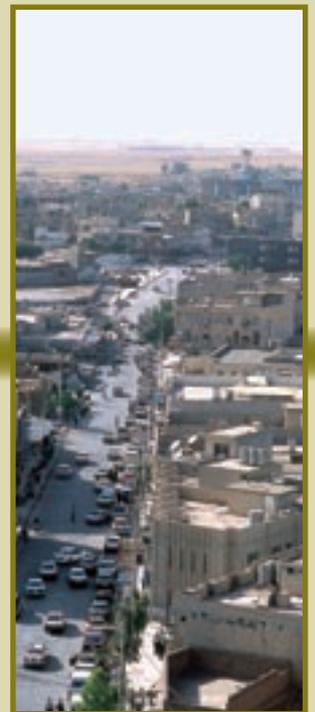


Iraqi Kurdistan Business & Investment 2004

Special Supplement
for the Iraqi Kurdistan Trade Forum
London, 25 June 2004



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Iraqi Kurdistan at a Glance — the powerhouse for the new Iraq

Iraqi Kurdistan lies within Northern Iraq bordering Syria, Turkey and Iran. Areas under direct Kurdish administration are the Governates of Dohuk, Erbil and Suleimani. These areas, under the authority of the Kurdistan Regional Government for the past twelve years, have long enjoyed a democratic, peaceful and prosperous economy. Nearby, the large northern cities of Mosul and Kirkuk have enjoyed a close economic and productive relationship with these Governates.

Iraqi Kurdistan covers approximately 80,000 square kilometres. It is very mountainous and forested in the far north. In the south the Erbil plain is the most productive agricultural region of Iraq, well watered and productive of bountiful harvests. Erbil, the regional capital, is one of the oldest continuously inhabited cities in the world, whilst to the southeast of Erbil, Suleimani, another thriving administrative centre and university town, is also a vitally important hub of trade and commerce.

Kirkuk's importance grew with the discovery of oil. Mosul is the main northern town and boasts of the 13th century Palace Qara Sariai and the Mosque of Nabi Jirjis. Mosul gives its name to the muslin cloth first manufactured there and is also famous for its market in fine worked gold. Nineveh (the city of the fabled quinquireme) is an ancient and archaeologically rich site near Mosul.

There are approximately five million Kurds in Iraqi Kurdistan, with over one million living in Baghdad. However, one of the most notable features of the Kurdish region is the tremendous diversity of a population which includes Arabs, Turkomans, Syriac Christians and other peoples. This diversity is one of the great strengths of the region, adding vitality and a notable air of easy-going tolerance and business-like free movement throughout the region.

Iraqi Kurdistan is bigger, in terms of area than states such as Ireland and its Mediterranean climate is characterised by hot, dry summers and cold, wet winters, with snow and frost.

Message from Nechirvan Barzani Prime Minister of the Kurdistan Regional Government



The Regional Government of Kurdistan welcomes the launch of *Iraqi Kurdistan Business & Investment 2004*. This unique publication is driven by investment quality information and sector overview details from leading Kurdish and Iraqi economists, Government Ministers and industry leaders as well as contributions from leading international figures with an interest in the region. The publication will provide an insight into on-the-ground opportunities in the dynamic and opening markets of Kurdistan and Iraq. This publication has our full support and recommendation. The Kurdistan Regional Government is committed to partnership with the international business community in the regeneration of the economy of the region and the whole of Iraq.

Kurdistan today stands poised at the cross-roads of the present and the future. As Prime Minister of Kurdistan Regional Government in the Federal Republic of Iraq, I feel proud to note that the present is satisfactory in terms of the socio-economic progress achieved in this region. And it is our resolve that the future should be even brighter and bring more economic prosperity. The past, though now behind us, remains a vivid relevance in our national psyche and in our consciousness. Indeed, since past experiences shape our future resolves, this junction on which we find ourselves cannot be anything other than the offspring of those yesteryears.

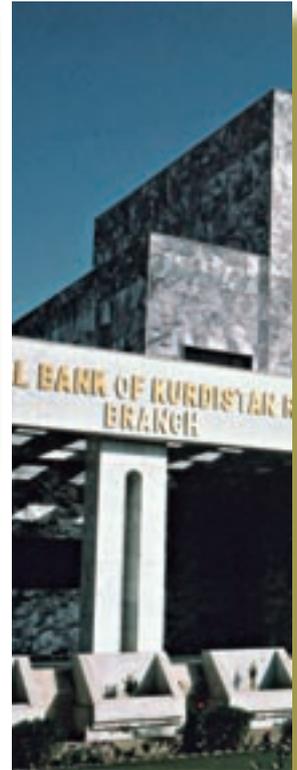
As we move forward as a regional government and as one nation, Iraq, we are fortified by the spirit of unity. As we embrace in our togetherness as a nation, constructing anew and looking to a brighter future, we shun trivial differences and concentrate on that which unites us. In the past 12 years during which Iraqi-Kurdistan's economy has grown tremendously, we have seen the fruits of a peaceful environment. And we have learnt that peaceful co-existence among different nationalities is the key to progress. Indeed it is very heartening and gratifying to look around Kurdistan and see schools, colleges and universities standing where there was once decay, despair, destruction and stunted economic growth.

Classrooms are now full of cheerful students keen to seize their opportunities and make a better life for themselves. This is the generation which will supply invaluable skills demanded by hi-tech industries as our country marches on to a higher level. In each sector of our economy, there is evidence of advancement which is impacting positively on the life-styles of our people. Construction projects are changing the landscape daily and bringing new prosperity across the region. All these changes seem miraculous when compared to the situation just over 12 years ago. I am proud to say this progress bears testimony to human resolve and the spirit of cooperation. But more than that; this progress inspires us to plan ahead, to strive for higher goals and for higher ideals. The KRG appreciates that without the support of the outside world and of various organisations and individual experts, who befriended our nation during its dark hours, we might not be at this juncture.

As we unfurl this prospectus for Iraqi-Kurdistan, we pay homage to all those who supported and advised us when we most needed their help. We say to the worldwide business community, we are a region, growing in prosperity, skills and confidence, that needs your participation in order to fulfil our true potential. In today's business climate early access to information has become the key to identifying key emerging markets. We are an emerging market with prospects to spare! Virtually all the sectors of our economy offer potentially lucrative returns. Investors will also enjoy generous assistance from the KRG within a friendly climate. On behalf of the Kurdistan Regional Government of Iraq and the business community, we invite you to make our region your second home. We look forward to welcoming any enquiries from commercial and institutional investors and we promise to respond positively.



Nechirvan Barzani
Prime Minister, Kurdistan Regional Government



Message from Siamand Banaa

Welcome to this Special Supplement to the launch issue of *Iraqi Kurdistan Business and Investment 2004*.

This is the first business and investment publication to be produced for Iraq since the liberation. The Kurdistan Regional Government and the Kurdistan Development Corporation are delighted to have been responsible for the birth of this exciting project and to have this as the official publication for the Iraqi Kurdistan Trade Forum in London, 25 June 2004.

The forthcoming book, *Iraqi Kurdistan Business and Investment 2004*, will offer a unique perspective on the buoyant economy in Iraqi Kurdistan that has already demonstrated its strengths and opportunities to investors, businessmen and other interested professionals.

The information and critical perspectives contained in the publication is what all investors and entrepreneurs require to make the best use of the many opportunities available in Iraqi Kurdistan.

The publication offers unprecedented marketing and advertising opportunities for companies interested in this growing market.

