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### POLICY RESPONSE TO THE NEW OIL MARKET CONDITIONS

### "THE CASE OF IRAQ"

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Energy Studies

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## Introdcution

As you already know Iraq is a major oil producing and exporting country. Oil started to flow from its soil as early as the 20S. Since then oil production has risen significantly. In the 60S Iraq's role in the world affairs had multiplield when it formed together with four other oil exporting countries the Organization of Petroleum Exporting Countries "OPEC". Iraq had played even a bigger role in the 70s when the nationalization of oil resources took place. Nowadays Iraq enjoys the privilige of having large deposits of hydrocarbons which could supply the world with energy needed for consumption and development for a long period to come.

Oil importance to the national economy may even be more significant as the dependence on oil has progressed to make up the bulk of government budget and over 90% of the country earnings of hard currency. However, the catch of the high degree of dependency is to increase the economic vulnerability to fluctuations in the price of oil or quantity exported. Moreover, while quantities exported are more or less predictable due to limitations on export outlets or national quota and or size of world demand the price frontiers are open to various invaders.

The experience of the last 15 to 20 years has produced a large number of economic and political factors which influence the pattern and the trend of oil prices. These factors, though they are important for any discussion of oil

prices, are not going to be enumerated here. What matters for us is the influence of their resultant, i.e the influence of the fluctuation in the level of oil prices on the formulation of a national energy policies in Iraq. Furthermore, due to the fact that Iraq is a Member of OPEC organization it has a say in formulating plans that subsequently affect the trend and the level of oil and energy prices. Whereas this paper will touch upon some aspects of national energy policies, relevant to the new oil market conditions, some brief discussion on Iraq's views with regard to OPEC production ceiling and price level will also be highlighted.

Developments on the price issue since the early 80's are characterized by downward movements. The price of oil collapse in 1986 was the climax of these trends. Since then the price has never recovered to a healthy level, except for a short intervals, where oil prices had barely touched the 20\$. During this period, market forces including speculation, new market practices and political influences have more than in any other time dominated the nature of business. With this in mind most oil producing and exporting countries have been trying hard to attain a balance between the need to increase their production in pursuit of higher oil revenues and the negative impact the extra volumes have on the level of oil prices. The dilemma gets even bigger when considering that one action of a country is not necessarily compatible with the action of the organization. Often actions taken by members of the organization or for that matter by other oil producing countries are contradictory

to each other. Hence competition within the organization and with other producers is also responsible for some of the fluctuations in the price level over the recent years.

As competition among producers intensifies the need to produce extra quantities to offset the decline in oil prices pushes the prices even lower. Subsequently economic factors tend to have a bigger say these days in determining a single country or group of countries stand on the issue of the right level of oil prices and its possible development in the future.

One other factor besides the violation of individual quota that is influencing the price level is the recently followed practices by members of OPEC of freeing more oil for export. Setting a production ceiling and individual quotas by the organization are meant to limit the overall supply of oil in the international energy market. However, efforts by countries to rationalize their domestic use of oil and replace gas and other sources of energy in oil uses have emerged in recent years as an important method for obtaining extra dollars. These actions are in one way or another similar to those taken by consuming countries in the haydays of rising oil prices with the intention to conserve energy and substitute for oil.

While those actions by the consuming countries were meant to reduce the bills of imported oil the actions by producing and exporting countries are dedicated to increase the bills of exported oil.

In this paper some examination of the efforts undertaken over the last few years by Iraq to increase its export flexibility in response to falling oil prices and the effects this has on its national energy policies are considered.

Similarly some examination of Iraq's role in formulating an oil pricing policy through, its membership in OPEC, that is consistent with the interest of the world community for economic developments and energy transformation beyond the oil era is also briefly highlighted.

### Energy Conservation

Iraq being a big oil producer, energy conservation for him is not meant solely to reduce the use of energy in different sectors of the economy. More important may be is the preservation policy of existing oil deposits and the efforts made to increase further the additions to reserves as well as utilizing fully the presently wasted quantities of gas and other sources of energy. In this connection it is important to discuss efforts made to increase the resource potential of the country as well as those taken to reduce the wasted proportion.

