



TURNING ON THE TAPS?

Second-round oil success shows benefits of experience

To the relief of the government, Iraq's second oil licensing round this month proved a success. Following the dismal first round in June, in which only one contract was actually awarded, the government was desperate for a good news story this time around, not least because of the approaching elections. Anxieties were heightened after the bomb blasts that rocked Baghdad on 9 December added to concerns that foreign companies would think again about investing in Iraq, something that would leave the government looking more shamefaced than ever about its failure to get Iraq back on its feet.

Prime minister **Nouri Al-Maliki** was so worried that he attended the first day of the announcement of the results on 10 December

to assure the 40-plus international oil companies that had travelled to Baghdad for the occasion that they had no reason to fear.

One local source in Basra told *Iraq Focus* that the prime minister was so keen for things to go smoothly that he gave special orders to the army and police in the south to increase their presence around oilfield sites and to up the number of patrols to ensure that there were no security lapses at these fields that might act as a deterrent to investors. He needn't have been worried, as the event passed off without a hitch and IOCs proved more than willing to brave the deteriorating security environment and the tough contract terms to get a foot in the door.

The results

Seven of the 10 contract areas on offer this time around (representing almost one third of Iraq's reserves) were awarded, with no bids for the remaining three. Most of the awards were for fields in the south, by far the most stable area among the blocks up for grabs.

Royal Dutch Shell, in consortium with Malaysia's **Petronas**, took one of the two jewels on offer, winning the gigantic Majnoun field in Basra by outbidding France's **Total** (in consortium with **China National Petroleum Corporation**). Majnoun is not just the largest field in Iraq, it is one of the biggest untapped fields in the world, with estimated reserves of some 12.6 billion barrels. It was discovered in

1976 and a total of 24 wells have been drilled so far. In its bid Shell promised to bring production levels from their current 46,000 b/d up to 1.8 million b/d for a remuneration fee of \$1.39/barrel.

The other super-giant, West Qurna (Phase 2), also in the south and believed to have slightly higher reserve levels than Majnoun, went to Russia's **Lukoil** in partnership with **Statoil**. Lukoil beat three competing consortia that included **BP** and **Total** with a plateau production target (ppt) of 1.8 million b/d and a \$1.15 remuneration fee. The West Qurna field was discovered in 1973 and to date 13 wells have been drilled in the Phase 2 area, although oil production has only occurred in the Phase 1 area. The award of >>>

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these two giant fields alone will see Iraq's oil output levels jump significantly in the coming years.

Petronas, leading a consortium with **Japex**, took the southern Garraf field with a \$1.49 remuneration fee and a ppt of 230,000 b/d. Garraf was discovered in 1984 and has proven reserves of just under 1 billion barrels. China's state-owned **CNPC**, in consortium with Petronas and Total, took Halfaya near Basra with a fee of \$1.40 and a ppt of 535,000 b/d. This outbid consortia led by Statoil, **ONGC** (India) and **Eni**. The Eni-led consortium was way off the mark with a remuneration fee bid of \$12.90. Russia's **Gazprom** with the Turkish firm **TPAO**, South Korea's **Kogas** and Petronas took the Badra field, south-east of Baghdad (which extends across the border area into Iran, although the contract only covers the part of the site that is in Iraq) for a \$5.50 fee and a ppt of 170,000 b/d.

The IOCs stayed away from the blocks on offer in Diyala province in the east (Gilabat, Khashem Al-Ahmar, Nau Doman and Qumar) largely on account of the precarious security situation there, although Oil Ministry spokesman **Assem Jihad** told *Iraq Focus* that it was also down to "geological issues". There were no bids either for the three fields in the Middle Furat (Kifl, West Kifl, Merjan), south of Baghdad near Kerbala. Oil minister **Hussein Al-Shahristani**

Second bid round results

CONTRACT AREA	COMPANIES/CONSORTIA	PLATEAU PRODUCTION TARGET, B/D	REMUNERATION FEE, \$*
Majnoon	Shell (operator - 60%), Petronas (40%)	1,800,000	1.39
Halfaya	CNPC (operator - 50%), Petronas (25%), Total (25%)	535,000	1.40
East Baghdad (Central and North)	No bid	na	na
Eastern Fields ¹	No bid	na	na
Qaiyarah	Sonangol	120,000	5 (12.50)
West Qurna (Phase 2)	Lukoil (operator - 85%), Statoil (15%)	1,800,000	1.15
Garraf	Petronas (operator - 60%), Japex (40%)	230,000	1.49
Badra	Gazprom (operator - 40%), Kogas (30%), Petronas (20%), TPAO (10%)	170,000	5.50 (6)
Middle Furat ²	No bid	na	na
Najmah	Sonangol	110,000	6 (8.50)

* Original bid in parenthesis

¹ Gilabat, Khashem Al-Ahmar, Nau Doman, Qumar; ² Kifl, West Kifl, Merjan

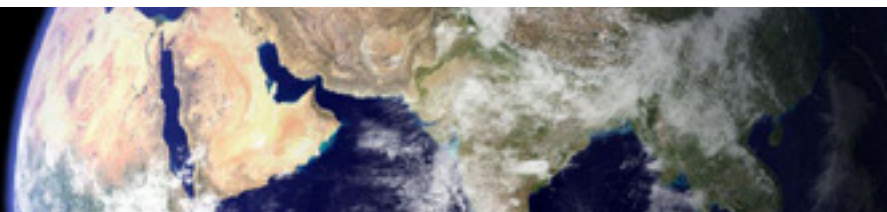
Source: Petroleum Contracts and Licensing Directorate of the Ministry of Oil

declared afterwards that Iraq will develop these three fields on its own.