For those of you attending the Forum my suggestion is to listen, learn, consider, question and most of all enjoy the day and the brief experience of Kurdistan.

Siamand Banaa
UK High Representative, Kurdistan Regional Government (KRG) and
Chairman, Kurdistan Development Corporation (KDC)



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Patron H E Nechirvan Barzani, Prime Minister, Kurdistan Regional Government
Editor in Chief Siamand Banaa (High Representative [UK], Kurdistan Regional Government)
Associate Editor Dr Salah Al Shaikhly (Non-executive Director, KDC)
Consulting Editor Douglas Mellor (Director, KDC)
Senior Adviser Tom Hardie-Forsyth (FAC, Cabinet Office; UK Government Advisor to the Board of the KDC)
Christopher Hope (Director, KDC)

Managing Editor Sajid Rizvi
Assistant Managing Editor Shirley Rizvi

KDC Production Team Mia Early
Jhilwan Qazzaz

EAP Creative Team Asad A Rizvi
Raquel Pinto
Livia Lazzaro Rezende

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Advertising and Sponsorship Enquiries

Shirley Rizvi shirleyrizvi@eapgroup.com
Eastern Art Publishing
207 Parkway House
Sheen Lane
London SW14 8LS, UK

Telephone +44 [0]208 392 1122
Facsimile +44 [0]208 392 1422
E-mail info@eapgroup.com
Website www.eapgroup.com

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Kurdistan Development Corporation—A Profile

“...To Promote, facilitate and establish business and investment opportunities in Iraqi-Kurdistan, thereby contributing to stability and wealth creation in the region...”

KDC Mission Statement

The Kurdistan Development Corporation (KDC) is a public private partnership jointly established by the Kurdistan Regional Government (KRG) and international businessmen to advise on, develop and implement micro and macro economic policies and development projects within the environment of the stable and prosperous region of Iraqi-Kurdistan in Northern Iraq.

The KDC Board is complemented by a Committee established by the Office of the Prime Minister, Mr Nechirvan Barzani. The Chairman of the Board of the KDC is the UK High Representative of the KRG in London, Mr Siamand Banaa. Other members of the KDC Board include Dr Salah Al-Shaikhly, a senior Iraqi politician and Tom Hardie-Forsyth, a UK Government official, as well as advisors and businessmen with extensive international business experience and knowledge of the region.

The KDC has offices in Erbil and London and is jointly owned by the KRG and private international investors. The KDC has a formally endorsed mandate and is working with the Government to identify and implement projects to accelerate the rebuilding of the infrastructure in Iraqi-Kurdistan and, as part of this, determining appropriate investors and global companies with whom to work. The KDC is also working closely with Kurdish and regional Iraqi businesses looking to establish

KDC Board

Siamand Banaa, Chairman & High Representative, UK, KRG

Dr Salah Al Shaikhly, Non-Executive Director [& Political Adviser]

Tom Hardie-Forsyth, Non-Executive Director, FAC, Cabinet Office; UK Government Advisor to the Board of the KDC

Anish Aggarwal, Chief Executive Officer

Nicholas Somerville, Director

Christopher Hope, Director

Douglas Mellor, Director

links and relationships with international business for supply, investment and joint venture opportunities. In this regard it has initiated endeavours in the following areas:-

Business Facilitation and Development

The KDC arranges trade missions to Iraqi-Kurdistan, either over land or by air into Erbil and, directly or indirectly, provides assistance to businesses including data & information acquisition, introductions to local business partners and prospective customers. The KDC arranges all the administrative elements and can provide local business support services including translation, communications, legal advice and risk management and provides serviced offices and business incubation hosting services if required.

In addition, the KDC produces, in collaboration with the London publishers Eastern Art Publishing (EAP), *Iraqi Kurdistan Business & Investment*, the first substantive business publication for Iraq since the liberation.

The website is being re-developed to provide a rich database of local businesses, economic data, political & commercial information together with an outline of projects underway, tender opportunities, investment opportunities together with an up to date guide on Central Government, NGO, USAID and other donor projects. Further, through the website and the Erbil office, the KDC provides a medium for Iraqi-Kurdish businesses to promote their products and services for the international market.

Trading, Procurement and Importing

The KDC is involved in trading commodities such as medical supplies, oil derivative products, various foodstuffs and metals. The KDC will identify and work with import and distributor partners where appropriate. Additionally, the KDC is working with the KRG to assist generic procurement needs by sourcing products from the international markets.

Arrangement and Participation in Joint Ventures, Dealerships & Franchising

The KDC is working with local partners and can arrange investment into dealership projects, joint

ventures or start-up businesses. Additionally, the KDC is working with established brands and suppliers to arrange local distribution.

The KDC is also pursuing social endeavours such as the provision of international training programmes and is in the process of raising an investment fund for projects, business ventures and the support of local businesses. It also supports an active public relations program which provides information about opportunities in the region to the global market place and the role of the KRG in bringing stability to Iraq through business engagement and the development of a market economy in a safe secure and federal Iraq.

KDC Contact Info:

Kurdistan Development Corporation
Winchester House
259-269 Old Marylebone Road
London NW1 5RA, UK
Telephone +44(0)20 7170 4300
Fax +44(0)20 7170 4301
E-mail info@kurdistancorporation.com
Website: www.kurdistancorporation.com

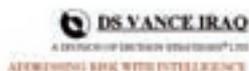
A street in Erbil. © Michiel Hegener



UKTI/KDC Iraqi Kurdistan Trade Forum



SPONSORS



On Friday 25 June **Mr Nechirvan Barzani**, Prime Minister of the Kurdistan Regional Government, Iraq, will address a business conference, UKTI/KDC Iraqi Kurdistan Trade Forum: Business & Inward Investment Opportunities, jointly sponsored by the UK Trade and Investment and the Kurdistan Development Corporation (KDC). The conference will focus upon the opportunities available to UK firms in this dynamic and progressive region of the country.

The conference at the DTI Conference Centre is jointly presented by Prime Minister Barzani with Mike O'Brien, UK Minister of State for Trade & Investment.

Preliminary Programme

09.00 Delegate Registration

Session 1

09.30 Welcome & Opening: **Siamand Banaa**, UK Representative, Kurdistan Regional Government (KRG) and Chairman, Kurdistan Development Corporation (KDC)

09.35 Keynote Speaker: **Mike O'Brien**, Minister of State for Trade & Investment, UK

09.50 Keynote Speaker: His Excellency **Nechirvan Barzani**, Prime Minister, Kurdistan Regional Government

10.15 Refreshment & Networking Break

Session 2

10.45 Keynote Speaker: **Falah Al-Naqib**, Interior Minister, Central Iraqi Government

Hard Facts & Figures per sector in Iraqi Kurdistan – projects open to foreign direct investment

11.00 *Economic Development Strategy for Iraqi Kurdistan*
Dr Zeki Fattah, Advisor for Economic Affairs KRG

- 11.15 *Update on the oil infrastructure & investment*
Dr Ashti Abdullah, Chairman & CEO, Exploration Consultants Ltd
- 11.30 *Beyond Oil: Business Opportunities in Infrastructure for the Iraqi Kurdistan Region*
Jonathan Thompson, Director - Communications & Public Affairs
 CPA - Programme Management Office
- 11.45 Open Discussion Panel
- 12.15 Buffet Lunch & Networking

Session 3

The legal framework for investors post-transition & beyond, including security of investment in the wider Iraq, model contracts, finance structures & payment procedures.