For an oil producer, energy conservation means developments and increased activities in the area of oil exploration and new discoveries. Similarly, utilization of non-conventional energy resources is also part of the efforts made to conserve energy. Moreover energy conservation in its usual sense of reducing the use of energy whether by



reducing the wasted amount or increasing energy efficiency have been in practice by a number of oil producing countries, including Iraq as early as the late 70s when the big talk on energy crisis was the mode of the oil industry. These are some of the issues that will be discussed here under the general heading of energy conservation.

- q- Oil reserves and its developments.
- b- Reserves and production of gas.
- c- Work undertaken to utilize new and renewable energy, sources.

a- Oil reserves

Last estimate of oil reserves in Iraq put the total proven recoverable quantities at about 100 billion barrels. In addition quantities of semi-proven reserves are suggested to be in the order of 50 billion barrels. With these reserves, Iraq is second only to Saudi Arabia. The table overleaf shows that proven crude oil reserves have expanded from 32 billion barrels in 1970 to 100 billions in 1987. Factors behind such expansion are numerous but the most important is the drive made by the national authorities after the nationalization of oil resources in 1972 to increase exploration and drilling activities. In this regard it is worth noting that volumes added in recent years are large due to the fact that the policy of suspending information on reserves has been terminated. And therefore what had been withheld became public.

# Billion Barrels

Oil reserves		Percentage increase	% in total OPEC Res.	% in total world Res.
1970	32		8	5.2
1975	34	6%	8	5.2
1980	30	- 12%	7	4.6
1985	65	117%	12	8.6
1986	72	11%	11	8.4
1987	100	39%	15	11.2

The above reserve figures for Iraq do not include quantities of oil that can be extracted by enhanced oil recovery and quantities of oil from new fields which have yet to be assessed .

One important factor contributing to such growth in oil reserves is the implementation of the two national economic plans , 1976-1980 and 1981-1986 which had special emphasis on accelerating and the development of oil resources in Iraq and through which important discoveries were made.

May be more important is the fact that, during the second plan period, which was implemented under very difficult war conditions, the search for new oil was not cut off. However the number of seismic teams was reduced from 22 to 10 all of them nationals. Nevertheless, work carried out by these teams has resulted in significant additions to the oil base which was later on made public in the years 1985, 1987 and 1988. It is worth mentioning here that seismic activities during 1988 was higher by 30% than that of 1987.

As for oil production , the period up to 1980 had witnessed profound developments. The rate of oil production had risen measurably over the period until it had reached its peak in 1979 when an average level of production of 3.5

mbd was attained. However the outbreak of the war in late 1980 and the closure of all export outlets that was followed had forced Iraq to cut the production rate to about 1.0 one mbd. With the war dragging on for a long period the government was forced to look for new oil export outlets. Later on this becomes part of the export strategy of having multiple routes for export. As a result oil production has picked up again to reach in late 1988, 2.4 mbd and to increase further in 1989 to 2.8 mbd. Consequently, crude and oil products exports, the source of most of the hard currency needed for development, have also increased at accelerating rates.

After it had declined to 0.8 mbd in 1981, down from 2.5 mbd in 1980 and 3.3 mbd in 1979, oil exports had risen gradually to 1.8 mbd in 1987 and to about 2.5 in 1989. This was not possible without the opening of the new export pipelines that were constructed after the closure of export facilities in the Gulf and through Syria. The two tables below show the trend in production, exports, the lifespan of oil reserves and the new export outlets.

	Crude oil Production 1000 b/d	Oil Exports 1000 b/d	Res/Production Ratio -years-
1980	2646	2494	31
1981	897	802	91
1982	1012	861	160
1983	1099	783	162
1984	1221	917	146
1985	1404	1154	127
1986	1877	1466	105
1987	2234	1834	123
1988	2650	2300	103
1989	2850	2500	96

Current oil export capacity

Iraqi-Turkish Pipeline	1.65 mbd (operating)
Iraq pipeline Trans Saudi Arabia	1.65 mbd (end of Nov.)
Mina Al-Baker	<u>0.80</u> mbd (end of the year)
Total	4.10 mbd

The construction and rehabilitation of export facilities have been part of Iraq's policy to diversify its export and increase its flexibility.

