



Jean Claude GANDUR

**W**ith service offices in Geneva, Switzerland Addax Petroleum Corporation is an E&P company focused on Africa and the Middle East and one of Europe's largest independents. Already one of the largest independent oil producers in West Africa, Addax Petroleum is poised to become a major producer in the Kurdistan Region of Iraq. The company is a partner in the Taq Taq licence with Turkey's Genel Enerji and in the Sangaw North licence with UK's Sterling Energy. The company is currently in \$7.2Bn acquisition talks with China's SINOPEC

**The Oil & Gas Year:** 2008 was a great year for Addax Petroleum. Could you please tell the readers of *The Oil and Gas Year* what has happened to your organisation in the Kurdistan Region of Iraq?

**Jean Claude GANDUR:** With oil prices up to 150 US dollars per barrel, 2008 was a very successful year for us, as it was for most E&P companies. We took advantage of the high prices to invest in our infrastructure in the Kurdistan Region of Iraq. This year we are completing the infrastructure to bring the total possible export to 70,000 barrels of oil per day (bopd). We are extremely pleased to have recently received a confirmation from the Kurdistan Regional Government that crude oil exports can commence from the Taq Taq field.

The only large additional investment that is still needed is the connecting pipeline which would go from Taq Taq to the Ceyhan pipeline. My understanding is that the government of Kurdistan would like to see a backbone pipeline running South East to North West allowing all the operators to use the same route to the Ceyhan pipeline on the border with Turkey. Thus, in case of disruptions in the Kirkuk area the security of export would not be compromised. The Taq Taq field is 65 kilometres north of Kirkuk. This means that the easiest and cheapest way to export is to connect Taq Taq to the Kirkuk pipeline either at Kirkuk or at Khurmala and then through the existing pipe, which is the Iraq-Turkey main export pipeline. It is a question of technical capacity, security, and cost. As far as we are concerned, in the short term, the Kirkuk pipeline makes sense because it is a much shorter distance.

I don't think the Minister is against the idea of having alternatives to the big one. It is more a political decision than an economic one. I cannot comment on politics.

Now that we have received the green light on international exports of crude oil, we will prepare to truck up to 40,000 bopd from the Taq Taq field

## Pure drill bit growth

TOGY talks to

**Jean Claude GANDUR, President and CEO  
ADDAX PETROLEUM CORPORATION**

to the Khurmala export station. This will continue until we get the message that we can export on a much larger scale. From the day we get the okay we will need about a year to be ready to export up to 120,000 to 180,000 bopd.

**TOGY:** DNO has been granted export authorisation. When it comes to Taq Taq, what timeline are we looking at?

**JCG:** We are in a similar position. Addax Petroleum received in May a formal notification from the KRG of its decision to commence the export of crude oil on or soon after June 1, 2009. Also, Minister Sharistani mentioned both DNO and TTOPCO in one of his previous speeches. To date, we have already sold 9.8 million US dollars of oil to the local market.

*"We took advantage of the high prices to invest in our infrastructure in the Kurdistan Region of Iraq, while we wait for permission to export."*

Minister Al-Shahristani has said we should export since we have both the pipeline and the facility. The crude oil will be marketed by the State Oil Marketing Organisation (SOMO) and revenues will be directed to Addax Petroleum and Genel Enerji through the coordination of the KRG on terms to be agreed under the framework of the PSC (Production Sharing Contract). Crude oil trucked to the Khurmala station will be exported via the Iraq-Turkey main export pipeline to the Mediterranean port city of Ceyhan.

The KRG has adopted the PSC model because they think, and I believe they are right, that it

gives them a fair share, and the operators a fair return on their investment. It is a way of calculating returns with a number of guidelines to prevent a company from earning more than what is acceptable. There are no reasons which justify earning 6 or 7 times more because the oil price is 100 US dollars and it is indecent that you earn nothing because oil is at 20 US dollars. In the PSC there is a built-in mechanism that moderates losses when prices go down and moderates gains when prices go up.

This system gives a number of securities to investing companies so they can get their money back first. There is also a capping system – what we call the ‘R’ factor – which means that at a certain stage the revenue is flat. As an independent company, we feel it is fair. I think the PSC suits the purpose and objectives of both parties.