- 14.00 **Ambassador Peter Galbraith**
Ambassador Galbraith has been instrumental in advising the KRG on the new legal constitution and can present the practicalities first hand.
- 14.20 **Paul Turner**, Partner, Clyde & Co.
 Responsible Partner for Iraq
- 14.40 Afternoon Keynote Speaker: *Investment Opportunities in Public Infrastructure*
Nazaneen Wosu, Minister, Public Works & Housing, KRG

Session 4

- 15.00 **Panel Discussion** *and questions from the floor*
 Led by **Tom Hardie-Forsyth**, Cabinet Office, UK & Non-Executive Director, KDC
 With the participation of speakers and other key figures answering questions from the floor.
- 15.45 Close

Agriculture and livestock industries offer potentials that are waiting to be explored.
 © Michiel Hegener



OVERVIEW— Iraqi Kurdistan

Kurdistan is blessed with an agreeable climate, an abundance of natural resources, fertile and highly productive land, ample water supplies and beautiful unspoiled terrain. The Kurdistan Regional Government considers foreign direct investment as a priority in the development of all sectors of the economy and welcomes all inquiries from international commercial and institutional investors.

Kurdistan/Iraq Oil and Gas

Kurdistan is estimated to have around 45 billion barrels of oil reserves – making it one of the largest in the Middle East and 6th in the world. These reserves are spread over a thin band on the margins between the high mountains and the foothills, straddling the southern and western regions of Kurdistan.

In far southern Kurdistan the fields of Nafti Shah-Naft Khana, straddle the Iran-Iraq border. These fields have now been renamed Naft Shahr after the Iranian Revolution of 1979. They are located near Qasr Shirin and feed a refinery in Kermanshah. The Nafti Shahr field has been under production for over half a century and is now nearing exhaustion. This and the expansion of the refining capacities at both Kermanshah and Khanaqin have necessitated the import of crude from other fields for refining at these facilities.

By far the most productive Kurdish petroleum fields are at Kirkuk, in central Kurdistan, in Iraq.

Key Statistics

- The Kurdistan region covers around 80,000 sq km
- The capital, Erbil, is probably the oldest continuously inhabited city in the world, and is the fastest growing and fourth largest city in Iraq
- Mosul, Erbil, Dohuk, Kirkuk and Suleimani form the commercial hub of the new Iraq
- Kurdistan is estimated to have around 45 billion barrels of oil reserves – making it the 6th largest in the world
- The number of millionaires (US dollar) in the region has grown from five in 1991 to over 1,000 in 2003
- The region under KRG administration has three universities, with an enrolment of around 15,000 students and more than 2,700 schools
- The five million population is ethnically diverse and includes Arabs, Shias and Sunni Muslims, Yedis, Christians, Jews, Assyrians and Turkmen
- The area under KRG administration has a very low crime rate with a prison population of under 1,000 in a region with a population of 5 million

New fields are routinely discovered and tapped in central Kurdistan, with fields at Chia Surkh and Jambur being major examples. A separate northern field stretching from Mosul into Syria has also been brought under production.

Kurdish fields in Iraq contain 45 billion barrels of reserves, out of a total of 90 billion barrels of proven reserves in all of Iraq. The same geologic formations that yield the Kurdish oil fields of Iraq, north of Mosul, continue on across the border into Syria in the Jazira region. Iraq holds more than 112 billion barrels of proven oil reserves, and possibly much more undiscovered oil in unexplored areas of the country. Iraq is also estimated to contain at least 110 trillion cubic feet of natural gas.

Estimates of Iraq's oil reserves and resources vary considerably, however, only 10 per cent or so of the country has been explored. Some analysts (the Baker Institute, the Centre for Global Energy Studies, the Federation of American Scientists, etc.) believe that deep oil-bearing formations located mainly in the vast Western Desert region, could yield large additional oil resources – possibly another 100 billion barrels or more. Iraq's oil development and production costs are amongst the lowest in the world, making it a highly attractive oil prospect. Overall, only around 2,300 wells have been drilled in Iraq; of which about 1,600 are actually producing oil, compared to around one million wells in Texas.

Banking/Finance

Historically, the activity of banking in Kurdistan dates back to time of the Ottoman Empire, when towns such as Erbil, Kirkuk and Mosul enjoyed a thriving culture of trading. However, banking as understood from the modern concept, started with the foundation of the Iraqi state in 1925. By the 1950s Kurdistan had a system of state banking run by Central Iraq; from a bank in Baghdad called the Rafidain Bank. Rafidain had branches in cities, towns and provinces throughout Iraq. The bank's activities focused mainly on mortgages and government sanctioned loans. Following the abolition of the monarchy in Iraq in 1958, banking became a state monopoly and private banking was abolished. Laws and regulations set along socialist lines were introduced, restricting trends towards free markets and free enterprise.

Since 1992, the Kurdistan Regional Government has endeavoured to turn around the state controlled banking system into a modern network of financial institutions, engaging in normal banking activities; lending mostly to civil servants, taking deposits and paying out salaries on behalf of the Government. Savings accounts have been operating since 1996. Currently, the Central Bank of Kurdistan doesn't set interest rates, which are left to market forces. Foreign currency deposits from diaspora form a significant proportion of the reserves held by the Central Bank

An ice factory. © Michiel Hegener



of Kurdistan. Fluctuating levels of foreign currency reserves influence the level of interest rates. There is a programme in place to computerise bank to bank business, and here is great scope for foreign direct investment into Kurdistan's banking sector.

Construction

Kurdistan's rebuilding programme started in earnest some 12 years ago. By 1999 around 1,000 km of new roads and highways had been built; 600 km repaired and resurfaced with tarmac and 15 new bridges constructed. Around 26 per cent of Kurdistan's budget was spent on construction, repair, resurfacing and the building of government offices etc.

However, Kurdistan has only one cement factory in Sulaimani, which is not sufficient to cater for the huge expansion programme in the construction industry. Gravel, bricks and steel girders are in short supply and efforts are under way to find alternative suppliers. Furthermore, the resettlement programme of thousands of people displaced under the previous Iraqi regime has been given priority status by the Kurdistan Regional Government. This entails a significant increase in the building of residential units.

Agriculture

The Kurdistan Regional Government has devoted a significant percentage of its budget to agriculture in order to encourage, maintain and develop this essential sector. In 1999 around 140 million Dinars (US\$ 10.5 million) were spent buying surplus grain from local farmers.

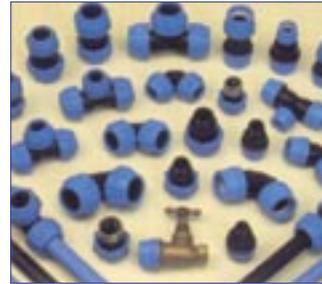
Kurdistan's organically produced food makes the region one of the most important locations in the world devoted to food production free of chemicals. Cattle and sheep graze naturally in picturesque pastures on the hills. Moreover, the abundance of water is conducive to the production of cereals and fruit and vegetables of the highest grade. If transportation, refrigeration and packaging were made available, agricultural production could be multiplied many times over, with prospects for a substantial export market.

Irrigation

In order to ensure a sustainable agricultural system, Kurdistan has introduced irrigation projects. In Erbil and Dohuk, over 145 irrigation projects have been implemented, with 290 km of channels constructed and 74 deep wells. Around 530 water reservoirs with a capacity for 10,000-20,000 litres each have been built in order to economise water usage.

