

The New Iraq

2011 Discovering Business



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**TRADE &
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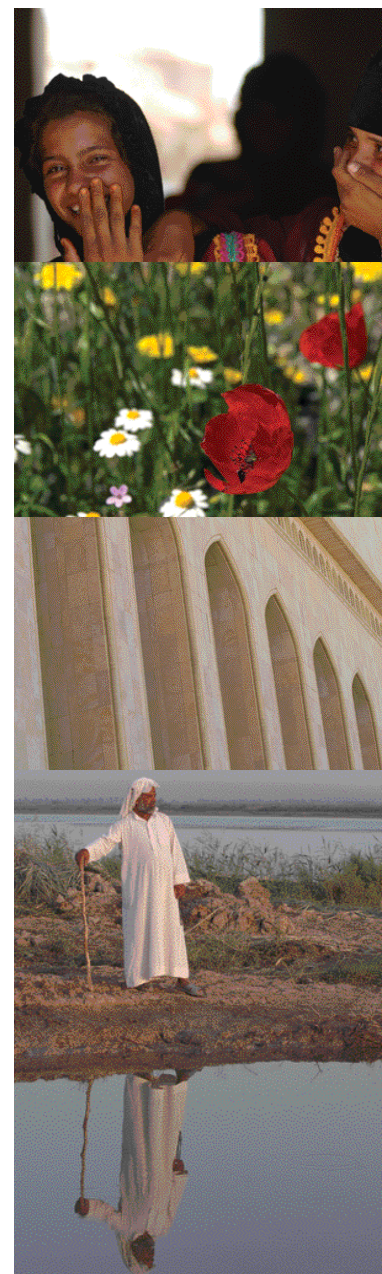


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Introduction

Iraq was known as Mesopotamia (from the Greek between the rivers) until the end of the First World War. The region is thought to contain the legendary Garden of Eden and is where Ur, Babylon and other historic and religious sites are located.

Following the end of the First World War and the end of Turkish Ottoman rule, Iraq was placed under British administration in 1920 by a League of Nations mandate. In 1932, the area achieved independence as a kingdom with Britain retaining military bases and rights of transit for its forces until the overthrow of the monarchy.

A Republic was declared in 1958 after a military coup. Saddam Hussein took control in 1979. After his demise, the country became a parliamentary democracy following ratification of the country's constitution on 15 October 2005.

Iraq has a land area of 432,162 square kilometres and borders Jordan to the west, Syria to the northwest, Turkey to the north, Kuwait and Saudi Arabia to the south and Iran to the east.

Iraq is composed of 18 governorates or provinces. These are Anbar, Babil, Baghdad, Basrah, Dahuk, Diyala, Erbil, Karbala, Kirkuk, Missan, Muthanna, Najaf, Ninewah, Qadissiya, Salah al Din, Sulaymaniyah, Thi Qar and Wassit.

Iraq's population is estimated at 30 million with an average age of 20.6 years. The population is 97% Muslim. Main ethnic groups are Arab and Kurds but Iraq also has distinctive Turcoman, Chaldean, Assyrian, Armenian, Bahai, Mandeian and Yazidi communities.

Main Religion: Islam (60-65% Shia and 32-37% Sunni) approx

Principal Cities (by population)

Baghdad (capital) (9.5 million)

Mosul (3 million)

Basrah (2.3 million)

Erbil (1.8 million)

Sulaymaniyah (1.8 million)

Kirkuk (1.2 million)

Ramadi (700,000)

Fallujah (850,000)

Karbala (800,000)

Najaf (800,000)

Dahuk (600,000)

Zubayr (600,000)

Al Hillah (510,000)

Amarah (450,000)

Kut (450,000)

Tal Afar (450,000)

Baquba (410,000)

The 2005 constitution guarantees Iraqis basic rights with an independent judiciary. The President protects the constitution and unity of the state, while the Prime Minister is the direct executive authority and Commander-in-Chief; he is nominated by the Council of Representatives.

The Head of State is President Jalal Talabani since 6 April 2005. The Head of Government is Prime Minister Nouri al-Maliki since 20 May 2006. Negotiations for a new coalition government have been

ongoing since national parliamentary elections on 7 March 2010. The elections were based on an open list system that elected the members of the Council of Representatives, who will elect the President and approve the next executive branch appointments.