Lastly, this is an appropriate way to satisfy the notion of ownership of oil, which is a critical issue in the mind of the Iraqi Government. It is seen as acceptable for a foreign company to buy oil from SOMO but there is a general perception that ownership rights on produced oil can not be awarded to a foreign company. In Vienna, Minister Al-Shahristani mentioned that the contracts

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proposed to foreign companies were not attractive enough. When considering remodelling them, he said the PSC model was one of the possible options. This was the first time I had heard him bringing up the “PSC” option. So far, the famous service contracts have been disastrous for everybody -- the contractor takes all the risk for a minimum amount of money or the country may pay far too much if a dishonest company extends its expenses indefinitely.

I don’t think that in the modern economy those models will survive. If my memory is correct, Iran is already reviewing the model to make it more appealing to foreign companies because they don’t attract enough investment. You know the saying – you don’t attract bees with vinegar. Companies need to be rewarded for their high risk effort.

**TOGY:** *When you compare the Kurdistan Region’s political and legal framework to some of the other operations you have, in say Nigeria or Gabon, what attracted you to the region?*

**JCG:** First of all I have never felt that the Kurdistan Region was a dangerous place to be. We have never experienced any threat either to our lives or our operations. The personality of the Minister



Credit: Addax Petroleum Corporation.

The TT-11 well successfully tested the Eocene Pila Spi formation.

and his knowledge of the industry made it easy for us: we talk the same language. He is tough but in a very fair way. Every time tougher terms were put to our PSC, we have received something in compensation. It was a real negotiation. It was not “either you accept or you go.”

It is difficult, however, to compare PSC terms with West Africa: West Africa has very complex small reservoirs which require a lot of investment; much more than in the Kurdistan Region. We invested more than one billion US dollars in Africa last year against 200 million US dollars in the Kurdistan Region of Iraq. We can get more oil with 200 million US dollars than we can with over one billion US dollars in Africa. This is because the nature of the rocks and of the reservoirs in the Taq Taq field is completely different than what we have in West Africa. It cannot be compared. The cost of oil in the Kurdistan Region may be two US dollars per barrel while the cost of oil in West Africa is more than twelve US dollars per barrel. It is a different world. That is the reason why the PSC terms are tougher: less investment is necessary to get the same result.

**TOGY:** *Obviously Kurdistan and Taq Taq have proved extremely prospective for your company. TT-10 has been tested at 44,000 barrels a day. Will the Kurdistan Region be a growth platform for Addax Petroleum in the next few years?*

**JCG:** It should represent 25 percent of our total production. Addax Petroleum is presently producing about 140,000 bopd. When Taq Taq becomes fully operational, we should add 60,000 to 70,000 barrels net with very low F&D – finding and development costs. The operational costs are about the same.

**TOGY:** *Can you give us a sense of the excitement you felt to be developing such prospective assets?*

**JCG:** Now the excitement is doubled: first of all, we were pioneers; today everyone is queuing to



Photo courtesy of Safin Harmed

Crude oil from Taq Taq is now trucked to the export pipeline, pending completion of a tie-in later on this year.

get into the Kurdistan Region. When we joined Genel Enerji in 2005, there were not many companies in the ranks. It is exciting to know you are among the first to make the decision to go; to discover a new frontier; new mentalities; new people. In addition to this, may I remind you that Calouste Gulbenkian started his career in the same area!

*“My engineers say that Taq Taq is a life's work for an engineer. You could work for 20-30 years on this field.”*

My engineers say that Taq Taq is a life's work for an engineer. You could work for 20-30 years on this field. After four years and a lot of work, we have a good understanding of the field. With each new appraisal well and the 3D seismic, we have learned invaluable information. With each additional piece of data we have to adapt our approach to the field as if it was new, this is both from the subsurface and surface perspective. It also helps to have this kind of return per well: 44,000 barrels per day. In Nigeria a well that produces 2,500 barrels per day is considered very productive!

**TOGY:** Let's talk about Kewa Chirmila and Sangaw North, which is a different partnership, with UK company Sterling Energy. You spudded a well on Kewa Chirmila in March 2009. What do you expect from this asset?

**JCG:** It is more complex. Although it is only 30 kilometres from Taq Taq it is completely different. Here the drilling is going to take longer as this is an exploration well and it is much deeper than our pre-

vious appraisal wells. We need to make absolutely sure we hit the target and collect the necessary data to understand the prospect. I don't have much data because we are still drilling. We are a long way from when and if we hit oil. It is down to exploration but the seismic looks promising.