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Poultry

Kurdistan has made tremendous strides in chicken farming since 1996 when 26 small poultry projects in Erbil and Dohuk yielded an annual production of around 209,000 broiler chickens. Today, Kurdistan has around 396 poultry projects with an annual turnover of over four million broiler chickens and 120 million eggs – enough to meet demand in the region.

Food Processing

The region has an abundance of agricultural produce, including vegetables, cereals and fruits of the highest quality. The Sharazoor plains in the east have been proven by archeologists to be the first human settlement in history with evidence of wheat cultivation.

However, Kurdistan lacks modern systems of production, storage, refrigeration and distribution. Canning, juice extraction, tomato drying, meat processing and packaging are some of the industries that could be easily developed at a low unit cost. The market for processed food within the Kurdistan region and the whole of Iraq is expanding, due to modern eating habits. Currently, this market is largely being catered for by imports from neighbouring countries.

The Kurdistan Regional Government is interested in developing partnerships with foreign companies to expand this sector or to grant favourable terms to investors. The abundance of fresh water lakes and rivers augurs well for the development of high quality fisheries, with immense potential for export to the whole of the Middle East, which relies heavily on sea fish.

Environment

A key policy of the Ministry of Agriculture and Irrigation, besides ensuring that enough food is grown to feed the whole population, is the protection of the environment. The policy on forest protection, reforestation and watershed management is practiced vigorously in the Ministry. This is mainly due to the fact that a large part of forests were cut down between 1991 and 1996, due to a shortage of fuel and petroleum.

Reforestation efforts include the establishment of 10 nurseries producing around 3.5 million seedlings of different types of trees. There are also two fruit tree nurseries. The annual production of seedlings in Erbil and Dohuk alone is two million. Legislation for the protection of wild life is strictly enforced.

Manufacturing

This sector needs significant revamping to reach its full potential. The Kurdistan Regional Government has spent a significant portion of its budget on restoring manufacturing industries by buying essential machinery, equipment and raw material, especially for textiles, cigarette and canning factories and marble quarries. However, private sector involvement is crucial and authorities would look favourably on companies investing in the local manufacturing sector.

Mining

Kurdistan is endowed with a variety of minerals, including significant reserves in iron, copper and zinc, and high-quality marble. Proposals to invest in this sector will be considered favourably and further prospecting for minerals is encouraged.

Education

The Kurdistan Regional Government considers education as a priority and has undertaken to provide the salaries of all teachers and lecturers. Sixty new schools were built in 1999 and 503 were renovated and refurbished. The voluntary involvement of villagers in the building and construction of schools for their communities has been a significant factor in the increase in the number of schools. Four new directorates of education were founded plus a teacher training college. Kurdistan now has two technical institutes and 2 universities in Erbil and Dohuk. Two new colleges of Dentistry and Pharmacy were opened in Erbil and two more in Dohuk i e the College of Administration and Economy and the Veterinary College. Educators and educational suppliers would be most welcome in this expanding and important sector.

Energy

Given that no electricity generating sources existed in the Kurdish region over 12 years ago, the Kurdistan Regional Government has made tremendous strides in rectifying the situation. 35 new villages have so far been provided with electricity. 50 large new generators have been bought, 700 have been repaired and reconditioned. However, there are enormous opportunities for the energy generation industry, including diversified and renewable systems of generation and distribution.

Municipal Services

A campaign of cleaning major cities and towns, the building of new drainage systems, water supplies, traffic signals, recreational parks etc. has been

successfully initiated. Reforestation of burned out villages and areas is continuing.

Culture/Media

Culture, media, sports and arts have been greatly enhanced through a policy of free press and media. Some 60 publications are issued monthly. Music, art exhibitions, theatre and cinema have advanced greatly in the past two years.

Democracy

In order to encourage pluralism, the democratic process and to bring about a solid civil society, the Kurdistan Regional Government allocates a significant amount of the region's budget to opposition parties, political organisations, social organisations and trade unions. We are especially interested in modern systems of democratic connectivity, including e- Government and modern electoral processes.

Security

Kurdish security forces and police were reconfigured and trained by high-level experts. Police stations were rebuilt. Police and traffic police were provided with distinct uniforms

and much needed new equipment. Stability, tranquillity and security based upon the rule of law is a distinct achievement of the Kurdistan Regional Government.

A brief history

Commonly identified with the ancient Corduene, which was inhabited by the Carduchi (mentioned in Xenophon), the Kurds are said to descend from the ancient Medes. The region has always been a magnet for others and was held by the Seljuk Turks in the 11th century and by the Mongols from the 13th to 15th centuries.

Probably the most famous Kurd from this period was the great romantic fighter and hero, Saladin, well known for both his ferocity in battle and magnanimity in victory. Born into a Kurdish, Sunni, military family, Saladin rose rapidly within Muslim society as a subordinate to the Syrian-northern Mesopotamian military leader Nur al-Din. Participating in three campaigns into Egypt (which was governed by the Shia Fatimid dynasty), Saladin became head of the military expeditionary forces in 1169. After he was

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appointed *wazir* (adviser) to the Shia caliph in Cairo, he consolidated his position by eliminating the Fatimid's sub-Saharan infantry slave forces. Finally, in 1171 the Shia Fatimid caliphate was brought to an end by Saladin with the recognition of the Sunni caliphate in Baghdad.

The 15th Century onwards saw the region ruled by the Safavid and Ottoman Empires up until the opening of the 20th Century. With the overthrow of the Iraqi monarchy in 1958, the Kurds hoped for greater administration and development projects, which the new Baathist government failed to grant. Agitation among Iraq's Kurds for a unified and autonomous Kurdistan led in the 1960's to prolonged warfare between Iraqi troops and the Kurds under Mustafa al-Barzani.

In 1970, Iraq finally promised local self-rule to the Kurds, with the city of Erbil as the capital of the Kurdish area. The Kurds refused to accept the terms of the agreement, knowing that the President of Iraq would retain real authority and

demanding that the oil city of Kirkuk, historically a Kurdish city, be included in the autonomous Kurdish region.

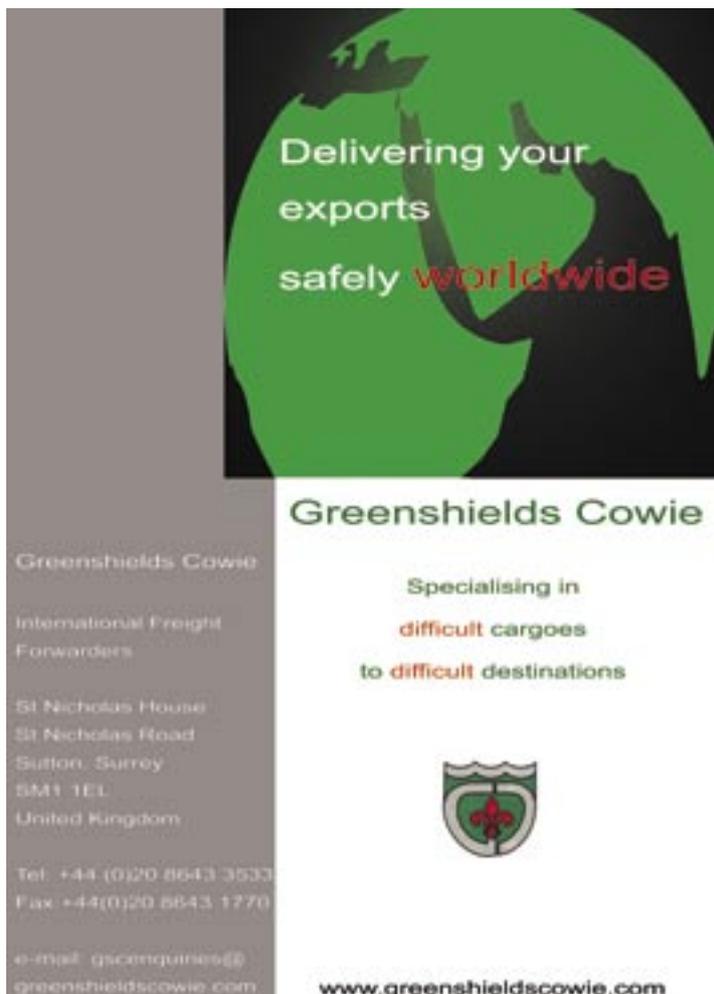
In 1974 the Iraqi Government tried to impose its plan for limited autonomy in Kurdistan. This was rejected by the Kurds, and heavy fighting erupted. Iraqi attacks on the Kurds continued throughout the Iran-Iraq war (1980–88), culminating in poison gas attacks on Kurdish villages (Halabja being the most famous incident) to quash resistance. The rounding up and execution of male Kurds, resulted in the killing of around 200,000 people in that year alone.

