



Majid H. JAFAR

Crescent Petroleum is the first independent, privately-owned Middle Eastern petroleum company. Headquartered in the UAE, together with its affiliate Dana Gas, it has been commissioned to develop the Khor Mor gas field, and appraise the Chemchemal gas field, two major gas assets in the Kurdistan Region of Iraq. Together with Dana Gas, it struck a strategic partnership with Austrian major OMV and Hungarian MOL positioning the companies for future Nabucco gas supplies to Europe.

The trendsetter

TOGY talks to

Majid H. JAFAR, Executive Director
CRESCENT PETROLEUM
and
Member of the Board
Dana Gas

The Oil & Gas Year: *Considering the history of your family, notably the involvement of your grandfather in the development of the country's energy infrastructure as minister of development in the 1950s, how important was it for you to be again involved in the development of Iraq in such a great way, particularly in the Kurdistan Region?*

Majid H. JAFAR: Of course, for us it is more than an investment. It is more than an energy project. It's the pride of being able to contribute meaningfully to the development of Iraq. We've had a presence in Baghdad for nearly 20 years. But things have been slow there and meanwhile we have been looking at the Kurdistan Region, moving ahead more quickly with a clear vision and the involvement of the private sector and focus on results through correct policies of global standard. Indeed, the last power generation capacity in the Kurdistan Region was the hydroelectric dams inaugurated by my grandfather, the development minister in 1956 and 1958, one in Dukhan and the other in Darbandikhan. And since then there has been a historical neglect of the Kurdistan Region by the Central Government. So we are very happy to play our role in this key project, implementing it at breakneck speed to provide fuel for two power plants under construction. The number one social and infrastructure challenge today in Iraq is the electricity situation, as you know.

TOGY: *You're present in all regions of Iraq, from Basra to Baghdad. Were local security conditions and KRG's fast-moving and fast-tracking development strategy the driving forces behind your investment in the Kurdistan Region?*

MHJ: Yes, we were actually in discussions and meetings with people in the Central Government when we were introduced to Kurdistan Regional Government officials and were made aware of their policies and plans. We were asked to help because of our experience in the region, our local knowledge and our ability to manage risks and move quickly. We already had some of the pro-

cessing equipment on order for another project in the Middle East. We were able to significantly cut down the length of our projects. Of course, the security situation is better in the Kurdistan Region compared to the rest of Iraq. But the main thing is the right policy, clear regulatory framework and fast decision-making. For any investing company this is really more important than security or other considerations.

TOGY: *The infrastructure development of Khor Mor and the connection to those two power plants is a showcase in itself. Do you believe that it can also be a showcase for KRG's abilities to take a contract from ground to completion and show to the rest of the Iraq how to get things done?*

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MHJ: I hope so, and indeed it has been. The oil and gas situation has been very unnecessarily politicised in Iraq, and unfortunately in the rest of Iraq, there's been little progress. The planning, the electricity situation and basic services are still major issues. So this will hopefully act as an example of what is achievable in Iraq by the private sector and by local companies. People see us as a local company and contractors were almost all local contractors. At one point we had more than 2,000 employees, including Iraqis from all parts of the country and all ethnic and religious backgrounds. This was also an international effort; we had pipe supply from China and Thailand and processing equipment imported from the United States and brought by truck through Turkey.

Our focus as a regional company is local benefit and prioritising local needs. Firstly, we cover the needs of the power plants and then secondarily of local industries through projects. Our own estimates are that the Kurdistan Region could be gas bearing and that half of the discoveries could be gas, so it is an important thing to have a correct plan and policy from the outset. Working on local power generation and not importing diesel, will be saving the KRG and Iraq two billion US dollars a year. Once this need is addressed, next comes the development of a local industry, creating more jobs and generating more economic value from the gas. Only then should exports really be considered. Unfortunately, many large international oil and gas companies are just focused on exports. They have neither the knowledge nor the patience or desire to focus on local use, even though that is what Iraq needs most today.

