



IS militants oversaw the growth of a rudimentary refining industry in the Khafsah area, south of Mosul, pictured here on Feb. 23, 2017, two days after the territory was liberated by the Iraqi Army's 9th Armored Division. (PATRICK OSGOOD/Iraq Oil Report)

The end of Daesh and the future of Iraq

As the self-proclaimed Islamic State (IS) militant group loses the last of its territory in Iraq, an existential danger is subsiding — but an equally urgent task looms ahead.

To consolidate battle field victories, Iraq needs military prowess and deft crisis management in tandem with forward-looking political leadership that will improve the governance practices

and, by extension, the lives of ordinary citizens.

Standing in the way is an entrenched culture of political dysfunction, in which many leaders appear focused on enriching their party and battling their rivals at the expense of working toward a more functional government.

As Iraqi citizens have shown, in protest after protest, they want to

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Inside the black heart of IS' oil sector

At the peak of its hold on Iraq, the self-proclaimed Islamic State (IS) militant group transformed a barren expanse of desert, about six kilometers south of Mosul, into the black heart of its oil industry.

The low-slung hills of Khafsah are now a wasted landscape of mangled metal and explosive ordnance. But until recently this was the site of about 600 primitive oil refineries, which generated millions of dollars' worth of fuel and revenue that powered the IS group's murderous operations.

Iraq Oil Report visited Khafsah on Feb. 23, two days after it was cleared by the Iraqi Army's 9th Armored Division as part of an

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Q&A: Oil Minister Jabbar al-Luiebi

What do you expect production to get to this year?

We are increasing. By the second half of this year, or at least toward the end of this year, definitely we are going to reach the level of 5 million bpd.

So you are reducing for the first half of this year, as part of the OPEC agreement, and then you expect that after the six months are up, then Iraq will be allowed to increase production?



Oil Minister Jabbar al-Luiebi

No, there should be a distinction between export and production. Production, which includes KRG and local consumption, real production, is 4.63 million bpd. That's including KRG. If you take the export then, that should be in line with the OPEC declaration. Because this time, for the first time, OPEC implied that production should be separate from export and their baseline is export not production.

So the reduction requirement of 210,000 bpd, you understand that to be from export?

From export.

Is it only Iraq that is required to cut exports?

All countries - export. It's export.

I thought the communiqué was regarding production.

No, it used to be, but as I told you it is the first time that OPEC implies export. Iraq is definitely resolved

is different. Let me elaborate more so that the figures will be very clear.

Let's take the south: to be in line with OPEC 100 percent, the export should be 3.23 to 3.24 million bpd. Within this range. Definitely, 100 percent, we will be compliant. Because absent the transparency in the north and all, that gets very difficult to muddle with the figures. For the south, it is the indicative figure and it could really be a pointer that you could measure Iraq.

How are you able to reduce exports? Diverting more to storage and local refining, or shutting in fields?

Our refining capacity is increasing and the demand for our refined products is increasing drastically because of the liberation from ISIS and the settlement of people from liberated areas. And now Mosul is due to be liberated. Don't forget, Mosul is the second largest city in Iraq. There will still be great demand and demand for products will be growing very fast. The production goes to the local requirement. We are importing a lot of products now. Our budget comes to \$1.2 to \$1.3 billion a year for importing fuel.

What are the projects of priority for the ministry in the refining sector?

We have drawn a very genuine and comprehensive strategy. That's based on, first, improving and upgrading the existing refineries, as well as expanding the capacity of the existing refineries. Second, to reconstruct and rehabilitate the refineries that are damaged by ISIS. And the third is to go

and Iraq is committed to be in line with OPEC. We will not deviate from OPEC policy at all. Unless something drastic happens, but this is a different case.

So to be accurate, what is the expectation for export, per the OPEC agreement, that Iraq needs to adhere to?

For the OPEC, it's 4.3, 4.4 [million bpd] or something, but that's with KRG. For local consumption - this

full-scale investment in the new refineries. We have tendered five refineries - one export refinery in Fao in Basra for 300,000 bpd. An expansion of Basra refinery by another 70,000 bpd. Missan we have 150,000 bpd. Nassiriya we have 150,000 bpd. In Baiji, 300,000 bpd. In addition to Karbala refinery which is 150,000 bpd.

Karbala is under construction still, correct?

Construction is going slowly because of financing difficulties. All in all, we want to have a total refining capacity of 1.5 million bpd at least.