**b- Gas reserves and production**

Gas reserves in Iraq come from three sources:-

- 1- Gas in solution with oil (associated gas). Reserves of this type of gas are estimated to be around 750 billion Cubic Metres.
- 2- Free Gas: Reserves for this type of gas are estimated to be around 250 billion Cubic Metres.
- 3- Gas Fields: Five gas fields have already been discovered in Iraq, but the exact amounts of gas existing in these fields have yet to be determined very accurately. Some estimates put the probable reserves of these fields at around 300 billion Cubic Metres.

So far only gas produced in association with oil has been exploited in two major gas gathering and processing schemes in South and North Iraq. In these projects which were put in operation very recently propane, butane and natural gasoline

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\* The South project is currently under commissioning and full operation is expected to commence early next year.

are separated from the gas to be used for the production of liquified petroleum gas (LPG) which is used locally or exported while natural gasoline is either exported separately or with the crude. The dry gas left from the processing is mainly used as fuel in industrial projects and in power plants. It is also used as raw materials in petrochemical and fertilizer's plants.

As for gas production , it has mirrored that of oil production . Production reached its highest level in 1979 when oil production was also at its peak . Total gas production in that year was about 20000 million Cubic Metres, up from about 9000 million Cubic Metres in 1973. But production had suffered a major set back after the outbreak of the war with Iran. Total production has slumped to less than 5000 million Cubic Metres in 1981. Since then gas production has risen to over 8000 in 1986 and to about 14000 in 1988 .

#### Gas Consumption

Year	Utilized %	Flared %
1973	13.9	86.1
1979	6.0	94.0
1980	11.0	89.0
1981	37.3	62.7
1982	51.4	48.6
1983	63.8	36.2
1984	67.7	32.3
1985	55.5	44.5
1986	54.5	45.5
1987	52.3	47.7
1988	58.5	41.5

The above table also indicates the true intention of the energy planners in Iraq to utilize higher proportion of gas production, and to reduce to the minimum the

flared amounts. The table clearly shows that while gas production was reduced since 1979 the amount utilized continued to rise , thereby increasing the utilization rate to its highest level in 1984. Since then the rate started to decline due to the fact that the increase in gas production was not equally matched by an increase in the amount utilized.

Presently the national plan is aimed at increasing substantially the share of gas in generating electricity, substituting for oil and oil products. Moreover, Iraq intends to become an appreciable exporter of LPG in the Gulf by the late 1990s. With the NGL fractionator at the North Rumeila field being rehabilitated, the LPG/NGL complex at Zubair is to be on stream early next year. Specifically designed for exports, this has a capacity of 4 million t/y of butane and propane, and 1.5 million t/y of NGL. Current LPG production in the northern plants near Kirkuk and Baiji is used mostly for domestic consumption and partly exported by trucks across Turkey. A project to export 3 million t/y of LPG by pipeline to Europe through Turkey, shelved in 1985 due to financial difficulties, is said likely to be revived in 1990s. Another option is to export dry gas to Turkey and possibly further to Europe if newly discovered free gas

\* It has been announced very recently that no gas will be flared when the south project starts operating.

deposits prove to be big enough to warrant such a scheme. Such projects would require enormous investment and financial backing which would not be generated without healthy oil prices and stable market conditions.

#### C- Utilization of New and Renewable Sources of Energy

The drive to use sources of energy other than gas or oil such as the power generated by waterfalls, wind, Nuclear , biomass and solar energy have been on the agenda in Iraq for sometime. However only hydropower , nuclear and solar energy options have been pursued seriously in Iraq.

