The respected Petroleum Economist Magazine estimates that there may be as many as 200 bbl of oil in Iraq; the Federation of American Scientists estimates 215 bbl; a study by the Council on Foreign Relations and the James A. Baker III Institute at Rice University claimed that Iraq has 220 bbl of undiscovered oil.<sup>[2]</sup>

Overall, only about 2,000 wells reportedly have been drilled in Iraq (of which about 1,500-1,700 were actually producing oil in 2005), compared to around 150,000 producing wells in Texas for comparison purposes<sup>[3]</sup>.

## Tareq Shafiq

In 2003, Tareq Shafiq, a founding executive of the Iraq National Oil Company in the 1960s, endorsed a figure of 140 billion barrels as being Iraq's eventual proven reserves, and a potential reserve of 215 billion barrels.<sup>[4]</sup>

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- [3] OPEC Revenues (<http://www.eia.doe.gov/emeu/cabs/orevcoun.html>), the US Energy Information Administration, retrieved July 25, 2010
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# EITI compliance

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For a country to achieve EITI Compliance, it must complete the process of validation within two-years of becoming a Candidate Country.

Countries seeking to achieve EITI Candidate status must meet the four sign-up criteria.

Currently, there are 29 candidate countries although Guinea requested voluntary suspension in December 2009 due to the unstable political situation<sup>[1]</sup>. An additional 5 countries have expressed interest in joining the Initiative. Only Azerbaijan and Liberia are EITI Compliant<sup>[2]</sup>.

## Validation Stages

### Sign-up

Countries should meet four criteria in order to become EITI candidates. They must formally commit to implementing the EITI; commit to working with civil society and the private sector as part of a multi-stakeholder group; appoint an individual to lead implementation; and producing a Work Plan that has been agreed with stakeholders. The Work Plan includes a fully costed set of measurable targets, a timetable for implementation and an assessment of capacity constraints with the government, private sector and civil society. The document should be published and made widely available<sup>[3]</sup>.

Iraq's Work Plan is available on its official website<sup>[4]</sup>.

### Preparation

Before disclosure of payments and revenue can take place, countries must ensure that key prerequisites are established to guarantee genuine transparency in the process. Members of the multi-stakeholder group should be actively engaged; obstacles to EITI implementation should be removed; reporting templates should be agreed; and the government should ensure that all companies have agreed to submit audited reports in line with international standards.

### Disclosure

During this stage, oil companies should disclose payments made to the government and the government should disclose the revenues it has received. Payment and revenue figures are then reconciled by the EITI administrator who should highlight any discrepancies and recommend improvements in the process.

## Dissemination

Once the EITI report has been published, it should be made publically available.

## Monitoring and Evaluation

A country that has met all the validation criteria is granted EITI Compliant status which is subject to revalidation within 5 years. Stakeholders in the process may call for a new Validation of an EITI Compliant country at any time within that five-year period if they think the process needs reviewing. The EITI Board will then review the situation and exercise its discretion as to whether to require the country to undergo a new Validation.<sup>[5]</sup>

## EITI Criteria

Implementation of the EITI must be consistent with the following six criteria:

- 1. Publication:** Regular publication of all material oil, gas and mining payments to governments (“payments”) and all material revenues received by governments from oil, gas and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner.
- 2. Audit:** Payments and revenues are the subject of a credible, independent audit, applying international auditing standards.
- 3. Reconciliation:** Payments and revenues are reconciled by a credible, independent administrator applying international auditing standards, and with the publication of the administrator’s opinion regarding that reconciliation including any discrepancies, should be any be identified.
- 4. Scope:** This approach is extended to all companies, including state owned companies
- 5. Civil Society:** Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process, and contributes towards public debate.
- 6. Work Plan:** A public, financially sustainable Work Plan for all of the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation and an assessment of potential capacity constraints <sup>[6]</sup> .