Prime Minister al-Maliki's State of Law coalition won 89 seats, the Iraqi National Movement coalition led by former PM Ayad Allawi won 91 seats. The Kurdish bloc, led by Kurdistan Democratic Party President Masoud Barzani and Patriotic Union of Kurdistan, President Jalal Talabani, won 57 seats. The Iraqi National Alliance led by Muqtada al-Sadr have 70 seats and other parties 18 seats.

The main industry is the production of crude oil with an estimated 2.482 million barrels per day (bpd) in 2009. Estimated oil reserves 143.10 billion barrels, estimated natural gas reserves 3.17 trillion cubic metres. Other industries include production of chemicals and fertilisers, textiles, construction materials, pharmaceuticals, metal products, processed foods, tobacco and paper.

Approximately 13% of Iraq is arable and some 35,000 square kilometres is irrigated. The country cultivates wheat, barley, rice, vegetables, dates, cotton, coffee and also farms sheep and poultry.

Iraq's main export trading partners are the US (38.6%), India (12.2%), Italy (9.8%) and South Korea (7.1%)

Principal import partners comprise Syria (26.2%), Turkey (19.6%), US (10.6%), Jordan (6.4%) and China (6%)

Transport:

19 principal airports

Railroad network of 2,272 kilometres standard gauge track
37,851 kilometres of paved roads

Rivers and waterways of 5,279 kilometres including Euphrates (2,815 kilometres) and Tigris (1,899 kilometres)

58 kilometres of coastline located between Umm Qasr and Al Faw

Main Ports:

Basrah, Khor Az Zubayr and Umm Qasr

Telecommunications:

International Dialling Code: 964

Cellular services based on three nationwide GSM networks

Press:

Al-Sabah - state sponsored

Al-Zaman - private London based daily printed in Baghdad and Basrah with English language pages

Al-Mada - Baghdad private daily

Al-Mashriq - Baghdad private daily

Al-Dustur - Baghdad private daily

Al-Manurah - Basrah private daily

Television:

Alsumaria- a private satellite TV broadcaster

Al-Iraqiya - state sponsored

Al-Sharqiya - Dubai based private satellite TV channel

Kurdistan satellite channel - operated by Kurdistan Democratic Party

Kurdsat - operated by Patriotic Union of Kurdistan

Internet news services:

Aswat al Iraq

Al-Bawaba.com

Iraq-businessnews.com

Iraq.net

Iraq-daily.com (part of wn network)

sustainableiraq.com

baghdadtonight.com.

Radio:

Two public and three private stations

Source: CIA World Fact Book, BP Statistical Review of World Energy, IMF and the BBC

Iraq 2010 budget allocations

Ministry or Institution	Appropriation IQD billion	Capital Budget IQD billion
Kurdistan Regional Government	10,234	3,180
Interior	7,188	300
Electricity	6,890	1,127
Health Care	5,759	1,127
Defence	5,734	445
Education	5,544	500
Trade	4,786	68
Agencies independent of ministries	4,493	2,556
Oil	4,254	3,104
Higher Education and Scientific Research	2,549	350
Municipalities and Public Works	2,341	1,496
Council of Ministers	1,530	354
Water Resources	1,290	1,060
Construction and Housing	960	700
Industry and Minerals	664	500
Youth and Sports	646	550
Transport	627	450
Justice	543	15
House of Representatives	445	7
State	441	92
Supreme Judiciary Council	316	22
Communications	316	300
Planning and Development Co-operation	294	58
Labour and Social Affairs	269	24
Displacement and Migration	228	15
Culture	202	28
Science and Technology	143	30
Presidency of the Republic	119	14
Environment	95	25
Human Rights	30	10

Total: IQD68,930 billion IQD18,507 billion

Source: Ministry of Finance

Introduction - Map



Message by Dr. Sami Al-Araji, Chairman of the National Investment Commission



Dr. Sami Al-Araji

Welcome to the second edition of The New Iraq – Discovering Business, an invaluable resource providing background on Iraq's economic and cultural landscape together with expert insights into the country's key economic industry drivers.

The rebuilding of Iraq's economy is quite possibly the biggest global

investment opportunity to emerge in the last 50 years, with every sector open for investment.

With a largely untapped market of up to 30 million consumers, recently restated high oil & gas reserves (among the highest in the world) and a strategic location, Iraq's economy has lain dormant for decades.