##### Hydro-Power

Waterfalls have been used to generate electricity in Iraq since the early 70's. Dams have been erected on Tigris and Euphrates rivers in North and Middle regions, primarily for irrigation but also for power generation

The table below shows the rising trend of the proportion of electricity generated from hydro-power plants. It also shows the prospects until the year 2000. Some of these plants are underconstruction while others already have been approved. It is clear from the table that share of hydro-electricity had progressed from 9.5% in 1975 to 11% in 1985 and hoped to reach 20% by the turn of the century.

Electricity produced from Hydro-power plants  
and its share in the total

1970		1975		1980		1985		1880		1995		2000	
Kwh	%	Kwh	%	Kwh	%	Kwh	%	Kwh	%	Kwh	%	Kwh	%
0	0	465	9.5	1326	12.5	2233	11%	6489	23	11379	22.8	17284	19.8

In absolute terms, electricity generated from hydro-plants had increased from 461 million kwh in 1975 to 2233 million kwh in 1985. These figures are expected to rise to a much higher levels, 6489 million kwh in 1990 and to 17284 million kwh in the year 2000. The cumulative sum of electricity generated from hydro-power plants since 1971 the year which saw the first hydro-power plant came to operation and upto the year 2000 is expected to reach 162608 million kwh or about 42 million tons of oil equivilant.

#### Nuclear-Power

Although nuclear power is considered to be among the most feasible alternatives to oil and gas in electricity generation , it has not made an impression so far on the energy scene in Iraq . And what is existing right now in some of the oil producing countries is merely used for experimentation purposes.

Iraq had entered this area of experimentation by having a small nuclear power plant which was meant to provide the country with the know how necessary for full utilization of nuclear power for peaceful purposes. However, the plant capacity of 4 Migawatt was destroyed by Israel in 1981. Since then some efforts have been made to reconstruct the plant which would provide Iraq with the training, technology and some electricity for its consumption.

#### Solar Energy

While it is true that oil and gas win the lion share in Iraq and will continue to do so for a period far beyond the end of this century, the search for more lasting



resources has been pursued very seriously. Of particular interest is the infinite supply of solar energy.

Solar energy research and development in Iraq have made some imprint when compared to other countries of similar oil endowment. Special solar devices for water heating, greenhouse heating, crop drying and other uses have been developed and, although the use of solar energy at present is still limited, extensive research and development programmes are under way to harness solar energy radiation efficiently for a broad number of applications.

In Iraq commendable efforts are made to keep up with the pace of international scientific research in this field. Moreover Iraq's scientific research progress is not meant for research per se but also aimed at reducing the gap between the scientific technological base and the production base, and encourages the applications of research in this area. The basic elements of using solar energy which coincide, with the aims of energy conservation, are :-

- Heating, cooling, and water heating.
- Production and storage of hydrogen and chemical storage.
- Electricity production .
- Agricultural and biological uses.

#### Specialized Organisations

Several National organizations in Iraq specialise in the field of new and renewable energy sources. Prominent among them is the Solar Energy Research Centre (SERC.) which was established in 1980, based on the concern about the importance of natural resources in conserving and preserving

conventional energy. The centre research covers fields in agriculture and industry. In this respect SERC had completed several projects, utilizing solar energy for cooling and operation of the research laboratories:-

- The Iraqi Solar House, which represent the first full scale solar project in Iraq. The house has a total area of 600 m<sup>2</sup> with an air-conditioned area of 400 m<sup>2</sup>.
- The Solar Energy Research Centre Building . This building is constructed on an area of 3000 m<sup>2</sup> and consists of five floors with a total area of 6361 m<sup>2</sup> and an air-conditioned area of 5358 m<sup>2</sup>. It contains 14 laboratories covering all the solar energy research activities.
- Plastic Houses Project : One project has been implemented with the Co-operation of the Royal Jordanian Scientific Association and consists of 42 plastic houses. Their total area is 680 m<sup>2</sup> and work in this project covers wide fields of solar energy research and applications; heating, cooling, evaporative cooling, energy storage, uses of insulation, irrigation, sterilization of the coil, plastic research, and the relation between solar energy and plant metabolism.
- Solar Kindergarten : This building utilizes solar energy for heating, cooling, domestic hot water, and for providing electricity for lighting and other uses. The project is being carried out in co-operation with the French Agency for Mastering Energy.