## Notes

[1] EITI Guinea (<http://eiti.org/Guinea>)

[2] EITI Countries (<http://eiti.org/countries>)

[3] EITI Rules (<http://eiti.org/files/2010-02-24 EITI RULES.pdf>)

[4] Iraq EITI Work Plan ([http://ieiti.org.iq/site/index.php?option=com\\_content&view=article&id=54&Itemid=57&lang=en](http://ieiti.org.iq/site/index.php?option=com_content&view=article&id=54&Itemid=57&lang=en))

[5] EITI Rules (<http://eiti.org/files/2010-02-24 EITI RULES.pdf>)

[6] EITI Rules (<http://eiti.org/files/2010-02-24 EITI RULES.pdf>)

# EITI rationale

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The exploitation of a country's natural resources has the potential to reduce poverty and raise living standards. But in order to ensure that the distribution of revenues is equitable and free from corruption, strong governance mechanisms are required that uphold transparency and accountability.

It is on the basis of transparency and accountability of the extractives sector that the EITI process was established. Given that natural resources, in particular, oil, has historically been a source of conflict, the EITI process ultimately seeks to prevent such conflict.

The EITI provides a global standard for reconciling payments made by resource companies to governments, and revenues accrued by governments at the country level. Once companies and governments disclose payments made and received, an independent verification of tax and royalty payments is then overseen by a multi-stakeholder group comprising government, private sector and civil society representatives.<sup>[1]</sup>

## Benefits for countries

Countries that meet EITI standards enjoy credibility in the international community for their commitment to good governance and combatting corruption. A reputable extractives industry will also lead to an enhanced investment climate and healthy relations with civil society organizations.<sup>[2]</sup>

## Notes

[1] EITI Fact Sheet (<http://eiti.org/document/factsheet>)

[2] EITI Fact Sheet (<http://eiti.org/document/factsheet>)

# Extractive Industries Transparency Initiative

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The Extractive Industries Transparency Initiative (EITI) is a coalition of governments, companies, civil society groups, investors and international organisations that has set a global standard for transparency in the oil, gas and mining industries.<sup>[1]</sup>

## History

The establishment of the EITI was announced in September 2002 by the then-British Prime Minister, Tony Blair, following efforts by a coalition of civil society organisations to encourage disclosure of payments made by international oil companies to host governments. The Initiative was initially supported by the British government, which convened a working group composed of resource-rich countries, companies and civil society organisations to develop a methodology.

In 2004, a pilot phase was launched with the involvement of three countries. A set of criteria were then developed based on the results of the pilot and in March 2005, the second EITI plenary conference was convened in London to form the International Advisory Group (IAG), which would decide on future governance and the EITI's direction.

In June 2006, the IAG established an EITI Board and selected Oslo as the location of the International Secretariat. By October 2006, the EITI Board for 2006-2008 was formed consisting of 20 members representing implementing countries, supporting countries, civil society organisations, industry and investment companies. 15 countries were then initially invited to join the EITI process in 2007.<sup>[2]</sup>

## Governance structure

The EITI holds a Global Conference every two years to appoint a new EITI Board, which is tasked with overseeing the Initiative. During the conference, a Members' Meeting composed of implementing and supporting countries, companies and civil society organisations selects the 20-member EITI Board.

EITI's governance structure is codified in its Articles of Association (see website <sup>[3]</sup>).

## The EITI Board

The current EITI Board was selected during the 2009 Global Conference in Doha. The full list of Board members can be found here <sup>[4]</sup>. The current Chairman of the Board is Peter Eigen, who is independent.

## Secretariat

The Government of Norway has hosted the EITI Secretariat in Oslo since September 2007. The Secretariat reports directly to the EITI Board and is responsible for implementing policy decision made by the Board. It is composed of regional directors, which manage and coordinate the efforts of EITI's regional offices. The Secretariat's role includes: outreach and advocacy, communicating and sharing lessons learned with stakeholders, managing a resource centre on revenue management and transparency, and oversight of the Validation process. It also organises, jointly with supporting and implementing countries, the biennial EITI Conference. <sup>[5]</sup>

## Funding

Supporting countries, institutions and private sector companies fund the EITI Secretariat and its activities bilaterally and through the Multi-Donor Trust Fund. Implementing country governments must also pay for their implementation and validation in the process. The World Bank manages the funds of EITI. <sup>[6]</sup>

The Government of Norway contributes about 20% of the EITI's funding.

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[1] [www.eiti.org EITI Official Website]

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[3] <http://eiti.org/articles>

[4] <http://eiti.org/document/eiti-board>

[5] EITI Secretariat (<http://eiti.org/about/secretariat>)

[6] EITI Funding (<http://eiti.org/about/funding>)

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