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Gas: Plans develop to raise foreign sales

By Simeon Kerr

In 1958, Majid Jafar's grandfather, then the Iraqi development minister, opened two hydroelectric dams in the mountains of Iraqi Kurdistan.

Until a joint venture between the Jafar family's Crescent Petroleum and its affiliate Dana Gas started to produce Kurdish gas in 2008, there had been no new power-generation facility in the northern region of Iraq for 50 years.

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"Baghdad made Kurdistan dependent on the rest of Iraq for its power – it could soon be the other way round," says Mr Jafar, chief executive of Crescent and a director of Abu Dhabi-listed Dana Gas, in which Crescent holds a 22 per cent stake.

Power produced in Kurdistan has risen from zero to 2,000MW, led by private sector investment, and is expected to reach 6,000MW over the next few years, which would be enough to supply other regions of Iraq.

The rest of Iraq has a basic electricity shortfall of 5,000-6,000MW. "The irony is that flared gas alone in Iraq could produce that," says Mr Jafar, who is critical of the statist approach of Baghdad, which has spent $18bn over the past decade without managing to deliver a steady supply of electricity.

Iraq's loss is a win for the Kurdish regional government. Exporting electricity to the rest of Iraq is one of the KRG's main goals for diversification of the economy, according to Qubad Talabani, head of the KRG's department of co-ordination and follow-up.

Dana Gas controls the Khor Mor field, which produces gas and condensates. The gas is used to fuel power stations in nearby Suleimaniya and the capital, Erbil.

Another United Arab Emirates-based firm, Abu Dhabi National Energy, or Taqa, recently bought a 50 per cent stake in the Suleimaniya power plant, one of two facilities operated by Mass Global Investment.

The promotion of gas as a feedstock for industry is, for now, stymied by a national gas pricing policy, a function of federal lawmaking at the national level made trickier by on-the-ground tensions between Baghdad and Erbil.

Beyond power, however, it is the prospect of exporting gas to neighbouring markets that is stimulating the interest of other oil companies.

If Kurdish oil contracts have boosted the region's autonomy, the development of its gas reserves promises to consolidate financial self-sustainability.

The region's gas plans could prove even more decisive as it considers building long-term gas pipelines into Turkey. This could tie northern Iraq into long-term sales contracts with Turkey and even Europe.

The KRG oil minister has said he expects the region to export around 10bn cubic metres of gas a year to Turkey, and potentially much more to the EU. The region could hold as much as 5.7tn cubic metres (tcm) of gas. Iraq as a whole is believed to have the world's 10th-largest reserves, at 3.2tcm.

Dana Gas, which produces 10.2mcm of gas a day, plans to double output. Northern Iraq as a whole could raise production to a few billion cubic metres a day, says Mr Jafar – "easily enough to supply Turkey and Europe".

The gas story has attracted Anglo-Turkish Genel Energy, which this year took control of Heritage Oil's Maran acreage. The investment vehicle, run by Tony Hayward, former BP chief executive, is placing gas at the centre of its Kurdish strategy, even though markets are keener on the more fungible commodity of oil.

Mr Hayward says he is in talks with state and private Turkish companies. "[The acreage] is 180km from the biggest gas short in the world," he says, referring to Turkey's large gas demands. "Turkey is a market that pays international prices [for gas]." The pipeline, however, is perhaps the easiest element of the equation.

The overarching political concerns amid rising military tensions will continue to mar confidence.

"There has to be some settlement with Baghdad to really move things forward," says Stuart Joyner, an analyst at Investec Securities.

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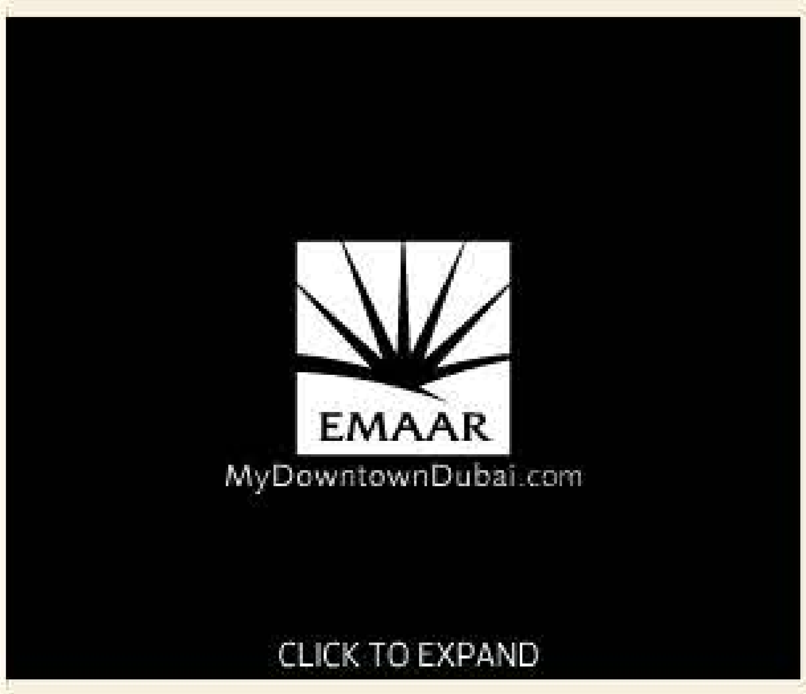

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