Another National body is the National Energy Consulting Committee which consists of representatives from organizations concerned with the use of energy and is headed by the Oil Minister. Its duty is to present consultations and recommendations and to introduce programmes about the use of energy and the development of its resources. It is also concerned with recommending future energy use plans. The committee is charged with several specific duties such as :-

- Conserving energy by suggesting ways and means to be applied in the country.
- Proposing long-term plan to cover the next 25 years.
- Suggesting fuel policies for local energy consumption, related to the use of energy sources.
- Developing practical and economic research related to the use of energy consumption.

#### Energy use, Downstream investment and oil substitution

consumption of energy had witnessed big increases in the 70s and early 80s. On average the annual growth rate in total energy consumption during the year 1973-79 averaged over 16% , ie total energy consumption had risen from 6 million tons of oil equivalent in 1973 to about 16 million tons of oil equivalent in 1979. Factors behind such trend are many. The most notable of them are the large increases in per capita income which were caused by the rise in oil revenue, economic development and the increased role of industrialization , the construction of energy intensive

industries such as petrochemical, refining, mining cement ... etc and the replacement of non commercial energy especially in the countryside. Nevertheless energy consumption trends could not possibly go on unabated. The start of the declining trend in oil prices had brought about important changes in the energy sector which caused a sharp decline in the growth rate of the energy consumption. The period since 1980 had witnessed increases in energy consumption at an average rate much lower than those of the previous period. Commercial energy consumption in 1989 is expected to reach 24 million tons of oil equivalent i.e. an equivalent to an annual growth rate of about 4%. In fact if war conditions are considered then energy consumption in Iraq during most of the 80s could at best be said to have stagnated.

In spite of these trends, the components of total energy consumption have changed slightly. Oil continued to supply the bulk of the energy consumed while gas although making some progress still supply small percentage.

Other sources of energy such as electricity generated from waterfalls is expected to continue adding a limited amount to the total energy consumed by the country. Expectations for the year 2000 suggest that oil and gas will supply some 93% of total energy consumption in Iraq or about 35 millions of oil equivalent, the rest is expected to be supplied by energy generated from hydroelectricity and nuclear plants.

Energy consumption trends of the type explained earlier although contrasting sharply with the general trend in the

developing and industrial countries, they have nevertheless reflected the economic ups and downs of the oil producing and exporting countries . Oil revenues represent the engine for economic developments in these countries. And while the decline in the oil price is causing serious difficulties for these countries the recent growth in the quantity of oil exported is not sufficient to compensate for the falling oil revenues.

This has affected governments plans and expenditure, and has therefore resulted in lower economic growth and lower energy consumption.

The slowdown in the rate of energy consumption in Iraq is primarily caused by lower economic growth, and also by the measures taken to organize the consumption of energy and oil and give more weight to market forces in the process of energy rationalization, through the new plan drawn by the Ministry of Oil aimed at altering the structure of oil consumption so as to bring it in line with the pattern of refinery output and thus achieve optimal utilization of the installed refinery capacity.

The plan called for an increase in the use of gas for domestic consumption. Concerning lending more weight to market forces in deciding the level and the type of energy consumed, a number of measures were taken. Among the most important are the renting of petrol stations to the public, the pricing of energy sources and the measures taken to supervise and implement practices to conserve energy in various sectors of the economy. Up to then the public sector

had been solely responsible for oil products distribution. In 1987, however, new policy was adopted aimed at privatizing the business of retail oil distribution . Credit facilities were made available to help individuals raise the necessary finance to build and run the existing petrol stations.

As for pricing of oil products the policy shift from pricing refined products at nominal levels to prices more related to their true "Shadow prices" is the new instrument of change to reduce non-efficient and less economical uses of energy . Special emphasis were placed on pricing gasoline to reduce its inflated consumption as well as to bring some harmony in products pricing in the domestic market. However, the prices of other refined products also went up, albeit at lower rates.