In early 1988, the Autonomous Region was governed according to the stipulations of the 1970 Autonomy Agreement. It had a twelve-member Executive Council that wielded both legislative and executive powers and a Legislative Assembly that advised the council. The chairman of the Executive Council was appointed by President Saddam Hussain and held cabinet rank; the other members of the council were chosen from among the deputies to the popularly elected Legislative Assembly.

The Legislative Assembly consisted of fifty members elected for three-year terms, from among candidates approved by the central government. The Legislative Assembly chose its own officers, including its cabinet-rank chairman, a deputy chairman, and a secretary. It had authority to ratify laws proposed by the Executive Council and limited powers to enact legislation relating to the development of "culture and nationalist customs of the Kurds" as well as other matters of strictly local scope.

The Legislative Assembly could question the members of the Executive Council concerning the latter's administrative, economic, educational, social, and other varied responsibilities; it could also withhold a vote of confidence from one or more of the Executive Council members. Both the assembly and the council were located in the city of Erbil, the administrative centre of Erbil Governorate. Officials of these two bodies were either Kurds or "persons well-versed in the Kurdish language," and Kurdish was used for all official communications at the local level. The first Legislative Assembly elections were held in September 1980, and the second elections took place in August 1986.

Despite the Autonomous Region's governmental institutions, genuine self-rule did not exist in Kurdistan in 1988. The central government in Baghdad continued to exercise



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tight control by reserving to itself the power to make all decisions in matters pertaining to justice, to police, to internal security, and the administration of the frontier areas. The Baath Party, through the minister of state for regional autonomy and other ministerial representatives operating in the region, continued to supervise activities of all governing bodies in the region. The minister of justice and a special oversight body set up by the Court of Cassation reviewed all local enactments and administrative decisions, and they countermanded any local decrees that were deemed contrary to the “constitution, laws, or regulations” of the central government.

The central government’s superior authority has been most dramatically evident in the frontier areas, where government security units have forcibly evacuated Kurdish villagers to distant lowlands, whilst at the same time attempting permanence by introducing non-indigenous Arab tribes into the vacuum created.

With the end of the first Gulf War (1991), yet another Kurdish uprising against Iraqi rule was crushed by Baathist forces; nearly 500,000 Kurds fled to the Iraq-Turkey border, and more than one million fled to Iran. Thousands of Kurds subsequently returned to their homes under the

protection of the coalition no-fly zone. In 1992 the Kurds established an “autonomous region” in Northern Iraq and held a general election.

Since then, despite a range of internal problems engendered by their relative isolation, and further in spite of both UN sanctions and continuous attempts at disruption by the Baathist regime, the Iraqi Kurdish-administered region has experienced, over the past twelve years, relative stability and economic development.

This has been due in part to the implementation, albeit with shortcomings, of the UN Resolution 986, commonly known as the oil-for-food programme, but also the development of a confident and burgeoning regional economic and fiscal base based on enlightened policies followed by the present Kurdish political leadership.

With the downfall of the Baathist regime and with the development of properly accountable Government across Iraq, new opportunities will now present themselves to the region, not the least being the opening up of the region to the rest of the world. The present Kurdish leadership sees its future in a fully inclusive, democratic and pluralistic Iraq, based upon the best modern Federal models.



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Economic progress in Iraqi Kurdistan

The following are extracts from a number of reports issued by the Coalition Provisional Authority in Iraq and diplomatic missions of the USA and UK. It covers Dohuk, Erbil and Suleymani regions.

One of the main attributes of the region is that it has enjoyed the continuity and stability of local administration for over 12 years.

Largely immune from instability prevalent elsewhere in Iraq, the Kurdistan region is enjoying a strong economic recovery. Examples of fresh economic activity abound, particularly in construction, retail sales and transportation.

Housing starts in Erbil, for example, are on track to register a one hundred percent increase over last year's depressed figures and will exceed pre-war levels this year. A similar construction boom in Suleimani has been further fuelled by a local government mortgage scheme and the release of additional local authority land. The upturn has created a shortage of casual labourers in some areas and substantially boosted construction wages.

New construction is supporting hundreds of small ancillary enterprises. In Erbil alone, 170 factories are making bricks, blocks and tiles or crushing rock. Another 160 are producing doors and windows and shaping metal into grillwork. Thirty are making furniture. Sulaymani hosts dozens of marble factories. Most of these enterprises employ fewer than 10 people; a good number are literally father-and-son operations.

Several large public works projects are also boosting construction activity. These include airports in Erbil and Suleimani and new roads from Erbil to Salahaddin and around Suleimani. In Erbil, 400 housing units for low-income government workers are under construction, the first phase of a 1,000-unit project. Turkish construction companies are involved in all these projects.

Security concerns at new and existing facilities are also creating jobs. The Erbil-based Iraqi-Kurdish and Turkish joint venture construction has become one of the largest producers of t-walls and jersey barriers in Iraq.

On the trading side, merchants report brisk sales of consumer goods, from appliances to clothing. Most white goods for sale in Erbil's markets are imported from Turkey — and sit along aside computers, calculators, and other electronic goods made in China and imported through Turkey. Reflecting the region's weak industrial base, locally manufactured consumer goods are limited to furniture, plastic shoes and bags, cheap clothing like socks, and simple items like electrical cord.

Transportation is providing the third leg of the boom, much of it related to resurgent post-sanctions trade with Turkey. The border crossing at Zakho is the main logistics line into Iraq at present, and the area is bustling as a result of cash from the border and transit trade. Nearly 3,000 trucks cross the border each day, and the highway



A salt factory. © Michiel Hegener

south to Mosul is lined with restaurants and gas stations at every village.

A surge in sales of saloon cars has also strengthened the transportation sector, creating rush-hour headaches in Erbil and Suleimani but also spawning repair shops and other spin-off enterprises that reach well down the economic ladder. A recent KRG survey, for example, recorded 25 car washes operating in Erbil.

Seeking foreign investment

The recovery has yet to draw significant direct foreign investment, although both KRG administrations are trying to attract expatriate Kurds, Turkish companies and others. The KRG in Suleimani recently opened a one-stop promotion office to attract companies and help them obtain license approvals, leases and tax breaks; the Kurdistan Development Corporation has been established in Erbil.