Karbala refinery, that's the furthest along of the new refining projects. When do you expect it to be completed and how much of your investment budget is going to it?

Well, we have revised with the contractor lots of parts of this refinery and we have put the schedule that by the end of 2019 the first phase should be in operation. Still we have that final stage of discussion with the contractors, the Koreans, to bring financing as well as to have some real, new arrangement with them. [Editor's note: the Karbala refinery is being built by a joint venture led by Hyundai Engineering and Construction.] By the end of this month we can reach a final settlement with them and I hope they will resume work.

The Missan refinery, contracted to the French, Swiss and Chinese companies?

Yes, the Amara refinery, the contractor has not started yet. I don't know why. But I think we'll terminate the contract with them and retender it.

If they don't begin work then the contract is terminated?

Yes. We have to do something about it.

The Basra refinery, this will be connected to Fao depot. All the fuel will be exported?

My plan is to build a new refinery in Fao, starting with the first stage of 300,000 bpd and then the second and third stage to 1 million bpd. That's solely for export.

By that time Iraq will be a net exporter of fuel.

We have to put Iraq on export for products.

The Nassiriya refinery, previously it was 300,000 bpd, and the contract was also tied to the Nassiriya oil field. Now it's a 150,000 bpd project.

When we looked at and reviewed the situation, it is better to go to an integrated project, the Nassiriya oil field and refinery. And it was to be 300,000 bpd. But I looked at it and it was too high of a scope of work, so I like it at 150,000 bpd.

Both the refinery and field?

The field as well as the refinery, yes. An integrated project. But the capacity was lowered.

Is it a tender or a bidding round?

No it's not a bidding round. It's a tender.

When do you expect to award?

Before the end of the year, all of this will be finalized.

The new Kirkuk refinery has been in the news lately. I thought there was a proposal by the Faruk Group for the 150,000 bpd refinery.

No, we settled finally to 70,000 bpd.

And it was awarded to Faruk?

No. No award yet.

What's this company called Barham?

There is a company called Barham, but we wanted to go through this project properly in a proper manner, according to the regulations and standards of the Oil Ministry, and according to the rules and regulations that are followed in Iraq. Every project should be tendered and we should have at least two or three bidders. Barham, my people in the ministry told me their offer is something inferior really, not up to the specification that we want.

So it won't be handed out simply because a political party wanted it.

I don't go to politics. I don't know about politics. But this is the situation.

So every potential investor has to go through the same process?

The doors are open for investment.

The agreement that was reached to send 40,000 bpd from NOC to the Ninewa refinery. It seems there is confusion as to what was agreed to and promised.

I don't really understand the confusion. This Ninewa refinery was built outside of Ninewa, within Erbil territory, and it was built by an investor, a Kurdish investor, and he was blessed then by the local [Ninewa] government. The refinery is [Ninewa's] own.

When we wanted to have some fuel after liberation there was pressure growing on us from everywhere because of the demand, growing demand, for

refined products. The Ministry of Oil reached a stage that either [we would go] bankrupt, because we don't have money to import more and more, or do something else. This is one [part] of the story.

The second [part] of the story is electrical power. In Qayarah, [there is an] electrical power station of 650 megawatts, and Qayarah and Mosul need electricity, especially with summer coming. So we looked at how we operate Qayarah power station. We cannot get fuel for that station from within Qayarah field. And we cannot get it from nearby because we don't have anything nearby. We cannot get it from Kirkuk. So we have to bring the fuel either from Basra or from Baghdad and that means there is additional pressure on the products. So we have to import more products and transport it from Basra for Qayarah, so there is a double pressure here.

Then, we looked at the situation and we found out that this [Ninewa] refinery is there, ready, is new, has good specifications, and we can feed it because the pipeline is there and we can feed it from the line. We pump 120,000 bpd [of oil produced by the North Oil Company] through the KRG line, and we get 60,000 bpd for the federal government and 60,000 for KRG, shared. And that refinery is only about 30 kilometers from the Qayarah power station. So we thought the best way is to operate this refinery.

And the result will be: one, products to meet the requirement of Kirkuk, Mosul and the facilities around it, and second is to provide some of the requirement of the fuel requirement to the Qayarah power station — not full, but at least 40 percent. Otherwise

this station will be idle.

When we sat with them and had negotiation and discussion with the investor, the investor asked for a processing fee of \$16 per barrel, and I interfered and made it \$10. I looked all over the world, including Iraq - this is the best bet really, the cheapest. When we refine our oil there [at the Ninewa refinery], we pay him this, or we pay him [in-kind using] some of the fuel oil, or whatever.