Most companies also kept away from the northern fields situated around the notorious troublespots of Mosul and Kirkuk. However,

Angolan state-owned firm **Sonangol**, presumably used to operating in riskier environments, was ready to take the plunge by taking the Qaiyarah field between Mosul and Kirkuk for a \$5/barrel fee and a ppt of 120,000 b/d and the nearby Najmah field for a \$6 >>>

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fee and a ppt of 110,000 b/d. The higher remuneration fees not only reflect the volatile security conditions in the north, but also the fact that the fields are small and that the oil there is heavy and requires expensive upgrades to make it ready for market. Oil in the Qaiyarah field has a gravity of 15° API, making it by far the lowest of the 10 blocks on offer.

Given these drawbacks there were real doubts as to whether Sonangol, the only bidder on these fields, would actually go ahead and tender as right up to the last moment it was refusing to accept the lower fee stipulated by the Oil Ministry. Sonangol's initial bid had been at \$12.50 for Qaiyarah and \$8.50 for Najmah, but seeing that the Iraqis were unwilling to budge it agreed to accept the terms at the very last minute. A Sonangol executive explained that there had been a misunderstanding over who would upgrade the crude and that the lower fee it ultimately bid was because the company had revised estimates to exclude the cost of processing the oil that it had originally planned to lighten to around 21–24° API.

Asian companies dominated the successful bids on the smaller fields in particular, but US companies were noticeable for their absence in this round. The only US firm to bid was **Occidental**, which went in with a 20% stake in the Eni-led consortium that lost the bid for the Halfaya block. Acutely aware of the sensitivities given the widespread accusations in the Arab world and beyond that the Americans had only invaded Iraq "because of the oil", the Iraqi government was keen to use the situation for some quick political point-scoring. Despite the lack of US bids the Oil Ministry was at pains to

tell Iraqis that the fact that Americans had not won fields was proof of the government's political independence. Government spokesman **Ali Al-Dabbagh** exclaimed, "For us in Iraq, it shows the government is fully free from outside influence. Neither Russia nor America could put pressure on anyone in Iraq - it is a pure commercial, transparent competition.... No one, even the United States, can steal the oil, whatever people think."

Lessons learned

The Iraqi authorities had clearly learned from the rather bitter experience of the first round that this time they had to show some flexibility and demonstrate a better understanding of the needs of IOCs. As Al-Shahristani declared before the second round, "The second bidding round will be a greater success than the first round as Iraq now understands oil companies' expectations better." They were still acutely aware of the need not to be seen to be selling the country short. The Iraqis had to perform a balancing act that would show they were defending national interest against foreign domination while meeting the needs of the IOCs somewhere in the middle.

The government's willingness to compromise was driven in part by the need to deliver in the run-up to the elections, but it was also related heavily to financial considerations. It was essential for Al-Maliki and his cabinet that this round bore fruit so that some substantial cash flows be injected into the economy and into the costly reconstruction process in particular.

As one consultant to the Oil Ministry explained, "Those who oppose the deals don't know the

catastrophic state of the Iraqi economy. These contracts will finance the budget, something that will resolve the economic problems facing Iraq." Indeed, for all the talk of preserving Iraq's natural resources for the Iraqi people and of developing national capacity in the energy sector, it is clear that Iraq's oil policy is driven primarily by the need to maximise income in as short a space of time as possible. As **Thamir Ghadban**, adviser to Al-Maliki and a former oil minister, told the Iraq Petroleum Conference held in London just prior to the second round, the cornerstones of Iraq's current oil policy are:

- > maximisation of oil revenues in the short and medium term;
- > rapid build-up in production and export capacity, and
- > enhancing the national capability to manage and administer the upstream oil industry.

Some Iraqi commentators have criticised the government for having no oil policy other than increasing production, something they fear will act as an obstacle to Iraq's ability to develop its own national oil industry. Some Iraqis also complain that, even though these agreements are all service contracts, they have opened the way for foreign companies to profit by ramping up production.