Meanwhile, in hope of drawing foreign investors and tourists — both Erbil and Sulaymani are proceeding with new airport projects. At present there is no commercial airport in the Iraqi Kurdistan region. Project managers expect both facilities to open by early 2005. Project managers in Erbil, who have hired Turkish and Kuwaiti firms

to work on upgrades, claim to have held productive discussions already with Turkish airlines, Royal Jordanian and emirates. United Iraqi Airlines was recently formed with substantial Kurdish participation and mainly to operate out of Erbil.

A new Sheraton Hotel is to open shortly in Erbil to serve what the owners hope will be an influx of foreign visitors. Owners of the Khanzad Hotel — currently CPA North headquarters — will seek to attract local tourists, contractors and foreign business executives once the facility is returned to them. Several hotels outside Suleimani are being renovated to handle increased visitor load.

While foreign investment has been insignificant, Turkish construction companies — many owned by Kurds in Turkey — are involved in projects throughout the region.

About 50 foreign companies are registered in Erbil as international enterprises, mostly Turkish firms connected with construction or border trade.

It is not yet clear whether expatriate Kurds in Europe and the United States — said to exceed 500,000 — will return with investment dollars. Regular remittances from overseas are probably significant but the KRG Ministry of Finance does not maintain accurate statistics.

Urban-based recovery

The recovery bears the hallmarks of urban-based growth: heavy government involvement, service-led, with small enterprises springing up on the margins. This highlights the fact that the Iraqi Kurdistan region is moving steadily away from its rural roots. The region hosts two of the country's ten largest cities: Erbil with an estimated population of 900,000 and Suleimani (685,000 inhabitants). Dohuk, Chamchamal and Zakho have become significant urban centres. Mosul and Kirkuk, located close to the green line, also contribute to the region's growing urban tilt. Reliable statistics are difficult to obtain, but



Satellite dishes are indicative of change in social habits, as well as a communications revolution. © Michiel Hegener

a recent UN survey estimated that more than 75 percent of the KRG population lives in cities of 20,000 or more — the result of years of conflict and displacement from the countryside.

The recovery has largely bypassed rural areas, whose contribution to the region's economy has been steadily declining in any case. The sector suffers four principal shortcomings. First, whole villages remain empty from conflict and Saddam's campaigns to depopulate certain Kurdish areas. To succeed, returns programs require a long list of investments for housing, electricity, water and sanitation, community services and demining.

Second, yields from wheat and barley, the region's principal crops, are of poor quality even in times of plentiful rainfall because of poor quality seeds and inadequate and haphazardly applied fertilizers. Third, grain prices have been depressed by the UN — originated food basket system that relies heavily on imported goods.

Plans to monetise the system will not be implemented in time to affect sales from this year's harvest. In response, some farmers have turned to cash crops like tomatoes, okra, melons and cucumbers that provide greater returns than grain and are outside the food basket system. These efforts, along with new poultry farms begun under the oil-for-food program, will need to be encouraged as part of the new interim government's agricultural strategy.

Finally, aside from several large flour mills, there is little investment in canning, juice-making or other downstream processing that could add value to regional produce and provide additional employment.

The next steps

The current economic boom in Iraqi Kurdistan is significant and major policy initiatives and significant investment will be needed to sustain it. Over the next year, the following sectors need specific attention.

- ▶ **Banking:** Business executives are unanimous that the lack of banking facilities is the biggest impediment to economic development. All banks in the region are owned by local government and offer private customers very few basic services. The Central Bank of Iraq is at present in the process of granting a number of licences for banks to operate in the Kurdistan region.
- ▶ **Electricity shortages:** shortages in some areas exact a substantial economic cost. PMO

generation projects and the linking of the Iraqi Kurdistan region to the national grid should help alleviate the problem.

- ▶ Telephone communications are also weak but should improve when Asiacell expands its services. Considerable work remains to be done on road networks in both rural and urban areas.
- ▶ Transportation links will improve considerably when planned airports in Erbil and Suleimani come to fruition.

The region's industrial base is at its early stage. There are 700 factories registered with the Ministry of Industry in Erbil, 530 employ fewer than 10 people; 260 employ fewer than four. All but 38 are capitalised at less than US\$100,000 so have little means to expand. The only KRG operated enterprise that previously was an Iraqi state-owned sector is the Tasluja cement factory in Suleimani.

The CPA has worked with the KRG and by the end of this year the facility should return to full capacity to provide key inputs for the construction boom. Were capital available, there would be opportunities for profitable investments in other construction inputs like gypsum and in agricultural processing. The industrial base,

including plans to build a refinery near the town of Koya, should be re-examined in subsequent economic reviews.

One of the main assets in the Iraqi Kurdistan region is tourism and the KRG is pushing to expand the industry. A tourism program was recently established at a local technical institute and both KRG governments support tourist promotion offices. Planners acknowledge that major investments in hotels and other facilities are needed. Some observers expect several hundred thousand tourists to visit from elsewhere in Iraq this summer, a sharp increase over last year.

Conclusion

Recovery in the Iraqi Kurdistan region provides a good example of how stability and security can set the stage for economic growth. It demonstrates too that local administration is running relatively efficiently in this area that lay outside central government control, and shows the potential for the rest of Iraq once security and administrative structures stabilise. The recovery also highlights growing bilateral commercial relationships with neighbouring countries, particularly Turkey.

* This presentation was edited from the original report by Dr Salah al-Shaikhly, Non-executive Director, KDC.



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The Oil Industry in Iraq: Prospects & Challenges

Walid Khadduri

Editor, Middle East Economic Survey (MEES)

The world oil industry is actively looking for more oil and gas reserves worldwide as prospects for discovering new giant fields fade and world demand rises steadily. The Middle East, meanwhile, continues to hold the bulk of world hydrocarbon reserves, with Iraq being a major player in this field, with much potential for growth in the future – provided there is political stability.

Very few giant fields have been discovered in the past two decades, the most notable one being Kashagan in Kazakhstan. The bulk of new oil is either the result of discoveries of relatively small fields or the enhancement of recovery from already producing ones.

As for global demand, it has already reached around 80 million barrels a day (mbd) with forecasts for an increase of approximately 1-1.5 mbd every year during the next two decades, to meet new consumption in developing countries as the standard of living rises in China, India and Brazil – among others – as well as to catch up with rising demand in western industrial countries, particularly the US.

The task ahead to provide sufficient energy to meet world demand during the next three decades was summarised by the International Energy Agency (IEA) in its World Energy Investment Outlook published in November 2003.

“To meet projected demand growth of 1.7% a year over the next three decades, US\$16 trillion,

or almost US\$550 billion/year, will need to be invested in global energy supply infrastructure. The investment will be needed to replace hydrocarbon reserves and existing and future supply facilities that will be exhausted or retired during the production period and to expand production and transport capacity to meet demand growth.”

As for oil, the IEA emphasises that “the projected increase in world oil demand from 77 mbd in 2002 to 120 mbd in 2030 will require more than 200 mbd of new production capacity to be brought on-stream. Most of the capacity will be needed to replace depleted wells that are already producing or wells that will be brought into production and subsequently depleted during the next three decades. Bringing all this capacity on stream will entail upstream investment of US\$2.2 trillion.”

The Middle East is well placed to provide the necessary supplies for the incremental demand that is witnessed year-on-year. This is particularly the case with the expanding Asian markets, as has been witnessed since the mid-1980s.

Iraq can play a pivotal role in supplying world markets with the incremental oil necessary to meet rising demand. The proven reserves are there, as is the potential to discover new fields. The cost of production in the country is one of the lowest in the world.