In that case, we are going to cover the area [demand] for [fuel] products, lessen the pressure on the Ministry of Oil, and we are going to lessen the pressure on the federal government, and we are going to provide electricity for Qayarah and parts of Mosul. I don't know why the fuss really out of this. It has nothing to do with this investor having relations with government of KRG, it is irrelevant to me.

I have nothing to do with it. I want the product to come to the area. And I want fuel to come to Qayarah power station. This is the whole, bare story.

But there was an agreement, or some people are claiming that was an agreement - in the January meeting to negotiate this refinery supply deal - that in addition to that, another 20,000 bpd was supposed to be sent to the Bazian refinery in Sulaimaniya.

No. The 20,000 bpd - there is another refinery in Sulaimaniya, and the Kirkuk local government is putting pressure on us to operate this one. And even operating this one, again, it will be of good to Iraq - additional products - and I don't understand what is wrong with that.

Recently, the armed forces that belong to one specific party took over much of NOC and made some demands.

Oh forget it. That was something adverse.

How did it get resolved?

It faded away. There was no agreement. When we sat and had a minutes of meeting and the governor of Kirkuk asked that this refinery is operated so there would be no acute shortage of products, I said, "Let us operate the Ninewa refinery, and then we will see and look to this." It is a matter of time, really, until this happens.

What's the status of the southern integrated project?

We are negotiating with ExxonMobil. We have reached a good stage now.

When will you sign this?

Before the end of the year. I had a dinner with their CEO the other night and we both hope that before the end of the first half of the year that we can conclude it.

Is the water injection pipeline still included?

It is included, yes.

The Fao project has been stalled for a long time, years behind schedule. What is the status now?

It's bad management. It was badly managed, this project. Briefly, this is the conclusion. This is the result. But I am now following a different mode of approach and different mode of management and I will push it. Contract as well as investment, I am working on both lines.

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The end of Daesh and the future of Iraq

DAESH, cont'd from **page 1**

flip this broken paradigm on its head. The upcoming challenges demand no less.

Countering extremism

Even though IS militants are losing terrain, they are also adapting. In Diyala and Salahaddin provinces especially, IS cells have begun re-embracing many of the brutal guerrilla tactics previously utilized by al-Qaida in Iraq.

The threat of a new insurgency means that Iraq, now more than ever, needs well trained and professional security forces supported by the local populations they are protecting.

One key factor will be the extent to which security forces populate their ranks with members of the communities where they are deployed. That, in turn, depends on a larger question of the structure of Iraq's military.

The future of the al-Hashid al-Shabi program

Many politicians have optimistically suggested that the Hashid program can evolve into a kind of National Guard. Indeed, in many areas of Iraq, it has provided a useful structure through which the government has armed and organized fighters to combat the IS group.

But there is also a danger, in that some Hashid elements appear to be more loyal to a particular party than to the Iraqi state. As elections approach, political leaders face the temptation of exploiting the popularity of the Hashid to gain electoral clout, and to wield the groups as their personal paramilitaries.

If the Hashid program can be assimilated into Iraq's security apparatus, it could conceivably benefit from the ongoing efforts to train and reform Iraq's army and police forces.

If, however, the Hashid program becomes entrenched as a competing security apparatus with politicized chains of command, it could erode trust in the state — especially among Iraqis who find themselves outside the political majority.

Reversing the resource curse

In areas formerly occupied by IS, lasting security depends on reconstruction. If residents have direct incentives to support their local and national governments — if they feel a direct stake in Iraq's success — they will be more inclined to give crucial support to police, and help root out extremists.

But building an economy filled with opportunity is no easy project. For years, Iraq has depended overwhelmingly on oil — an industry that generates large revenues for the state but few jobs for its citizens. As a result, the easiest route to financial security is joining the government's bloated payroll.

This economic dysfunction is a major driver of political dysfunction. Elected officials face pressure to funnel the wealth of the state toward their constituents, rather than use it to build a foundation — consisting of security, infrastructure, and rule of law — that can support a thriving and diverse private sector.

Going forward, one bellwether of Iraq's future will be the status of infrastructure in areas liber-

ated from IS.

Wherever displaced residents have been able to resettle, they have shown a determination to rebuild. If the government does its part to stimulate the commerce needed for reconstruction — by investing in roads, electricity, and services, while also maintaining security — then there is hope of capitalizing on this Iraqi ingenuity and resilience.