Our Five Year National Development Plan for 2010-2014 targets economic growth of 9.4% per year. The plan includes more than 2,700 projects worth up to US\$186 billion. In the industrial sector alone, US\$10.7 billion of projects are planned to support the reconstruction effort and a third of the country's 2010 budget expenditure of US\$72.1 billion is earmarked for capital projects. Indeed, the country's infrastructure needs are enormous and as part

of the Government's commitment to diversifying the economy away from oil; housing, infrastructure renewal, industry, manufacturing, agriculture, food processing, transportation, financial services and tourism are among the many areas in Iraq steadily opening up. The sky is the limit for investors.

As Chairman of Iraq's National Investment Commission (NIC) my mission, with the support of my team, is to help foreign companies and investors become involved in this massive reconstruction opportunity. We have taken several steps to facilitate this, making a number of exemptions, incentives and guarantees available to foreign investors under Iraqi law. The National Investment Law 13 of 2006 has been amended to allow non-Iraqis to own land for housing projects as well as investment partnerships with State Owned Enterprises. The same Law exempts foreign companies from tax for up to ten years as well as import fees for a period of three years.

We work on a national and provincial level, acting as a one-stop-shop to assist foreign companies enter and operate efficiently in Iraq and to help investors to obtain licences, tax exemptions and land. We are committed to creating mutually beneficial relationships with investors from all parts of the world and encourage you not to miss out on Iraq's unique investment opportunity.

Iraq has the oil, the water, land and manpower to become one of the region's richest and most successful economies.

We at the NIC are here to help you and your business and look forward to welcoming you to Iraq.

Message by the British Ambassador to Iraq



John Jenkins

As I write this foreword, seven months after the 7 March 2010 Elections, we still await the formation of a new government. It would be nice to think that such a government will have been formed by the time you pick up this publication. Insh'allah. In the Middle East patience is the essential virtue.....

I have been Her Majesty's Ambassador to Iraq since December 2009. I saw the last days of the previous Government and have waited since then – with many others – in eager anticipation of the sort of new government which would deliver the reconstruction that Iraq urgently needs. The length of the intervening period has been intensely frustrating for the people of Iraq, who showed their commitment to democracy by voting in large numbers in March, in spite of uncertain security and attempts to derail the electoral process. So much still needs to be done here and any delays often affect the most needy disproportionately. But all Iraqis need a government that provides the services and enables the jobs that underpin a decent life. And business needs a government that takes tough decisions for the right reasons and enables them to do the work that will underpin reconstruction and sustainable economic progress. We need clarity, stability and transparency.

When I reflect on the message my predecessor, Christopher Prentice, wrote for this publication a year ago, it's easy to wonder how much

progress has been made in that time. Christopher spoke about Ministries working in very difficult conditions, lacking capacity and with poor communications infrastructure. He talked of the lack of a regulatory framework for business and of corruption. Many of these problems undoubtedly continue to exist. But there is also no getting away from the fact that business continues to be done here. I am pleased that this continues to be the case for British companies. Not only those multinationals that are household names but also an increasing number of less well known companies.

Indeed during the celebrations for the Queen's Birthday Party held at the Embassy in June 2010, I was able to talk to our assembled guests about the progress being made across a range of sectors by British business in Iraq. Companies active in project management; in construction; in banking and finance; in software; and in business services were given as examples. The breadth of engagement is impressive.

And in my time here I have been pleased to see a growing interest from British businesses wanting to come to Iraq. There are opportunities to seize now. And, whatever the current difficulties, there can only be increasing opportunities in the years to come. That is why UK Trade & Investment, the government department that help British companies do business overseas, has expanded its presence in both Baghdad and Erbil. Our trade officers are here to help and support more British companies to do business in what is a challenging and rewarding market.

With the promise of a new Government, I hope that we shall see a new Iraq that is truly open for business and with an environment that is welcoming to those who want to trade and invest here.

Message by Baroness Nicholson of Winterbourne, Executive Chairman, IBBC (Iraq Britain Business Council)



Baroness Nicholson opening an IBBC Trade Conference in Basrah

As a long term friend of the Iraqi people, I am confident that strong government, democratic representation, the fight against corruption, the separation and the balance of powers together with the rule of law are steadily making the headway necessary to enable the Federal Republic of Iraq to flourish and to succeed.

At the same time, the obstacles that are inhibiting the full establishment of the free market pose continued and strong challenges to both inward investment and the steady growth of local businesses. One result is the exceptionally high unemployment and lack of skills and qualifications amongst the young who must

provide the talent pool for the future generation of Iraqi managers and leaders, as well as the all important workforce of today.