However, Iraq needs political stability in order to exploit its natural resources efficiently. The

experience so far shows that in the absence of political normalcy it is not possible to develop a country's natural resources economically and to the maximum. Political disturbances and violence could thwart the growth of the industry – as has been the case with Iraq throughout the past few decades.

Furthermore, the oil industry needs transparent and synchronised laws and regulations that give confidence to investors and international firms to place their funds in a country over the long term. The oil industry also needs a central political authority to plan long-term policies for the country as a whole, in consultation with the federal and provincial authorities, as well as to negotiate and regulate the operations of national and international firms.

Oil in Iraq: Background

The political problems of Iraq over the past few decades have created a dichotomy between the oil potential of the country and the state of its oil industry today. Iraqi oil reserves are vast and the potential is large.

Iraq's proved oil reserves are estimated at 112 billion barrels and gas reserves at 3,000 billion cubic meters (106 trillion cubic feet). Probable and possible reserves of oil and gas estimated at 214 billion barrels and 160 trillion cubic feet respectively. Reserves of oil in place are put at approximately 445 billion barrels.

The Iraqi Ministry of Oil, at an international conference which it sponsored in Baghdad in March 1995, presented a very detailed and comprehensive report on the state of the country's oil industry. The data included a list of the production potential of 33 fields in the northern, central and southern parts of the country (*MEES*, 20 March 1995).

In general, Iraq has around 526 known structures that have been discovered, delineated, mapped, recorded and classified as potential prospects; but only 125 have been drilled, representing about 20% of the total prospects identified so far, according to former Iraqi Oil Minister Issam al-Chalabi.

Specifically, Mr Chalabi has pointed out that there are today only 15 developed fields out of 73 discovered. The rest include:

11 new fields in the south with a production capacity of three million barrels a day;

11 fields in the north with a production potential of around 500,000 barrels a day;

Three other fields in central Iraq with a capacity

of 300,000 barrels a day;

And, the possibility to produce 900,000 barrels a day from partially developed reservoirs in existing producing fields.

Mr Chalabi points out, for example, that there has been no horizontal or deep drilling, and only very limited amounts of directional drilling in selected fields. Water injection has been the only means of maintaining pressure, while gas injection was experimented on in one field only. Furthermore, many discovered pay zones in currently producing fields are yet to be developed, appraisal and production has been limited to some pay zones of the reservoirs, none of the deeper pay zones have been put into production, and the Western Desert and the Northwestern part of the country remain unexplored with promising geological prospects.

Iraq Oil Industry: Looking Forward

Iraq's oil industry has been devastated over the past quarter of a century by three major wars, 11 years of sanctions and over 30 years of dictatorship. This state of affairs caused much destruction to what was already built and impeded the normal growth and modernisation of the industry, hence putting it way behind its counterparts regionally and internationally, despite the great hydrocarbon potential of the country.

Iraq today is trying to rebuild yet again. The process involves the forging of a new Social Contract to govern relations among the people of the country. An Interim Constitution has already been agreed upon and steps are being taken for a permanent constitution, elections and a sovereign government by end-2005.

Building the new Iraq will entail much rehabilitation and construction, after all the years of domestic violence and wars.

The first step in this direction has already taken place with the return of oil production capacity to its pre-war level. Actual production is now around 2.5 mbd, and rising. This compares to the average level of production of around 2.2 mbd in 2002.

The second step will entail raising the level of production to around 3 mbd and sustaining it at this range. The planning for this will start after the transfer of authority to Iraqis on 1 July 2004. The Ministry of Oil could commission international oil companies, either majors or independents, to carry out buyback projects or risk-type service agreements. Such contracts do not involve any equity holding by international firms in Iraq



oilfields. Instead, the oil firms would develop a field for a fee and turn it over to the national oil company upon completion.

The oil authorities could also formulate during this period a long-term oil policy for the country in order to have a clear vision of how to move ahead and under what terms of reference. One of the leading issues on the agenda will be the establishment of a national oil company that will be responsible for day-to-day operations, while the ministry remains responsible for policy issues, such as planning, OPEC and relations with government affairs.

The third step will start after a permanent constitution is adopted and a parliament is elected. One of the main tasks of the parliament will be to adopt an oil policy and legislate a Hydrocarbon Law. Accordingly, and on the basis of the new legislation, the Ministry of Oil will negotiate long-term agreements with international oil companies. The latter will require clarity of policy and the necessary legislation before discussing such accords with the authorities in Baghdad. This process, which is envisioned to bring Iraq's oil production capacity to around 5 mbd the end of the decade, will not start in earnest before 2006.

Meanwhile, the Interim Constitution – which was approved by the Governing Council on 8 March – specifies, among other things, that Iraq is a federal state and that oil is the property of the people of Iraq to be administered by the Interim Government in consultation with the provinces and governorates,

with oil revenue to be distributed evenly across the country, taking into consideration the demographic distribution of the population, the acute needs of those provinces that were particularly deprived of resources under the previous regime and the special needs of certain regions.

According to Article 25, Clause E of the Interim Constitution: “Management of Iraq's natural resources, which are owned by the people of Iraq, will be conducted in consultation with regions and governorates, with the distribution of revenue through the public budget made in an equitable manner in accordance with demographic distribution in various areas of the country (taking into account those areas that were unfairly denied access to revenue by the previous regime, as well as the need and level of development in various regions of the country).”

It is envisioned that the Iraqi oil industry will continue to be run by the central government. This is necessary since the nature of the oil sector, and economic efficiency, require an integrated and complementary approach – whether in providing flexibility for exploration and production (E&P), or export routes and facilities from the north or south, or the allocation of downstream industries (refineries and petrochemicals) that would serve either the domestic or international markets.

There are differences, however, between how the industry is envisaged to be run now and how it was run in the past. The terms of reference for administering and operating the industry

in the new state would take into consideration, much more than was the case in the past, the interests of the provinces and governorates through consultations and negotiations with their representatives in the Executive and Legislative branches of government.

The Ministry of Oil is also re-establishing contacts with international oil firms. The preliminary contacts that have taken place already do not involve negotiations over major field developments. Rather, the talks have focused on how to provide technical services to the Iraqi industry, particularly the technology to develop deeper reservoirs and assess the damage that has resulted from poor management over the past decade of some of the major fields (Kirkuk, Rumailah and al-Zubair), as well as to provide much needed training to Iraqi oil executives who have not had the opportunity to familiarise themselves with the latest technological developments in the industry during the past 15 years.

Iraq Oil Industry Needs

The neglect and devastation that was inflicted on the country's oil industry will necessitate much work in the coming years – both to sustain current production levels and to increase capacity, as well as to modernise and upgrade the local downstream industry.

This work will not merely entail changing spare parts here and there, or recovering pressure in this field or that. The future challenge that awaits the

Iraqi oil industry – providing impetus for projects and investments – involves nothing short of a massive injection of tens of billions of dollars to increase production capacity, build new pipeline systems, construct refineries and petrochemical plants, and introduce new technologies that meet environmental regulations and enhance efficiency and cost reduction.

In the upstream sector, for example, there has been no serious exploration in the country since the early 1980s. Iraq also has many fields that could produce more if new technologies were utilised, while the prospects for production from discovered but undeveloped fields are good. Indeed, there are many prospective reservoirs that are not tapped yet, and areas not explored.

In the Kurdistan region, there has been no comprehensive exploration for decades. Work was carried out in March 1996 on the Taq Taq field, close to Chamchamal, where well No 1 produced 2,000 barrels a day of 44-48° API, 0.9% sulphur crude from the Pileups formation, and well No 2 produced around 550-600 barrels a day of 23-24° API, 2% sulphur crude from the Shiramish, Komitan and Qamchaoga formations.