Another key indicator will be the government's investment outside of the oil sector. In 2016, just 5 percent of the government's spending went toward non-oil investments. As the country recovers its financial footing, there will be an opportunity to diversify and modernize the economy.

The prospect of an independent Kurdistan

Leaders in Kurdistan have made no secret of their desire to declare an independent state.

These ambitions add even greater urgency to the vexing issue of how to draw Kurdistan's southern border. Each side would like to see billions of barrels of oil end up on their side of the line.

So far, Prime Minister Haider al-Abadi has employed a strategic silence as the Kurdistan government has taken control of oil resources that used to be operated by the federal North Oil Company in Kirkuk province. The clear priority was to foster high-level political and military cooperation that would be necessary to defeat Daesh.

The question ahead is whether Iraqi leaders can build on this spirit of cooperation, even without the motivation of a common foe.

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Inside the black heart of IS's oil sector

BLACK HEART, cont'd from **page 1**

ongoing operation to complete the liberation of Mosul.

The site provides vivid evidence of how the IS group ran a resilient oil sector, despite a dedicated campaign of intelligence analysis and airstrikes by Iraqi and U.S. forces.

At its peak, the area could have refined tens of thousands of barrels of crude per day, more than enough to process all the oil that IS produced in Iraq. The Khafsah refineries even received crude that was trucked in from Syria, according to a member of IS and a fuel trader who participated in the operations.

Refineries in Khafsah continued to operate - albeit at reduced capacity - even through the opening months of the ongoing operation by Iraqi forces to liberate Mosul.

By generating revenue and fuel, the IS group was able to provide basic services in the territory it controlled - a key pillar in its claim to establishing itself as a new, would-be country.

"We never lacked for fuels under IS control," said an elderly resident in Sanarik, a village just to the south.

This veneer of legitimacy was at the foundation of both its ideological appeal to zealous followers and its ability to bring a broader array of civilians under control.

The making of 'Haraqat'

When IS took over several Iraqi oil fields in June 2014 - including Qayarah, Hamrin, and



A standard refinery unit in the Khafsah area, south of Mosul, on Feb. 23, 2017, two days after the area was liberated from IS militants by the Iraqi Army's 9th Armored Division. (PATRICK OSGOOD/Iraq Oil Report)

Ain al-Jaysh - it moved quickly to set up a local refining industry capable of transforming crude oil into usable fuels.

IS had more than enough technical savvy and bureaucratic sophistication. The group was already managing an oil sector in its Syrian territory, and IS recruiters were bringing in hundreds of industry experts from around the world at internationally competitive salaries, according to a U.S. intelligence assessment obtained by Iraq Oil Report.

"When the Islamic State overran Mosul, they started importing the plants from Syria," said an IS militant who goes by the name Abu Said, and who used to own a small, makeshift refinery. He remains with the group in western Mosul, where he was contacted by phone.

The remnants of these rudimentary refineries are

scattered around the Khafsah area, rusted and shot out by recent battles.

The main feature of each unit is a large boiler - a plate-welded cylinder, about the size of a car - capable of holding somewhere between 30 to 50 tons of crude. As the oil heats up, its components condense at different temperatures into diesel, kerosene, and naphtha. At the top of the boiler, those fuels can be siphoned into pipes that run down into adjacent pools made of sandbags and plastic tarps.

This primitive refining process did not efficiently extract fuel from crude oil, and it did not yield high-quality fuels or unleaded gasoline, as a modern refinery would. It also produced noxious pollution.

But for the IS group, it had many benefits.

For one thing, such refineries

can be manufactured relatively easily and cheaply. While the first units at Khafsah were imported from Syria, the IS group soon established prices at which they would sell crude and purchase refined fuel, which gave locals a strong economic incentive to build refineries of their own.

Most of the new investors were former employees at the Qayarah, Kirkuk and Baiji oil refineries, according to both Abu Said and a civilian who traded fuels in Mosul under IS. These Iraqi engineers came to administer much of the sector.

"They had sworn allegiance to IS before the group announced itself," Abu Said said.

Abu Said's testimony matches reports from dozens of local civilians who have described to Iraq Oil Report how a refining business sprang to life shortly after IS stormed into Iraq. His account also jibes with the IS records obtained by the U.S., which show how the group used pricing incentives and taxation to regulate and stimulate a private refining sector.