In June 2009 I co-founded IBBC (Iraq Britain Business Council) to assist the growth of Iraq by linking UK businesses with their Iraqi counterparts. In the short time since its formation, IBBC, a not for profit company registered in the UK, has become the premier membership organisation promoting business, industry, trade and investment with the Republic of Iraq. IBBC is committed to a free, prosperous and diverse Iraq. It is a powerful network of the most important Iraqi and British business organisations, enjoying high level support from both Governments, which brings together Iraqi and British companies and public sector bodies by giving them a joint platform; and through the identification and fulfilment of their mutual interests and common goals.

IBBC, however, is more than a business initiator; it also aims, in coordination with the Iraqi Government, to promote best practice and international standards as a means to facilitate business in Iraq. Iraq is now building on her present achievements by reviving and expanding her economic base in order to bring economic security and prosperity to her people. We in IBBC are proud to support those goals.

The following companies are Founder Members of IBBC:

Al-Moosawi Group, AMEC, ArmorGroup Iraq, Asia Power Capital, Avicenna Capital, Chevron Business Development Inc, Consolidated



IBBC Trade delegation with Iraqi Businessmen in Baghdad

Contractors International, Control Risks, Dahuk Chamber of Commerce, DLA Piper LLP, Erbil Chamber of Commerce, Ernst & Young Iraq, Exxon Mobil, Foster Wheeler, Fursan Security, Gulfsands Petroleum, HSBC, KCA Deutag, Khoshnaw Company, Kier Construction, Korek Telecom, Kuwait Energy, Mamnoon Limited, Mott MacDonald, Olive Group, Penspen Group, PricewaterhouseCoopers, Rafidain Construction and Engineering, Saracen Trade & Investment Inc, SKA Air & Logistics, Sulaymaniyah Chamber of Commerce, Swagelining Limited, Tata Steel, Trade Bank of Iraq, TRC, Vitol, Zagros Company and Zain.

IBBC is a wholly private sector organisation; led and financed by its membership. Applications for membership are reviewed by the Founder Member Board which meets every month. The Full Council meets twice yearly, while the Sector Tables meet bi-monthly, supported by Executive Manager, Christophe Michels and Assistant Executive Manager, Philip Lewis.

IBBC Sector Tables

IBBC has formed the Oil & Gas Sector Table (OGST) under the Chairmanship of the Penspen Group in order to assist Iraq in the effective and sustainable development of its petroleum reserves to allow Iraq to enjoy the best possible economic and social development that such wealth will bring.

On similar lines to the OGST IBBC has established a Financial and Professional Services Table led by HSBC and the Trade Bank

of Iraq, that will work to assist and support the promotion of a strong and prosperous business environment in Iraq as well as a Construction and Infrastructure Sector Table chaired by Kier Construction and Consolidated Contractors International.

IBBC University

IBBC believes strongly that the key to Iraq's long term prosperity and strength can only be found within the Iraqi people. IBBC has decided therefore to establish and implement substantial educational and vocational training initiatives in Iraq in all fields of business and industry, in order to expand the skills base at every level of Iraqi society. IBBC will achieve this through its University programme, started in October 2010 as a private public partnership with the Iraqi Ministry of Higher Education, having its first campus inside Basrah University at the invitation of the Chancellor of Basrah University.

The future

After a highly successful first year, IBBC is continuing to organise high level trade delegations to Baghdad, Basrah and Erbil in 2010/11. Amongst these, IBBC has accepted the kind invitation from the Governor of Basrah to hold an Investment Conference in January 2011 and from the Government of Iraq to do likewise in June 2011. IBBC will also organise with the City of London an Iraq Day at Mansion House in May 2011. Other major work will flow from these events, as IBBC implements its headline statement, "Together we build Iraq".

Huge opportunities but guidance is needed



Ismail Maraqa, PwC Country Senior Partner, Iraq

For the past 30 years, Iraq's economy has been distressed by costly militarisation, three wars and over ten years of international sanctions. However, things are changing for the better and faster than the outside world sometimes appreciates.

There are big opportunities for business development

within Iraq's private sector as the country steadily breaks free from the shackles of its past, believes Ismail Maraqa, Senior Partner in the country for PwC.

PwC, which carries out a variety of advisory, tax and audit work for clients in Iraq from offices located in Baghdad and Erbil, sees opportunities developing in every industry and governorate – opportunities that will help build Iraq and support its endeavour to operate a diversified economy. The nation's richness in natural resources makes it potentially one of the wealthiest countries in the world, with the production and export of oil putting it on the road to prolonged economic growth and long term affluence.