Yet, although the terms on offer were more appealing for IOCs than those of the first round - not least because the blocks up for grabs were mostly greenfield sites and there were major fields on offer - they were still stringent. The remuneration fees were generally low, although the companies pointed out that this was offset to some extent by the limited capital costs. Moreover, the fact that all the

agreements are service contracts excludes the companies from reaping the benefits of any future oil price rises. It seems that the willingness of BP and CNPC to slash fees in the negotiations that followed the first round meant other companies felt they had no option but to follow suit. Furthermore the Oil Ministry has sweetened the deals by agreeing that corporate income tax will apply only to profits and not to all revenues, such as cost recovery.

However, the terms were still considered too tough by some of the industry's big players. Total's CEO **Christophe de Margeri**, for example, warned that the terms on offer could set an unattractive fiscal precedent for future exploration agreements. Total lost out to Shell on the Majnoun block, refusing to lower its remuneration fee of \$1.75/barrel with considerably lower production level targets of 1.4 million b/d. It also failed on the West Qurnah area, having bid \$1.72 against Lukoil's \$1.15.

This refusal to accept such tough terms was shared by other companies. One US oil executive commented, "The terms are not exactly what everybody had hoped for. The bids are based on very ambitious assumptions in terms of stability - the contract terms themselves and collaboration with the local [state oil] company and government."

Another commentator declared, "These deals are for booking barrels and showing production growth, but investors see right through this. This is not what investors want these companies to do and will dilute the profitability of their portfolios in a high oil price environment." >>>

However, for many companies the attraction has been getting a foot in the door as Iraq opens up its energy market. Given Iraq's strategic importance and the fact that if all goes to plan the country will move to become one of the largest producers in the world, many companies felt they had to be there.

As one Iraqi expert put it, "Despite such a seemingly lower return than publicly mentioned, it appears the loss of staying out is much more than the risk of coming in." In any case, it is hoped having a place at the table will mean that if, as is expected, Iraq improves terms in future contracts, the successful bidders will be well placed to snap up the deals.

Production targets

However, the successful bidders have a lot to live up to. The production levels they have promised are extremely high and far outstripped the Ministry of Oil's expectations. Indeed if the targets are met they could increase Iraq's oil output to 12 million b/d within around seven years, from existing levels of 2.4 million b/d - still below Iraq's pre-war production capacity of 2.8 million b/d in 2003.

The plateau production targets submitted in the bids certainly came as a surprise to the Iraqi authorities. As **Luay al-Khattib**, the head of the **Iraq Energy Centre** in Baghdad, explained, "The international companies in the licensing round amazed the Oil Ministry with the potential production levels [they claimed] if they were allowed to operate in Iraq." In fact some officials have indicated that they believe these figures to be unrealistic. Ghadban expressed his view that output closer to 6 million b/d was a more

realistic target for Iraq over the next six to seven years. At the London conference he explained that, according to the government's assessment, "an oil production rate of 4.1 million b/d will be achieved by 2012 and this will be ramped up to 6 million b/d by 2017". Clearly this represents a major difference from the levels promised by the IOCs.

Ghadban also made it clear that he believed the targets that were put forward in the first round were also unrealistic, stating, "I believe that some of the plateau figures that were bid in the first round were inflated and most likely unsustainable for the stated plateau period of seven years.... The plateaus bid were motivated by the IOCs' eagerness to win contracts and the fact that the scoring formula used to assess offers encouraged that by giving an imbalanced preference to the production rates in comparison to the remuneration." This view was also shared by some IOCs. Margeri for example was reported by the *Financial Times* as saying, "The volumes are crazy. We know there's a potential to reach maybe 7, 8 million barrels a day and that alone will be a tremendous success."

Some commentators have suggested that the IOCs are fully aware that the targets are unobtainable but that they are willing to pay the penalty to get a foothold in Iraq's developing energy sector. However, others claim that with modern seismic and drilling technology companies will be able to get far more out of the fields than they had at first thought. Of course, such a scenario will depend on a whole host of issues that are beyond the control of IOCs, not least the security factor that will be crucial to the success or failure of the development of the

sector as a whole. In addition companies will have to overcome other practical challenges to meet these output targets

Moreover, increasing production to these levels is likely to create potential problems for Iraq in its relations with OPEC. Iraq has been exempt from OPEC production quotas since it was placed under international sanctions following its invasion of Kuwait in 1990. However, this projected increase in production will require some kind of negotiation with other OPEC players, given the negative impact that such a large increase will have on pricing.

Talk is doing the rounds in Iraq as to whether it is viable for Baghdad even to remain in OPEC, given that the costly reconstruction process is essential for the country's future. This is nothing new. Such speculation was around back in 2003 when former Iraqi oil minister, **Fadhil Chalabi** stated that Iraq might need to leave OPEC to be able to pump enough oil to pay for its own reconstruction. There is also speculation as to whether Iraq's increased production levels will lead to the collapse of international oil prices. Some Iraqi commentators have gone as far as to accuse IOCs of ramping up output targets in Iraq as a means of bringing down the international oil price. There are also questions over what Iraq would do with its surplus should it be bound by old production quotas.