The IS group helped to kick-start small refineries by standing up a manufacturing site for new boilers in the village of Tal Zalit, about 20 kilometers further west, according to Abu Said. Making the boilers locally halved their cost to around 1 million Iraqi dinars (about \$770).

"The blacksmiths there never stopped working since Daesh came to Mosul," the local fuel trader said.

The plant owners hired local civilians from villages south and southwest of site, paying 30,000 Iraqi dinar (\$23) per ten-hour shift at the plants, Abu Said said.

The conditions were filthy. Workers used heavy fuel oil, a sludgy byproduct of crude

refining, to feed the fires that burned in open pits beneath the boilers. Excess waste was simply dumped onto the ground, leaving black scars across the landscape.

Hundreds of trucks per day brought crude into the area and took fuels out. Some of the trucks had been stolen by IS, but others remained the property of truckers involved in Iraq's smuggling business, which dates back to the Saddam Hussein regime.

IS maintained a direct monopoly on producing and selling crude oil through its "al-Rekaz" department, but the fuels business was a thriving private enterprise, monitored closely and taxed by IS.

The Mosul fuel trader estimated that there were once around 2,500 fuel shops

The start of airstrikes targeting IS's oil activity only helped the local refining industry to grow.

"After the second half of 2015, Daesh realized that the local market is more beneficial than the outside market; also, it became harder to export oil because of air strikes that attacked tanker convoys. So Daesh sold to the local refineries," the Mosul fuel trader said.

"So, if a crude tanker truck gets targeted by an airstrike, it is usually the loss of the businessman, since Daesh was already paid for that crude," he added.

With refining booming, Khafsah acquired a second name - "Haraqat," which means "Burner" in Arabic - a reference to the fires that burned beneath each of the boilers.



Rudimentary refinery units in the Khafsah area, just south of Mosul, on Feb. 23, 2017. (PATRICK OSGOOD/Iraq Oil Report)

across Mosul. The Khafsah area supplied enough diesel to run an estimated 210 neighborhood generators across Mosul's 42 neighborhoods, the trader said.

Industrialized killing

As Haraqat grew, oil tanker trucks were not the only traffic to the area. Buses delivered hundreds of Yezidi men, former



Local residents say that IS militants executed several hundred people and discarded their bodies in this sinkhole, in the Khafsah area, which was also used as a repository for refining waste. Pictured here on Feb. 23, 2017, the pit was substantially larger before IS operatives used earth-moving equipment to fill it in partially. (PATRICK OSGOOD/Iraq Oil Report)

Mosul police officers and soldiers, and other prisoners of the IS group.

In the middle of Khafsah lies a sinkhole - an unassuming depression, perhaps four meters deep, with the twisted remnants of a pickup truck at the bottom.

It may be the largest mass grave in Iraq.

A video posted to YouTube on Jan. 15, 2015 appears to show the pit when it was much wider and deeper. At the top edges, the dirt is stained reddish-brown, presumably from the blood of executions. The pit is so deep that the bottom can't be seen.

In early 2015, IS killed 2,070 people imprisoned at various sites across Mosul and the surrounding area, who were accused of being policemen, soldiers or informants. On Aug. 6 that year, the group posted lists of the names of the dead at morgues in the city, according to civilians in Mosul at the time, but

the bodies were never found.

Many of them are thought to have been dumped at Khafsah. Nearby residents - who saw many of the killings take place - estimated that at least several hundred people had been killed or dumped there.

After the initial round of killing, IS continued to take people to the site to be killed or threatened, a resident said.

"One day Daesh brought a woman from Mosul at dawn, and threw her into the pit while she was still alive," said an elderly shepherd from the nearby village of Adbah, who saw IS regularly bring people to the site to be killed. "She kept screaming for three days asking for help."

Haraqat dismantled

U.S. airstrikes against the IS oil sector took out its larger, more sophisticated oil refineries, but the Haraqat refineries

made harder targets because they were so small, cheap, and numerous. U.S. analysts also knew most of the people manning them were civilians.

Multiple U.S. officials said the only way to eradicate the IS oil sector fully was to eliminate the group's ability to control territory.

By July 2016, IS began withdrawing some resources from Khafsah. Iraqi security forces were closing in on Qayarah, an oil town south of Mosul, which was a primary source of crude supply to the refineries. IS militants torched about 20 wells at the Qayarah field as they withdrew.

At about the same time, IS operatives shipped out hundreds of the Haraqat units. Where they once stood, there are still blackened pits where the heavy fuel oil, which burned beneath the boilers, has now calcified into black rubble.