Other forms of energy were also treated with this pricing mechanism . Of particular interest is the pricing of electricity for household consumption. The pricing mechanism followed here is to price the consumed unit of electricity progressively to different users. The objective here is that the lower end of the scale benefits low income people while higher rates are meant to reduce the wasteful uses of electricity at higher income levels. In total and for comparison, on average the cost of one kwh of electricity consumed in Iraq is significantly higher from those of neighbouring oil producing countries and sometimes it is said the cost is comparable to those prevailing in the industrial countries. As for the pricing of gas, the price

is still very low for power generating plants and industrial projects. This policy is aimed at encouraging its uses because of its availability on one hand and to free more oil for export on the other. With regard to the pricing of LPG for domestic consumption, though the price was increased lately the level is still low by comparison to its production cost or the price available in the world market .

As mentioned earlier one of the main tasks of the plan is to reduce the uneconomical and less efficient uses of energy. Efforts taken in this respect are still far from being satisfactory and the actions taken by the National Energy Committee are still in their early stages. However this could change as the oil and energy industries become more responsive to market forces.

The plan also calls for changing the structure of the refining industry and the need to make it compatible with the trends in oil products consumption, as well as enabling it to be more competitive in the international market.

In this connection it is worth noting that the fundamental market developments that had taken place since the beginning of this decade, such as conservation, efficiency, and a great surge in non-OPEC production have lead OPEC to reassess the costs and benefits of some measures that will serve the interest of producers and consumers. The most notable of these measures is the investment in downstream operations in the industrial countries.

Dwindling revenues and shrinking market shares convinced some oil exporting countries that to ensure stability in the flow of oil revenue requires firm connections with downstream networks. In this area Kuwait and Venezuela took the lead. The price collapse of 1986 caused further reassessment of petroleum policies, and objectives on the part of exporters with much focus on guaranteeing volumes and outlets in the face of volatile and weak prices.

Besides the fact that oil consumption is on the rise in oil importing countries, the new additions to oil reserves in oil exporting countries have convinced oil importers that guaranteeing the supply of oil will also be in their interests.

Refinery economics is no longer the only criteria that dictates the exporters and for that matter the importers decisions. Factors connected to an "insurance" policy on both sides of the oil business are increasingly influencing decisions in this regard.

#### Gas substitution in power plants

Alternative sources of energy substituting for oil in some uses in Iraq have not come solely from price differential as the economic theory suggests but also from deliberate government policies. The replacement of oil by gas as a fuel for power generation is a case in hand. Planning for gas utilization in Iraq has been on the agenda may be as early as the beginning of the seventies. At that time and may be until recently gas production was geared for local consumption. The large investment needed for gasification plants hinders any plan for exporting gas.



The first gas project that utilizes gas from oil operations in Northern oil fields came into operation at the end of 1983 and the second gas project in the south was also completed but it was not put in operation due to the war activities in the area. However, commissioning of this project is already underway and operation is expected to start by the end of this year or early next year. Also in the north a natural gas project (jambor) was completed in 1988. This project works as a back-up for the Northern gas project. Industrial projects close to the gas line that runs parallel to the strategic oil pipeline which links northern and southern oil fields have already been connected to the grid and consume gas either as fuel or raw material.

In Iraq fuel supplied to thermal power plants is normally of three types gas, fuel oil, and crude oil. However as gas utilization is increasing less oil in form of crude or products is used in direct burning in power plants and as input for some industrial projects. This policy serves two purposes; the utilization of the produced dry gas and freeing more oil for export. Nowadays very little amounts of crude oil is still burned directly by power generation plants:

## Quota Distribution & OPEC Production Ceiling

Price fluctuations have strong links with OPEC ceiling and quota distribution. When crude oil prices began to decline in the early 80's, members of the OPEC organization thought of this decline as a temporary phenomenon, which needs solution of the same kind ie a temporary arrangement for a limited period . Lowering total OPEC production and distributing it on member countries in a form of quota was selected as a method for defending the level of oil price and its structure and distributing the burden of falling demand on OPEC oil on all members. Allocation of quotas was not exactly done on scientific basis. Because of its temporary nature member countries were not critical of their shares. However what may be thought of as temporary turned out to be of a more lasting nature. Hence the repeated calls by member states to re-examine the situation and bring about changes in the process of quota allocation that takes care of the real position of each country with regard to its capacity to produce oil, such as crude oil reserves, sustainable production capacity, population, ..... etc.