The issue appears to be bringing out a sense of nationalism, as some Iraqis are demanding that OPEC make special allowances for Iraq given the challenges its oil sector has had to weather over the past two decades. As one senior Iraqi official asserted, "OPEC is going to have to give room to

Iraq.... Iraq has been deprived of its rightful oil sales for decades." Such a sentiment is probably more wishful thinking than reality. While the Gulf Co-operation Council has declared that it is not perturbed by the projected rise in Iraqi output, certain OPEC countries are already expressing their disquiet. Iran is particularly concerned that it will be overtaken by Iraq as a producer and that a drop in prices would be catastrophic for its own economy.

Given the nature of these latest bids tight production quotas would have a direct impact on the IOCs awarded contracts in this round. The contracts contain clauses to deal with such an eventuality but constraints like this would certainly undermine profits. One IOC executive explained, "They are very good clauses.... They state firms would be compensated without discrimination. But it would be tough. A lot of the profitability in the contracts is based on reaching the output target and staying there."

As such all eyes will be on the upcoming OPEC meeting in Angola on 22 December. However, given that this production increase will not occur overnight, Iraq has plenty of time to work this issue out. Meanwhile, Al-Shahristani has stated that Iraq intends to work with OPEC to maximise revenues rather than simply increase production.

Challenges

While both the successful IOCs and the Iraqi government have much to celebrate thanks to this round, the challenges are still many. It won't all be plain sailing. The energy sector is still in a sorely dilapidated state following the years of sanctions and conflict. Ports and pipelines >>>

will need to be revamped and issues such as water supply and the removal of landmines will also need to be addressed. Equipment is so poor that engineers regularly have to sift through scrap in search of spare parts. Similarly much of Iraq's civilian infrastructure is also in a desperate state and bridges and roads will need to be repaired before operations can be carried out.

Given that IOCs will be partnering national oil companies, which have a 25% stake in all the contracts that were awarded, and that these contracts stipulate that Iraqis should make up 80% of the workforce, they also have to contend with local staffing issues. Some estimates put the number of local staff that will be employed as a result of these contracts as high as 40,000. Although this will suit the government, which is struggling with high levels of unemployment, especially in the south where many of the fields are located, it may prove problematic for foreign companies, given that the number of qualified personnel in the Iraqi oil industry is extremely low. Many professionals have fled Iraq over the past few years, as they were often the targets of sectarian violence. One senior IOC executive recently commented, "They have had such a brain drain that I wonder if the **Southern Oil Company (SOC)** even has the people qualified for the boards of the new joint firms.... There will be some culture shock and oil majors will have to train people. This could cause delays."

Moreover, there is already serious resistance to the presence of foreign companies among industry staff who feel that the sector is being taken out of their hands. According to some reports the suggestion that workers from the

national companies will be seconded to the IOCs is already spreading fear and suspicion among state employees. As former oil minister **Ibrahim Bahr al-Uloum** asked, "What will be the salary structure? Will it be separate to that of the SOC? ... This will create problems among the workers."

Trade unions have already stepped in to try to defend workers' interests. Following the announcement of the bids, **Hassan Giumah**, the head of the Iraqi oil trade union, declared that the union opposed and will continue to oppose both the first and second round contracts and will lobby oil officials to take the views of those working in the energy sector into consideration. The trade unions are not strong enough to force the government into amending the terms of the deals, but they add another layer of pressure on the Oil Ministry that is already having to defend itself against charges of selling Iraq short.

In fact there is a strong sense among Iraqis in the energy sector that the entry of foreign companies will result in the dismantling of Iraq's national oil companies. Iraqis are concerned that the future not only of the SOC, but also of the **Northern Oil Company** and the **National Oil Company (NOC)** will also be at stake once foreign firms come on the scene and start producing oil in greater quantities. Iraqi oil expert **Falah Al-Hayati** has asserted that these licences will lead to the gradual elimination of national companies that provide basic services for producing companies, such as the national **Well-Digging Company**, the **Oil Exploration Company** and the **Oil Projects Company**, which all rely on secondary contracts given to them by the NOC.

Therefore, despite the government's repeated insistence that the fields can only be developed with the expertise of foreign companies, there is still talk inside the country that the arrival of these IOCs is simply a prelude to economic occupation. These opinions are not just those of extreme nationalists but are shared by senior officials within the administration. Deputy president **Tareq al-Hashemi**, for example, described the whole process as "a risk that is gambling with Iraq's oil wealth".

Political pressure

On top of these issues IOCs also have to contend with the fact that the energy sector is still subject to intense political wrangling. Politicisation of the oil industry is nothing new, especially in this part of the world, but the climate in Iraq is one of such instability and uncertainty that the political issues are at times both overwhelming and debilitating. The various political parties and blocks, especially within the Shi'ite camp, are desperate to control the country's oil resources in the scramble for political power. As a result the central government is competing not only with the Kurdistan Regional Government but also with other regional governments and companies that operate in the areas where the oilfields are located.