"Daesh moved some of the their plants back to Syria and sold them at very low prices when the Iraqi security forces regained control of Qayarah oilfields, and continued operating the rest," Abu Said said.

An officer with Iraq's elite Counter Terrorism Service, stationed south of Mosul, said that government intelligence knew that many Sanarik residents had been oil workers under IS, though no one there would admit it.

In the center of Khafsah, the ground around the sinkhole has been gouged by earth-moving equipment, suggesting a significant effort by IS to cover up the mass grave. A single bullet casing recovered from the edge of the pit was the only physical evidence of what had happened there.

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Q&A: Kirkuk Gov. Najmaldin Karim

After the most recent attack by Daesh, in late October 2016, there was an investigation into the security apparatus to determine what changes were necessary to make sure this didn't happen again. Can you walk me through these changes to be made?

Three things happened after that attack.

One of them, the place we thought they came from, was fortified — a trench was dug there, bushes were cleared, and more forces



Kirkuk Gov. Najmaldin Karim

were building to that side. It was an area between Peshmerga and the local Turkmen Shia militias. It was a kind of no man's land. That's taken care of. This was southwest, an area called Daqu, south of Kirkuk.

The other thing is we changed the distribution of our emergency police, where they will be and all that. Focusing on some areas that

may be vulnerable to sabotage and attacks.

The third thing that we did is - which we had it before, when the security situation was quiet, we kind of abandoned that - and that was to have security over the tall buildings. So when these guys come in and they go into a house, you have somebody from up that way — what happened is they usually go to a higher place, like second floor and third floor — so if we control the tall buildings and have our security there, then it is easier really to attack them.

And, of course, to strengthen our information and analyze it.

The petrodollar issue has been a problem for every province since it was first approved in the budget, due to lack of payment. You were able to reach a deal with the KRG for the \$10 million monthly payment. How is that being calculated?

The actual calculation has to be based on the dollar amount per barrel, which is \$2, which is the amount in the budget for 2016. But neither Iraq nor KRG has been able to meet that. At least as far as Kirkuk is concerned, the KRG is doing better than Iraq - we are getting \$10 million [per month]. But that will be counted eventually as a debt that they have to pay us.

The fields in Kirkuk can produce a lot more than they are currently. Is there any movement on plans to make this happen?

I think this is helping us in a sense. You remember that BP had a deal to come here and work here and all that. I've been working on that.

BP's Middle East President Michael Townshend visited you recently.

Yes, he came and we may have a meeting for the first time between KRG and BP and us to try to get them involved and work on all of the fields, those that are operated by KAR and the NOC.

What is the idea behind it?

The idea is, regardless of how it will be, it will increase production. KRG will be the winner. If there is an agreement between the two sides for example to turn everything over to SOMO, Iraqi government will be a winner. And we get more petrodollars. So that's the whole idea, and I think it is one of the things that shows there is willingness for both sides to work together. Maybe it will lead to a better relationship.

What will BP's role be?

BP will come back and continue

the work that it has under an agreement with Baghdad about increasing production by 300,000 barrels.

That's a small project for a company like BP.

Well 300,000 barrels and they get \$2 per barrel that it increases,

according to the contract.

It's more than just the research — it is a technical service contract?

Once they know they can do it, the contract will go into effect that BP will get whatever — I think it is \$2 per barrel.

This is a unitization of all the Kirkuk fields: Bai Hassan, Avana
Yes, because what BP is saying, you can't just work on Baba and Jambur or Khabbaz. You can't. You have to do it all together. They are all attached.

Q&A: Falah Alamri, director general of SOMO

It has been nearly two years since you launched the Basra Heavy grade. Describe the success to date and what's the vision for it going forward?

We had to do the two grades. The production of heavy oil was increased and started to affect the Basra Light. So SOMO and the Ministry of Oil decided to do something about it. We took an important and historic decision that we had to split the two grades.

Within four months they were ready, in the beginning of May [2015], and we published an OSP for May but we started to export from June 2015. We struggled maybe one or two months to market it due to the new grade, and the specifications were unknown, plus the refineries need to digest this new crude. And then gradually the demand for this grade increased.

Not just for one market, for three markets. In the beginning we focused on Asia market, and then American and Europe, but now really just two months ago, when we started the allocation of oil for 2017 to international oil companies, we were surprised that the demand was 1.6 million bpd for Basra Heavy, and the other is about 3.4 million (bpd) for Basra Light. The demand for each grade more than doubled.