Going to Sangaw North looks very good. It is a second Taq Taq if not bigger. That is something we have to assess, but the oil comes to the surface by itself! It is unbelievable. You just see the gas bubbles and the oil coming. You have holes full of oil. That is why the Kurdistan Region has the potential to rapidly become a 400,000; 500,000; 600,000 bopd province. I think the aim of the Minister and the Cabinet is to reach 1,000,000 bopd. This should be possible within five or six years; as soon as they reach a common understanding with the Federal Government in Baghdad.

**TOGY:** How difficult was it for Addax Petroleum to mobilise teams and equipment in this region?

**JCG:** In the beginning it was difficult. For the first well we had to buy our equipment. We could not rent because nobody wanted to take the risk to send a rig to north of Iraq and possibly never see it again. So we bought a rig and put in a management contract in place to operate the rig.

Last year when we brought in a second rig, we issued a tender and we received more than twenty answers from people making offers. It was very easy to get people in the country. The Kurds are at a stage of growth and development of the province and are making life very easy for foreigners. You can get your visa when you arrive in the country. They create a friendly business atmosphere, which is extremely helpful to develop business. I have never heard anybody say he would not come back. Taq Taq is surrounded by an area with people who are very well educated and there are no "Mickey Mouse" armies. This assures us that the province is well organised.

Kindergarten in Koya city, Kurdistan Region of Iraq supported by TTOPCO.



Photo courtesy of Addax Petroleum Corporation

I think it proves that the Prime Minister and the President of KRG have adopted a Western model of business – liberal, with a “come and invest, we will provide the framework of a sound environment’ attitude.

**TOGY:** *Does that include transparency and good governance?*

**JCG:** Absolutely. I have never been solicited by anyone for anything. I have never heard anyone complaining that he has been solicited by civil servants or officials – never.

**TOGY:** *Could Kurdistan represent a stepping stone to investment in the rest of Iraq? Is this something you would consider?*

**JCG:** As far as we are concerned, we are oil men. We are ready to go anywhere we can find oil and where the terms are attractive. I believe that the federal government will come to say at some point that there is no ban on companies working in the Kurdistan Region. It is in the interest of Iraq. The longer we stay at the 50 US dollars per barrel mark, the more Iraq will need sustainable production.

*“Contrary to the development of the South(...) where month after month there are talks but no real big contracts signed, in the Kurdistan Region everybody is drilling.”*

Contrary to the development of the South, which will take another five years because nobody is rushing, and where month after month there are talks but no real big contracts signed, in the Kurdistan Region everybody is drilling. DNO has drilled, Heritage has drilled. We have drilled. There is serious ongoing work.

The Kurdistan Region is successful because it has found a balance between the operators’ and the local population’s interests. It ensures that the population gets the maximum return from the wealth that is produced. It is only a matter of time before Iraq, like some other countries, realises that.

**TOGY:** *How important is it for Addax Petroleum to be a pioneer of social responsibility and commitment in this region?*

**JCG:** I think teaching is very important. We note a gap today between Kurdish engineers above 60, who are well trained but still taught in a period where the technology was very different from now, and the new generation who do not know the oil industry at all because there has been no activity there for 30 to 40 years. The older ones go through a process to adapt themselves to the technologies in use now, such as horizontal drilling, 3D seismic, etc. With the younger ones, we have a responsibility to create a new generation of engineers in geophysics, seismic interpretation, etc.

Now coming to the social responsibility, I have mixed feelings. The region needs our support to close the gap which was left open by this 30 years or 40 years of vacuum. However, I don’t think we will be needed for long. The Kurds will soon sustain growth by themselves. They will use our help for 10 to 15 years but will build their own knowledge and capacity. To illustrate, we send doctors to assist the population at the moment but this will not be needed for very long. I think the real responsibility we have is to shorten that period as much as we can, not because we are selfish – on the contrary, but because they are intelligent and self-sufficient people who will take their lives in their own hands and build a future from there. On another front, the environmental issue is indefinite. Environmental responsibility starts from the day a company starts operating until the day it leaves the country. Local environmental conditions should be preserved exactly as they were when the company arrives or even made better.

Ongoing work in the Taq Taq field.



Photo courtesy of Safin Hamed