This competition has created real problems in the day-to-day running of the sector. For example, it has manifested itself in the differences that have emerged between the ministry and SOC, which will partner most of the firms in the southern fields. SOC has had three different directors in the past year and a half on account of personal and political differences

with Baghdad. In a bid to bring SOC in line, Al-Shahristani recently appointed **Zia Jaffer** as its new director in the hope that he will follow the ministry's decisions. Jaffer, who failed to win the post of governor of Basra, is from Al-Maliki's **Al-Dawa** party. However, given the regional sensitivities around the oil issue his allegiance to the Oil Ministry is by no means certain, posing serious challenges for long-term planning.

As a result of these political and institutional power struggles the energy sector is characterised by a lack of clarity and cohesiveness and it is difficult to ascertain exactly where the real decisions are being made. This clearly has a major impact on any IOC trying to do business in Iraq. As **Raad Al-Kaderi** of **BFC Energy** told the London petroleum conference, until recently investors focused mostly on security, but policy issues are increasingly becoming the primary concern.

Furthermore, as **Iraq Focus** reported in October, there is still strong resistance to these agreements inside Iraq, including inside the parliament. Certain MPs are continuing to declare that the contracts are illegal. The fact that a new government is to be elected in March 2010 and that it is looking increasingly unlikely that Al-Maliki will win enough votes to be the main player in the next government also leaves foreign companies in a potentially vulnerable position. Although IOCs are banking on being able to renegotiate over time or with any new government that comes to power in the future, as one sceptical senior oil industry insider told **Iraq Focus**, these concessions are vulnerable "to being rescinded or challenged legally - or even illegally". >>>

Indeed, soon after the second round announcement, **Sheda Musawi**, an independent MP, took a lawsuit against the BP/CNPC Rumaila deal to the federal court. She did so on the grounds that the 2005 constitution and the 1967 Oil Company Law call for all oil deals made with foreign companies to be approved by parliament; that such deals have to be approved by officials in the provincial and regional governments where the fields are located, and that if signature bonuses are to be paid in loans rather than cash, as is the case with the BP/CNPC deal, they need to be approved by parliament. The hearing, which is attracting a lot of support within parliament from MPs of differing persuasions, is due on 22 December and Al-Maliki and Al-Shahristani are the main defendants.

To add to the climate of uncertainty the oil and gas law has still to be passed and Iraq has yet to sign any international arbitration treaties. As such the legal framework is still rudimentary. As lawyer **J Jay Park** of Canadian firm **Macleod Dixon** warned, "The service contract doesn't fully meet the three-pillar test (the right to monetise, stability, enforceability) for a legally secure contract. Therefore the existence of legal risk needs to be taken into account when embarking upon petroleum investment in Iraq."

Local spoilers

All these challenges have the potential to pose real problems for IOCs, but security is still the paramount concern for many. Although the recent spate of bomb attacks across Baghdad has been linked to the forthcoming election, they demonstrate the fragility of the security situation more widely. There are clearly still

elements present including former Ba'athists, militias (both Sunni and Shi'ite) and **Al-Qa'ida**-affiliated groups that are bent on wreaking havoc in a bid to prevent the country from moving forward.

However, the south is facing particular security challenges that are already having an impact on the country's energy infrastructure. During Ramadan alone the Shayba refinery, the South Gas Factory and a petrochemicals factory in Safwan (all in Basra), were all attacked, the latter with missiles. One source in Basra told **Iraq Focus**, "The purpose of these attacks is to spread fear among the [foreign] companies so they won't come."

Although it is not clear exactly who is behind these attacks they are likely to be linked to disenfranchised local militias in the area.

When in 2008 Al-Maliki ordered forces into the south to get a grip on the various militias that had mushroomed following the 2003 invasion and that were acting with almost total impunity, many extremist Shi'ite elements, some linked to **Muqtader Al-Sadr**, found themselves sidelined in the new political configuration. These elements, which used to fund their activities through oil smuggling, have sought to undermine the central authorities in Baghdad by targeting oil infrastructure. Our sources in Basra

told **Iraq Focus** that the local police "don't dare" to arrest these elements because they are backed by influential forces in Basra's political landscape, as well as in Iran, which will be particularly keen to disrupt oil production. He also commented, "They are linked to very influential political parties in Basra. They have very modern missiles, they are well trained. They are sleeping at the moment and will hit whenever their masters give them orders to do so." Therefore in spite of Al-Maliki or his successor's best efforts the government in Baghdad will continue to struggle to contain militant elements in the southern region.

There is also potential for trouble in the Thi Qar governate, where the Garraf field is located. Tribal militias are in control of certain parts of the governorate and may seek to impose their own terms on the local authorities in their dealings with foreign companies. Indeed, they are already creating difficulties for those working in government projects in the area and have been working to disrupt infrastructure projects.

This month, minister for marshes affairs **Hassan Al-Sari** said that official staff in these tribal areas were being threatened at work. The manager of roads and bridges in the governorate, **Adelkarim Qais**, said road projects are being hindered because of these elements,

whilst an official from the health directorate reported that these elements had pointed weapons at contractors who were building health centres and at health workers in the governate in a bid to blackmail them to give jobs to people from their own tribes. These tribal elements are acting this way because they consider these areas to belong to them and as thus they feel they have to defend the rights and the local population and ensure that any jobs or benefits accrued in the development process go to them.