Falah Alamri, director general of SOMO

But the production is still between 800,000 and 850,000 bpd. It increased a little bit this year.

About 24 percent of your Basra exports is Basra Heavy.

Yes, and this is the story. We hope that in the future any increase may come from both Basra Heavy and Basra Light.

We hope that maybe next year to reach 1 million bpd for Basra Heavy. I don't know whether they can do it or not. It depends on the international companies'

activities.

I cannot say specifically, but as the man responsible for exporting oil, this is what I try to say to that: I just want them to increase the production, because there is a lot of demand on our oil, due to many reasons — transparency, sustainability, sustainability in the grades and specifications, and also the price has become cheap enough for the consumer countries to afford to not only use it but also to store it.

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Q&A: Baz Karim, president of KAR Group

You've had a string of successes on the upstream side. You're producing 380,000 barrels per day (bpd) combined from Khurmala Dome, Avana Dome, and Bai Hassan, which are under your operation. How much are you producing from Khurmala, which you've had the longest?

Baz Karim: 105,000 bpd.



Baz Karim, president of KAR Group (SEBASTIAN MEYER/Iraq Oil Report/Metrography)

The fields can produce a lot more. What are the development plans for Khurmala?

Now we are in discussion with Dr. Ashti [Hawrami], the minister [of natural resources for the KRG], to increase the capacity in Khurmala. We are working to add a process facility there and add new wells. All of the studies and 3D seismic and reservoir studies are all done. All the basic designs, engineering, technical, it's all done. Some implementation even happened. We are on the way to increase capacity in Khurmala.

In the meantime there was an increase in gas production from the field. How much, and where does it go?

After we did the study and 3D seismic, our team returned back and told us there is a potential in a reservoir of gas underneath the reservoir where we are getting oil. Our technical team

went there and they explored the Upper Qamchuqa reservoir. We worked over and finished two wells to reach to this Upper Qamchuqa and now we are producing 50 million cubic feet [a day] from these two wells.

After we did all of this, we returned back to the ministry and we got a contract from the ministry to add 200 million cubic feet of gas [per day] extra, but now in this stage we are at capacity of 100 million cubic feet of gas, outside of 105,000 barrels of oil.

When will you start adding the new wells and processing facility at Khurmala?

We gave all of the plans to the ministry. Now we are in discussion for starting this. But already we started some piece of work, added trunk lines from stations, added some capacity on the collectors, and we are working on a new central process area — we call it CPS 2 — to be ready for adding extra capacity of 100,000 barrels [per day]. But this does not mean we will go immediately to 100,000 barrels; it will be gradually.

What is the timeframe?

First target we are looking to an extra 30,000 to 40,000 barrels of added capacity, and maybe within one year it will reach to 50,000 barrels.

Now that you know more about the field, what do you think the plateau for Khurmala Dome could be, and how long could it be sustained?

Our target for Khurmala — you know, all studies before, from old time, was plateau of 100,000 barrels for a long time. Now after a study, and with the discussion with the ministry, we are looking to 200,000 [bpd] plateau of Khurmala.

With the related fields, Avana and Bai Hassan, I understand they all work better when they integrated with one another. What have you found since you have been operating the fields for two and a half years now? What are the plans and potential?

Now, our production is close to 195 [thousand bpd] from Bai Hassan and 85 [thousand bpd] from Avana, if it's not 80 [thousand bpd]. The coming stage we will look to start water injection program. This is a very short plan because we started since last year gradually working on this program. This will be the next stage before adding new wells and going into a deeper exploration program. Adding water injection will be the second stage for adding capacity. Going forward we need extra capital and investment and adding more work to it, and this is what we are doing: we are planning based on that we develop our plan.

Do you have expectations of what they can produce by the end of 2017?

For sure we will try to go over 200 [thousand bpd] for Bai Hassan. And for Avana, first stage will be to keep 85 [thousand bpd] there — because we need to add some [electric submersible] pumps to the Avana field, and this is what we are doing.

What other fields is KAR operating?

After ISIS, in 2014, we get authorization for fields in northern Mosul, which was Sufaya, Ain Zalah and Butmah, from the Ministry of Natural Resources, to operate and maintain the fields.

But at this stage, only Sufaya was out of occupation, it was freed, so we went back immediately to Sufaya and we worked the fields and we brought the fields to the production and for a long time we boost this crude, it was small quantities, 4,000 to 5,000 bpd, into the pipeline.