TOGY: *You've been involved in petrochemicals and diverse downstream activities throughout the region. Would you be looking at becoming a stakeholder in some of the downstream projects that are to be created?*

MHJ: Definitely. The idea is that both Crescent and Dana Gas are not just taking the lead in planning and promoting downstream projects but indeed are partnering with the industrial partners that will be brought in. I really believe there's more intra-regional investment in scope now and that Iraq should be looking to the countries in the region and companies from the wider Middle East, North Africa and South Asia region (MENASA). We've had Kuwaiti, Saudi, Indian and Egyptian companies all interested in different types of industrial projects.

The fact that the KRG has cleared the investment law and protection of investors' rights and the fact that there's security and stability in the Kurdistan Region, also helps. These are the main elements that are required for the success of such a project.

TOGY: *You've benefited from a service contract and a strategic alliance in the KRG for the development of the Khor Mor and Chamchamal, while these kinds of contracts have been deemed very unattractive by the industry in the rest of Iraq. Do you think lessons can be drawn from Baghdad on the way it's been handled in the KRG?*

MHJ: There's a lot of misconception and misinformation about the types of contracts to the Iraqi audience. We've signed a 25-year risk service contract that aligns the interests of the government and the investing companies. So we are not hung up about the type of contract. The KRG has also signed PSCs for exploration. PSCs were originally of course designed by Indonesia in the 1960s to protect the government's interest and they've been widely and successfully applied across the region, in Egypt, Algeria, Libya, Oman, Yemen, Qatar and Syria. Unfortunately, there's been misinformation in Iraq and people have been spreading complete nonsense that somehow these contracts give up Iraq's oil wealth to foreigners or that they weaken Iraq's sovereign control over its own oil or that such contracts are only used in the West.



Khor Mor has been fully redeveloped, including LPG facilities, allowing the Kurdistan Region to nurture power generation capabilities for local needs and position itself as an upcoming gas export province

I'm not defending or espousing one type of contract or another. In its 40 years of history, Crescent Petroleum has successfully operated all kinds of contracts. In Sharjah we operate under a tax royalty contract, the old style of concessions. The government is very happy, its rights are protected and it gets the vast majority of the revenues. It's not only the type of contract that matters, but that the government's share of the total over the life of the project is maximised, and that the interests of the government and the company are aligned.

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The KRG has taken a modern and transparent approach based on global standards from the World Bank and other institutions. The draft model agreement was posted on a website and invited comments from everybody and was revised and discussed in several sessions in the parliament. Unfortunately the situation in Baghdad is very different. There's complete confusion as to who's doing what, what's going on; there's no law and there has been absolutely no private investment or progress. The KRG has through its policy added the first new production capacity and reserves to Iraq in a decade. According to the constitution, oil and gas revenues will be shared by all the people of Iraq based on population numbers.

TOGY: *Meanwhile, Baghdad is building a serious grudge against anybody involved in the Kurdistan Region. How has it been affecting your operations in the rest of Iraq, notably the major Ratawi project in the south of the country?*

MHJ: So far there's been no private sector investment in the rest of Iraq. There's just a lot of politics. We have had a presence in Baghdad for nearly 20 years. We aim at a long-term role and positive contribution in the Iraqi oil and gas sector as the only Iraqi-owned and internationally qualified oil and gas company. The Iraqi Minister of Oil's boycotting of companies investing in the north is both illegal and petty politics. We've had three ministers in the last four years in Baghdad and the sad results speak for themselves. We hope that the example set by the KRG will inspire policy and decision-makers to improve the situation in the rest of Iraq. We already see some signs of that.