There is a strong concern among the local authorities that these tribal elements will seek to disrupt the work of foreign companies operating in the area.

The police directorate in the governorate held a special conference this month with the heads of these tribes to discuss the development of the Garraf field and to try to persuade them to bring these militias under control, indicating that the police are in no position to secure these areas themselves. The general head of the police in the governorate, Brigadier **Sabah al-Fatlawi**, also warned that foreign companies would be hindered by the intense shooting that goes on at night in the area as local forces battle it out for control. >>>

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More bomb blasts blight run-up to elections

As expected, Iraq has been blighted by further large-scale violence in the run-up to next year's elections. On 8 December, just two days after the passing of the controversial election law that opened the way for the polls to go ahead, Baghdad was rocked by multiple blasts that exploded within minutes of each other. Two car bombs exploded near the ministries of labour and interior, two more struck in central Baghdad and the fifth went off at a police patrol in Dora in the south of the city. At least 127 people were killed in the attacks and a further 400 injured.

It is not yet clear exactly who was behind the bombings, although the **Al-Qa'ida-linked Islamic State of Iraq** posted a statement on the internet soon after the attacks claiming responsibility. The fact that the attacks were so large and so well synchronised certainly suggests that this was not an amateur operation. According to Brigadier **Jihad Al-Jaberi**, the head of the anti-explosives department in the Interior Ministry, given their size and hence their cost the bombs must have come from abroad. He insisted, "These can't have been made in Baghdad." Furthermore the fact that two of the bombs exploded in such close proximity to government buildings indicates that the attackers had some kind of assistance from insiders. Indeed, security sources have indicated that such attacks could only have been

undertaken with the help of those inside the security apparatus or inside a political party.

However, it is difficult to assess the accuracy of such claims given that the whole security issue has become so deeply politicised, as is evident from the fall-out from these attacks. The blasts have prompted yet another blame game, as the competing coalitions seek to demonstrate that their political rivals are not capable of bringing true peace and stability to the country. This month saw prime minister **Nouri Al-Maliki**, his interior minister **Jawad Bolani**, defence minister **Abdelkader Al-Obeidi** and other security chiefs all hauled into parliament to answer questions about these recent security lapses. In their desperation to prove themselves the best candidates for the upcoming elections, Al-Maliki and Bolani, who are in opposing coalitions, did their utmost to deflect all responsibility for the attacks. Yet in doing so they revealed the very real weaknesses present in the country's security structures, suggesting that more attacks should be expected in the future, something that Al-Maliki has indicated himself on numerous occasions.

Blow to Al-Maliki

The most obvious political victim of these attacks was Al-Maliki. The bombings were another serious blow to the prime minister's election campaign, given that his platform has been focused primarily around his having brought security to Iraq. Indeed, his political achievements to date are looking increasingly thin as the upsurge in violence continues. As such the crest of the wave that he was riding just a couple of months ago appears to have fallen flat and there are real question-marks

over whether he will be in line for any real election success.

Following the blasts Al-Maliki responded to demands that he act by undertaking some reshuffling within the upper echelons of the country's security institutions. He removed Brigadier **Aboud Kanbar** as head of the Baghdad Operations Leadership - the co-ordinating body responsible for security in the capital - from his post. However, rather than demote him, as many Iraqis had been hoping, Kanbar was drafted instead to take on the important job of deputy of general staff of the army. His post in the Baghdad Operations Leadership was given to **Ahmed Hashem Ouda Sultan** who had been army deputy chief of staff, so the move was a straight swap. Sultan had been the leader of a military brigade in the former regime but after the invasion was appointed as military attaché to the United Arab Emirates before being appointed to his post as deputy chief of staff two years ago where he was tasked in particular with driving out insurgents from Baghdad. Al-Maliki also appointed the leader of the Federal Police, Brigadier **Jassem Mohamed Al-Awadi**, as Sultan's deputy in the Baghdad Operations Leadership.

Clearly this was more of a reshuffle than a major shake-up of the security hierarchy. It certainly wasn't enough to convince MPs, who used Al-Maliki's parliamentary question session to attack the prime minister's grip on security. In a tense six-hour closed session on 10 December, Al-Maliki tried to defend himself, and to make it clear that as far as he was concerned the blame should not be laid at his door.

Instead, the premier put the security problem down to the "politicisation of the security sector", which, he asserted, is interfering with his government's ability to protect its citizens. Indeed this issue has moved beyond simple sectarian politics and the competing blocks within each sectarian group are now trying to outmanoeuvre each other in the rush for power. As Bolani correctly said, "Everything is based on sects, political parties and worse, groups within groups." He spoke of how there is the London group, the Iran group and the Syrian group within the security sector and how these groups all give jobs to those from their own set.