But Ain Zala and Butmah was under Daesh control and we didn't get access to it until this month, after the Ninewa operation. Now it is free. Maybe we will discuss this with the Ministry of Natural Resources if there is a chance for a safe operating environment, then we will try to work. But now, we didn't start any work in Ain Zalah or Butmah.

South oil workers moonlighting as weapon designers

Iraqi oil engineers invented remote-controlled rocket launchers and other devices as part of the fight against the self-proclaimed Islamic State (IS) organization last year in the run-up to the ongoing operation to liberate Mosul.

The weapons program was a small-scale operation, funded by private donations to an independent employees' committee of the state-run South Oil Company (SOC), part of the longstanding Iraqi Oil Ministry support of the al-Hashid al-Shabi paramilitaries.

Two members of the committee, working at the al-Luhaiss and Rumaila oil fields, confirmed details of the weapons program.

The oil engineers' proudest achievement appears to be their invention of a remote detonator that enables Hashid fighters to fire a rocket launcher using a smartphone. Multiple people in-



Members of the South Oil Company's (SOC) employees' committee deliver weapons and supplies to al-Hashid al-Shabi (Popular Mobilization) militiamen in Jabar Makhool, in northern Salahaddin province, in early April 2016. (Source: SOC employees' committee)

involved in the project said the first successful battlefield tests were in Jabar Makhool, in northern Salahaddin province.

"It is useful when there is a wild battle," said Wissam al-Mousawi, a member of the SOC employees' committee. "Shooting from

a distance is good to avoid the snipers and the counter-shelling. It worked fine and the test was successful. Now it is under development."

The remote firing mechanism can be used on "all types of weapons," Mousawi said, "such as the

rocket launcher, heavy weapons, and also medium [weapons].”

In addition to the mobile phone-operated trigger, the engineers have built a remote-controlled robot that can be used for defusing improved explosive devices. Mousawi said the SOC committee had given the prototype to a company called Abin Majed to manufacture on a larger scale.

While the engineers are not mass-producing the weapons, their contributions highlight the extent to which the Hashid enjoy massive popular backing in Iraq’s southern oil provinces.

The engineers’ initiative is also emblematic of the often improvisational nature of the war against IS. Many Hashid units are composed largely of volunteers with little prior military experience, who receive training, weapons, and equipment from a patchwork of sources, including the Iraqi government, political groups, their families and local communities, and Iranian patrons.

The SOC employees’ committee has historically functioned as something of a union representing southern oil workers, organizing protests to receive unpaid wages and better working conditions. But the oil workers say they are also using the committee as a vehicle for answering the call to jihad against IS, which was issued

in 2014 by Ayatollah Ali al-Sistani, Iraq’s highest Shia religious authority.

“The SOC employees’ committee is the only entity that collects donations for these inventions,” Moussawi said. “We have a sub-committee... to collect donations from the employees of SOC and from some other businessmen of Basra.”

While the Hashid program has been instrumental in the fight against IS, their rising power has also raised security concerns in Iraq’s southern oil provinces. Their increased prominence in Basra - and the diminished presence of official army and police forces - has coincided with a spike in mafia-style crime and tribal violence.

The Hashid’s rising influence among rank-and-file oil workers could also increase anxiety among international oil companies (IOCs) who employ thousands of Iraqi workers, including SOC employees seconded to their projects. Many of the entities that operate under the Hashid umbrella are controlled more by political entities than the Iraqi state, and some use anti-western rhetoric and disseminate propaganda accusing the U.S. of supporting the IS group.

It is not clear which Hashid group the SOC employees’ committee

is supporting, and the members of the committee declined to say. And there is no evidence that the SOC employees’ committee is espousing anti-western rhetoric or supports the most extreme Hashid.

While the weapons program could make western IOCs nervous, it is also an example of the kind of ingenuity that Iraqi engineers are famous for. When Iraq was subject to harsh international sanctions under Saddam Hussein, Iraqi oil workers managed to keep rusting oil infrastructure up and running with scant resources or foreign technology.

Members of the SOC committee say that, in addition to their new inventions, they have helped the Hashid by fitting vehicles with armor and sending mechanics to the front lines to make repairs. They have also proudly shown their support, publishing videos of their inventions that have been shared on social media.

One video shows fingers tapping on a smartphone application, apparently triggering a series of small charges to explode. Then a caption reads, “Test of the system against Dawoosh,” an Arabic slang word for IS members. In footage filtered green by night-vision goggles, full-scale rockets are fired, without a human operator in sight.

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