TOGY: *What can be done to make the Kurdistan Region even more attractive to private local and international investment?*

MHJ: There has been a huge amount of progress in a short space of time. There are lots of areas that need to catch up, among them the service sector. Oil and gas companies need service companies to provide drilling services and seismic services and equipment. So far these kinds of international companies have not entered in a major way. We are trying to encourage the use of local companies so we have put extra efforts; we have provided on-the-job training and have achieved good results helping locals gain experience. But in terms of suppliers, logistics, all this needs to come up. Infrastructure and support in the Kurdistan Region, whether it's airport, telecommunications or government services, are better than elsewhere in Iraq, but we still have a long way to go. Capacity building in the KRG is an area that is

being addressed; it is hiring more people into the Ministry of Natural Resources, training them up to be able to manage all these contracts and companies successfully.

TOGY: *How much of a role in vocational training and bringing up the energy sector should the private sector play?*

MHJ: We are doing a lot in the community support and training-type activities, educational support, university, local health services, recreations and fuel supplies for schools. And we are proud to do our part. There is also capacity building payments and requirements for maximum local content in all the contracts signed by the KRG. But more than that, the companies themselves now have a forum to talk to each other and to learn from each other's experience. We can do a lot because the service companies will follow our lead also, as their clients.

TOGY: *What should be the next step taken by the Kurdistan Region of Iraq to develop its energy infrastructure and where do you see the sector moving in the next five years?*

MHJ: Exploration takes a few years but there's been success already. In parallel, there is to be planning and policy implementation on many levels, transportation and infrastructure, pipelines and works, with their associated regulations, downstream, refineries and price-setting mechanisms. The desire of the KRG and the whole of Iraq is to have electricity at market-related prices. Iraqis are also paying high prices for liquid fuel at



the moment, so there's an ability to pay. But it is important that the right pricing policy is put in place in parallel with exploration and production. A big drawback in the Middle East is the focus on the production and the export without consideration of the whole integrated picture of the energy sector. That awareness is growing now and will lead to less importing of liquid fuels from the outside and more self-sufficiency for producing countries hopefully. We need to have policies in place that are not based on unsustainable subsidies on electricity, local gas pricing and so on because all this needs to be developed in parallel for the sector to really develop well.

TOGY: *The credit crunch-induced crisis opens up a lot of opportunities. Do you see that arising for the Kurdistan Region of Iraq as opportunities for farms and acquisitions might begin to abound?*

MHJ: We are a private company in the Middle East. Our partner Dana Gas is a publicly-listed company in the Middle East. Certainly equity markets are irrational now. In the West, in particular, many companies are trading below their true value and so there may well be opportunities of that sort. Many companies active in the Kurdistan Region are quite large, contrary to what some have said. As for the large Western oil majors that the Middle East governments have traditionally relied on, they all have declining production and declining reserves and have been unable to move quickly and add value to the region. So smaller companies can also move more quickly and deliver results more cost-effectively and more efficiently overall. There may be some consolidation

in the industry. I don't think it will negatively impact the Kurdistan Region. The value of being in the Kurdistan Region of Iraq is increasingly being recognised, not only for the potential but also for the good operating environment.

TOGY: *Going back to your grandfather, who was one of the builders of the energy sector in Iraq, if he was to see what has been done by Crescent and Dana in the region today, what do you think he would tell you that could have been done better and what would make him the proudest?*

MHJ: I hope that he would be proud that we are continuing his legacy in a way, but within the private sector. One thing from his time and the decade of the monarchy and the development board is that 70 percent of Iraq's oil revenues were automatically transferred to the development board for investment in infrastructure projects of national benefit. Only 30 percent was left for the government budget and even then oil revenues were much lower than they should be today. That was a good model. And this is why Iraq made some huge leaps until later when the oil money was squandered on the military for decades. I think the immediate challenge for Iraq is to put in place the right legislation and policy to get production up for the benefit of the Iraqi people. Iraq can easily be producing ten million barrels per day. Every day we put this off, the Iraqi people lose billions. But beyond that we need wise deployment of those funds so that the economy is not only dependent on oil and is sustainable and based on a wider economic development.

Crescent Petroleum-Dana Gas's development of the Khor Mor field was achieved very rapidly.