As for the midstream (pipelines) and downstream (refineries and petrochemical plants), nothing new was constructed throughout the country for the past 15 years because of the wars and sanctions. The two major programs that were completed in the early and mid-1980s involved the construction of the Baiji refinery in the central part

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of the country and the Iraq-Saudi Pipeline (IPSA) that has the capacity to transport around 1.6 mbd of crude from the southern oil fields to the Saudi Red Sea port of al-Mu'ajiz.

The opportunity is there, however, for the midstream and downstream industries to be built in the north of the country. As Iraq is stabilised and development takes off again, the cap on consumerism and the purchasing power of the public that has been applied all these years should be released. It is expected that sufficient liquidity will become available to the public to encourage the construction of primary petrochemical plants to meet local demand as well as exports. Iraqi Kurdistan offers many advantages to investors because of the investment laws that have been adopted in the region and the commercial opportunities that can be made available with the growth of the tourism industry, both for the local population and from the outside.

Moreover, northern Iraq as a whole lies at a strategic intersection with Iran, Turkey and Syria. The markets in these three countries, especially in the areas adjacent to Iraq, are still not well developed. The construction of industry in Iraqi Kurdistan, and the forging of long-term trade relations with the neighbouring regions and beyond, could open many prospects that have not been tapped so far.

Political Normalisation

The development of Iraq's oil industry, as well as that of the rest of the economy, can only be

attained in a climate of political normalisation. While the country offers many opportunities for domestic and international investors, a sound economic and political climate is required to attract investments. A reasonable rate of return alone, without security prevailing, is not sufficient to achieve this.

As Iraq proceeds with the promulgation of laws and regulations concerning all matters of public life, it is essential that proper legislation is enacted, both at the regional and central levels, to attract capital investments. Even more important is the need for coordination and a common vision between the centre and periphery on the way to proceed in the future. Any conflict over where authority lies, or differences over which laws to apply in cases of taxation, labour regulations and authorisation will only delay the day when international investment looks seriously at the country as an attractive opportunity.

Just as important is the political stability of the country. While there is much talk today about the list of potential development projects in Iraq, the overwhelming majority of these involve rehabilitation and are being financed by US aid. While there is much commerce with Iraq – basically exports to the country – there is, as yet, very little in the way of investment by local or international firms in major projects.

The reason for this shying away from a lucrative opportunity is clear: lack of security and political stability. These are two fundamental factors, and their achievement is necessary before serious thought can be given to comprehensive development in Iraq.

Political stability is necessary for the oil industry, as well as other areas of investment, since firms have to think carefully before deciding to pour billions of dollars into a country. There have been several experiences in the Middle East when international firms invested heavily in a single oil or petrochemical project, only to see their investment squandered because of political turbulence.

Moreover, these firms will not take such risks until there is stability throughout the country – and not just in some parts of it. This is the way that risks are analysed these days by international companies, in Iraq and elsewhere. That is why it is imperative that a new Social Contract is achieved among Iraqis, enabling the return of stability and paving the way for investment and re-development.

Looking east— Turkey sets sights on forging closer trade links

As the European Union moves closer to giving Ankara due recognition in its ranks, the government of Prime Minister Recep Tayyip Erdogan is making sure that Turkey's ties with the neighbouring Middle East remain firm and mutually rewarding. Excerpts from an exclusive interview with Turkish Minister of State for Economy Ali Babacan



© Academic File.

MOVER AND SHAKER: Turkish Economy Minister Ali Babacan

The war in Iraq initially put Turkey on the spot, as the eastern flank of the North Atlantic Organisation (NATO) and a close US ally, but lately has put the country into a welcome spotlight. Prime Minister Recep Tayyip Erdogan and his aides have gone on record with assertions both of Turkey's independence and of its almost unique identity as a westernising nation with a Muslim core which, in their view, is best suited to be at the centre of a dialogue of civilisations. This self-regard by Turks finds strong resonances amidst many Kurds who see Iraqi Kurdistan setting new benchmarks, not only for good governance and political stability but also for imaginative and innovative ways of blending old and new, eastern and western, faith-based and secular, regional as well as global.

To the relief of many in Ankara, who had despaired of seeing Turkey in the European Union in their lifetimes, years of dogged diplomacy appear to be bearing fruit, and Brussels seems to mean it when it says that the community does want Turkey in after all. When? That is still moot, but both Turks and Europeans have been exuding optimism with remarkable regularity, a rare occurrence indeed.

Pushing his campaign deeper into Europe,

Turkish Prime Minister Recep Tayyip Erdogan and his team visited London in early summer 2004, and Economy Minister Ali Babacan was on hand to spell out not only the country's EU ambitions but also the government's aims in the other direction — Turkey's neighbours in the Middle East. Here are edited excerpts of the interview:

How do you see Turkey's ties with MENA now and what do you intend to do to attract more investment from the region?

Ali Babacan. I think the key for Turkey and its neighbours is openness, both in terms of societies and in terms of trade and two-way investment. High volumes of trade and cross-investment are good ways of bringing about more security and stability. If these countries can accumulate wealth in this way they minimise risks to their well-being. In order to make that happen Turkish government officials have been visiting our Middle Eastern neighbours. Of course, with EU accession on the horizon our attention is focused on Europe but not to the detriment of our interaction with the MENA region.

Unfortunately in the past, very strict interpretations of our secular system led to misapprehensions and misunderstandings. But



A busy street in Sulaimani. ©Michiel Hegener

our understanding of secularism is very different; we do not see our secularism in any way being against Islam; rather we advocate religious freedom for all.

How have you brought your own experience as a businessman to your job?

We want to encourage more of private enterprise in a more open economy, and attract two-way international investment. We welcome foreign investment, but also we also encourage Turkish investment abroad.

What specific steps have you taken to ensure this?

The new FDI law does not differentiate between Turkish and foreign ownership of companies incorporated in Turkey. Two foreigners can get together and start a company, even buy into real estate.

What about the regulatory framework?

The privately owned companies are under no obligation to disclose everything about their operations, but as far as public companies go, very clear rules apply about disclosure, audit etc.

There is a lot of money in MENA apparently waiting to find good homes. Why should investors come to Turkey — what does it have to offer?

Turkey has a population of 70 million, an income per capita of US\$3,383 which in real terms (after adjustments) is more than US\$6,000. It's a sizeable market for any international company.

Then it is Turkey's location at the hub of the Middle East, Central Asia, parts of North Africa and also Europe. Companies are operating increasingly on the basis of low costs and less regulation.

How do you see the scheduled handover in neighbouring Iraq impacting on Turkey's economic prospects, given that vast opportunities are opening up at your doorstep?

The situation in Iraq remains uncertain. Be that as it may, up to 2,000 lorries laden with goods cross the border each day carrying goods from Turkey that range from food and medicines to construction materials, and even crude oil and products. Turkey has a large manufacturing capacity and is able to respond quickly to meet those requirements. Although safety remains an issue in parts of Iraq, more and more Turkish companies are responding to the needs of the people in Iraq and even moving operations there. Such interchange across the border has been a feature of our mutual ties over hundreds of years, through thick and thin. I see this phenomenon growing and many more companies becoming active in Iraq.

So Turkish companies are already assuming the role of an important conduit for trade in Iraq?

Very much so, and I can see this trend growing significantly in the near future.

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