Desperate to be seen to be acting, Al-Maliki called on parliament to issue a decision to cleanse the country's security services of political interference and affiliation in what he presented as part of his new security strategy. However, such comments are unlikely to cut any ice. As the prime minister is all too well aware such measures are near impossible, given the array of political blocks and the fact that these blocks are more concerned with power than with democracy or even security.

Al-Maliki also sought to demonstrate that he could be tough when required. He called on the head of the Supreme Judicial Council and the Presidency Council to carry out executions of 1,200 prisoners who had been sentenced to death. He also blamed the judiciary for not having done its job properly. In addition he declared that any future economic agreements with neighbouring countries had to be linked to security matters, indirectly having another pop at the Syrians. >>>

In fact it seemed throughout the session as though Al-Maliki was intent on laying responsibility for the security failings at every door other than his own. He blamed the security services, the military and the police, among others – so much so that some MPs accused him of “throwing the ball at the Interior Ministry and the army”. Others accused him of being too busy with electioneering to focus on the job in hand.

One commentator complained of how the prime minister repeatedly sent troops outside Baghdad to provide security for religious occasions, such as this Eid Al-Ghadir when he sent 25,000 military personnel to protect Shi'ites celebrating in Karbala, leaving the capital vulnerable to attack. Al-Maliki was also accused of putting his political needs above security when he failed to condemn **Moqtader Al-Sadr** for his recent calls for his supporters to attack US and British forces (see below).

Yet Al-Maliki's bid to make others culpable left him on rather shaky ground, for in reality since he came to power he has done his utmost to bring all the security agencies under his control. He has used the Baghdad Operations Leadership, which is controlled by his office, as a way of directing the security sector. In fact many are suggesting that Al-Maliki is concentrating so much power in his office that the cabinet is becoming marginal. Many were left deeply dissatisfied by his answers and deeply concerned about the country's future stability.

Bolani fights back

Jawad Bolani, meanwhile, who demanded that his session be public, sought to heap as much of

the blame on Al-Maliki as possible. He strenuously denied that Ba'athist forces had infiltrated the security apparatus belonging to his ministry. More damagingly for Al-Maliki, Bolani also asserted that his ministry had informed the Baghdad Operations Leadership that it had received information that a major attack was imminent in the capital just prior to the blasts.

Bolani made the most of the parliamentary session to discredit the Baghdad Operations Leadership, something he clearly views as a challenge to his control of the security sector. He criticised Al-Maliki for having given responsibility for Baghdad's security to an organisation that is essentially a co-ordinating body which overrides both the interior and defence ministries. The minister explained that he had understood that there was a need for such an organisation when Baghdad was overrun with insurgents, as there had to be some office to co-ordinate military and police actions at that time. However, Bolani told parliament that he had demanded on more than one occasion that the functions of this body should be reviewed and that responsibility for security should be split equally. He also declared, “Security has to be the work of my ministry.”

The upshot of this power struggle is that the security sector has become paralysed in the ensuing confusion. As the head of the Intelligence Service explained, “We are facing a lot of problems, including that the ministries don't co-operate with us.” Similarly Al-Maliki revealed just how much partisan politics is strangling the sector when he described how

the national intelligence service still has no head because of political disagreements, explaining, “Every party wants to be in a charge of that service and this service is dysfunctional because of it.”

Defence minister Al-Obeidi, who is known to be weak and little more than Al-Maliki's stooge, also painted a worrying picture. He revealed that the intelligence service of the former regime is still operating inside the country and that insurgent networks are sufficiently powerful to be able to arrange for those insurgents who are arrested to be charged only with possessing weapons, a crime that carries a penalty of three months' imprisonment. As a result, insurgents are regularly being released only to commit further terrorist acts.

Al-Obeidi also decried the fact that he had no budget to pay informers, although after his comments parliament acted quickly on this issue and the cabinet has approved a plan to offer rewards of up to \$85,000 for tip-offs about car bombs. Meanwhile the head of explosives detection in the police complained that the commanders of military units are regularly using unqualified personnel at security checkpoints.

Like Al-Maliki, Bolani argued that the solution to this mess was for security to be depoliticised. He declared, “If the political performance doesn't improve then security will not improve either.” However, Bolani is as aware as Al-Maliki that such a scenario is a very long way off.

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Al-Sadr issues new threats

Shi'ite leader **Moqtader al-Sadr** has been flexing his muscles once again. This month he called upon the **Brigade of the Promised Day**, a militia that is loyal to Al-Sadr and that was set up immediately after the signing of the US-Iraqi security agreement last year, to focus on its jihadist tasks of striking the occupying forces. He warned that they should be careful to avoid targeting civilians, their cities and their businesses, but the message was clear. Al-Sadr also called upon elements from **Asa Bil Haq**, which is funded by Iran and has connections with **Hizbollah**, but which defected from his group, to return to him to form a united front against the occupiers.