While this issue is still far from being resolved, Iraq managed to get its share adjusted to be in line with the country huge oil reserves, its growing production and export capacities and the financial needs for war reconstruction and economic development. After having a quota of 1.2 million barrels per day which was allocated to Iraq in 1982 and in 1983 due to limitations on export outlets, the share was raised to about double this amount in 1988. This increase

was achieved after a long struggle and intensive efforts to convince other members of Iraq rightful demands, and the economic hardship that is caused by falling oil revenues. Iraq's income from oil exports had dropped from its peak in 1980 of over 26 billion US dollars to less than 10 billions in 1983. In 1984 oil revenue recovered slightly but declined again in 1988. However, the sharp fall in oil prices in 1986 had pushed oil earnings from foreign currencies to about 7 billion dollars. This is so inspite of the recovery in the volume of oil exports that had taken place during the period . Statistics obtained from international sources put Iraq's oil revenues in 1987 and 1988 at around 11 and 13 billions respectively, and expectation for this year is slightly higher.

Since oil revenues represent over 40% of GNP, over 80% of total visible and invisible exports, over 97% of gross fixed capital formation and most of the government spendings, the sharp fall in oil revenues at the stated pace have had some major repercussions on the general level of economic activities and on the pattern and the trend in oil and energy consumption. While this is true in general , investment in the oil sector continued at a good rate. Moreover the fall in oil revenue has forced the authorities to look for ways to reduce spending in foreign currencies ie reduce imports and find new venues for generating extra resources needed for budget and imports financing.

Presently, the Iraqi stand on OPEC ceiling is that of maintaining a production ceiling for OPEC which provides

sufficient conditions for attaining a reasonable oil price target. Such a level and target are not in Iraq understanding rigid but rather flexible to take care of the ever changing market conditions . And on this issue the production ceiling that is recently set by the organisation , though is not exactly the perfect solution to the present problems it is nevertheless good enough to bring about some steadiness in the price of oil and stability to the oil market.

Moreover, what Iraq believes is the right price for oil , ie that is not only supply the sufficient but also the necessary conditions for market stability is the price set by market forces when the call for OPEC oil falls in the band 23-25 mbd. On the present pattern of growth in oil consumption such a level can hopefully be reached in two to three years from now.

On the question of quota allocation Iraq is supporting finding better means for distributing the production ceiling. This process could include using some parameters such as crude oil reserves, sustainable production capacities, idle capacity, population, financial needs and so on. However due to the defacto situation of member countries having a quota distributed to them , the Iraqi views are that some ways have to be found to distribute increment in the ceiling and not the whole ceiling.

One way of doing so is by simple allocation based on the present shares . Since this method may give a country a quota beyond its production capacity if the increment is higher than

the non used capacity, a better means for allocation, therefore, lies in considering a country idle production capacity. That is giving a member country a share of the increment in the OPEC ceiling proportional to the non-used production capacity. Such a method would ensure that all member states utilize their production potentials in more equitable and fair way.

With this in mind Iraq has followed a policy that is encouraging an increase in the ceiling to take advantage of the rising demand for oil and in order not to let either non OPEC producers capture the full increment in the demand or push prices to levels that could hurt the interests of both OPEC as an organization and that of its members especially those with large oil reserves. Similarly, as the case of member countries with large oil reserves and great potential for production and exports is comparable to that of OPEC with non-OPEC, the objective is for higher Iraq's oil production which would be justified only by higher demand for oil.