Nouri Al-Maliki's government came under criticism for ignoring Al-Sadr's calls. However, the premier is clearly unwilling to rock the boat with such influential Shi'ite elements at what is a highly sensitive time.

Election date set for 7 March

The election law was finally passed on 7 December, enabling the polls to go ahead next year. The election date has now been set for 7 March, given that after all the wrangling over the law the January date originally cited did not leave enough time to organise the polls.

Under the law the new parliament is to comprise 325 seats, 310 of them for the country's >>>

governorates and 15 compensatory seats that will include those set aside for displaced Iraqis both inside and outside the country. The seats have been weighted as follows:

- > Baghdad 68
- > Ninevah 31
- > Basra, 24
- > Thi Qar 18
- > Babel 16
- > Sulaimania 17
- > Anbar 14
- > Erbil 14
- > Diyala 13
- > Kirkuk 12
- > Salahedine 12
- > Najaf 11
- > Wasat 11
- > Qadisya, 11
- > Meesan 10
- > Dohuk 10
- > Kerbala 10
- > Muthana 7

This configuration gives the Sunnis a 27% weighting in the new parliament (up from the

last election) and the Shi'ites a 49% weighting, while the Kurds will get 22%.

Immediately after the passing of the law the electoral list was finalised. There are 14 coalitions competing in the polls. The six main coalitions are shown in the table below.

US defence secretary visits

US defence secretary **Robert Gates** visited Iraq in December in an attempt to mediate between Baghdad and Erbil. With troop withdrawal in mind, the Obama administration is eager to ensure that regional differences do not block the formation of a new government following next year's elections. There is real concern that, given all the wrangling over Kirkuk, Kurdish elements may contest the election results. Kurdish Regional Government President **Masoud Barzani** has already expressed his dissatisfaction with the election law on account of the Kirkuk issue. US officials are also worried that if there is deadlock over government

formation, insurgents could use the political turmoil to step up their activities.

Gates met with Al-Maliki in Baghdad and with Barzani in Erbil and urged both leaders to ensure that the new parliament forms a government in a "timely and inclusive" fashion. He came with a set of demands that included the unity of Iraq and the deflation of the political crisis. He is also reported to have told the Kurds that if they boycotted the election they would be committing political suicide. Barzani is believed to have used the meeting to impress upon the defence secretary that the US should support the Kurds and that it should guarantee that they are not overrun by Baghdad.

After his meeting with Gates, Barzani published a letter to the Kurdish people stating that the US had given the regional government promises that it would support Kurdish demands. He also described how he had been contacted by **Barak Obama** and by his vice president **Joe Biden** and how he had made it clear to them that there was an injustice in the election law and that in return they had promised their commitment to the Kurdish region.

Prime minister **Nouri Al-Maliki** meanwhile told Gates that Iraq needs US help to arm the security services with modern weapons. He is likely to have been receptive to Gates's call that he enter into dialogue with Erbil to resolve the tensions between the two authorities. This is because anyone contesting the elections will need to find a way to get the Kurds on side if they are to form a government. Their weighting is such that the various political factions in the country are now competing to court the Kurds

and to bring them over to their side, something that is evidenced by the sudden rush of visits to Erbil by different political leaders. Doubtless the Kurds will prefer to deal with the Shi'ites rather than the Sunnis, given their shared history of oppression at the hands of the former Ba'athist regime and will see which of the Shi'ite groups is most willing to respond to their demands.

Military college spat

Meanwhile, further tensions have arisen between the KRG and Baghdad following the central government's decision to abolish two military colleges in the Kurdish region.

Al-Maliki called for the abolition of one college in Sulaimania and another in Dohuk on account of the fact that there are a lot of military colleges in the region. However, it would appear that the real reason behind this decision was because Barzani recently called for the unification of the KRG's two peshmerga forces. This move was interpreted in Baghdad as a prelude to the establishment of a Kurdish army, something that alarmed both the central authorities and the Turks, who remain deeply concerned by the prospect of Kurdish autonomy on account of their own Kurdish population. Moreover Baghdad was also troubled by the recent fighting that broke out between Peshmerga and Iraqi forces in the contested area of Kirkuk.

Barzani objected strongly to the decision, claiming that it would have a negative impact on Kurdish students who are unable to attend military colleges outside of the Kurdish region. He claimed it would result in a decrease in the numbers of Kurds in the Iraqi army.

Main electoral coalitions

COALITION	KEY LEADERS
Kurdistan Alliance	Masoud Barzani, Jalal Talabani
Iraqi National Alliance	Amar Al-Hakim, Ahmed Chalabi, Hadi Al-Ameri, Ibrahim Jafferi
State of Law Alliance	Nouri Al-Maliki, Hussein Al-Shahristani, Rabia Mohamed Al-Habib
Unity of Iraq Alliance	Jawad Bolani, Ahmed Abu Risha
Tawafuq Al-Iraqi (Sunni)	Osama Tawfik Makhlef
Iraqiyya	Ayad Allawi, Tariq Al-Hashemi, Saleh Motlak

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