There are however, challenges, particularly due to the lack, up to now, of sufficient investment, aligned legislation and business practices. As a consequence, potential investors need expert advice

and guidance through Iraq's sometimes complex commercial environment by those with in depth knowledge of the country's economy, regulations and ways of doing business.

As Iraq gradually rebuilds its relations with the international community, it is vital that those wishing to enter the Iraqi market develop a deep understanding of the country and its specific business attributes, Mr Maraqa believes.

Investing in Iraq has started to become very attractive, following significant enhancements to its security status in the last year. Nevertheless, prospective investors remain apprehensive about security and are more likely to name regulatory barriers and other practical obstacles to doing business as their main concerns.

Despite this, recognition of investor appetite has encouraged Iraq's Government and its private sector to take extensive steps towards developing the business and investment environment.

General investment conditions do however, remain tough and challenging - particularly for small and medium investors. Prospective investors need to allow for substantial security costs; burdensome and obscure procedures regarding business visas or new business registration; delays in payment for some Iraqi Government contracts; and sometimes untrustworthy, non-translucent dispute resolution systems. Claims of corruption are still prevalent and the inheritance of central planning and immature state owned entities still restrains economic development. In its 2010 Doing Business Report, the World Bank ranked Iraq in 153rd place out of 183 on the ease of doing business.



Even though Iraq is not yet entirely stable, it presents a window of opportunity for companies willing to invest in one of the world's most significant emerging markets and be part of the process of rebuilding a country from the ground up. Indeed, after many years of war and sanctions, Iraq has recovery, reconstruction and development needs across all sectors of its economy. As soon as you become at ease with the security situation, you will find tremendous prospects for profit, both financially and morally.

Below are a few key things to be aware of if you are considering doing business in Iraq.

Political risk – In general, the risk of political instability can be disruptive to business activities of foreign firms but in Iraq the risk is multifaceted. The country has made much progress since it hovered on the brink of civil war three years ago. This can be seen clearly in its enhanced security situation. However, substantial cracks remain and it is crucial that foreign companies develop a good understanding of the political environments of the different provinces in which they do business, in order to fully assess the risk to their business ventures.

Laws – Until recently, companies working in Iraq under contracts with the US Government or other coalition countries benefited from

exemption from the laws of Iraq. However, the Status of Forces Agreement came into effect this year and put an end to any exemptions. This means that foreign companies and individuals are not only subject to criminal and civil liability in Iraq but must also comply with all regulatory and legal requirements for doing business there.

Investment licence – Iraq's National Investment Law incorporates incentives for foreign companies to invest, including an exemption from taxes and fees and a guarantee that foreign investor capital will be treated by the same token as the domestic investor capital. Under this law, companies must apply for and receive a project specific investment licence from either the National or a regional Investment Commission to benefit from the incentives. The Kurdistan Regional Government has passed its own Investment Law which includes a few additional incentives.

Imposing contracts – Iraq's legal system goes back generations and has deep rooted conventions. Although some contemporary notions have been introduced, additional work is needed to integrate international standards for regulating business and settling disputes. Whenever viable, foreign companies should include arbitration clauses into their contracts to benefit from more common settings

“The nation’s richness in natural resources makes it potentially one of the wealthiest countries in the world, with the production and export of oil putting it on the road to prolonged economic growth and long term affluence”.

and laws for resolving disputes. Nonetheless, companies should bear in mind that Iraq is not yet a signatory to the New York Convention, the major treaty that guarantees implementation of foreign arbitral awards.

Property ownership – Although the Central Government of Iraq allows long term leases for foreign companies, up until 2009 it did not permit property ownership. In November of that year, an amendment to the Investment Law provided for foreign investors to own land in Iraq if such land is to be used for housing projects but it excludes hotel construction. The Kurdistan Regional Government has an Investment Law that allows property ownership within its three Northern provinces.

Trade representative office – The simplest way to establish a commercial presence in Iraq, especially for foreign companies seeking contracts with the Government, is to register as a trade representative office. By doing so, a foreign company gets the right to conduct business development and to negotiate for contracts with Iraqi ministries.

Branch office – Non-Iraqi companies may operate through the formation of a branch office. Although such offices face some constraints on what they can do, this is the fastest way to set up an office to engage in commercial activities in Iraq and is less restrictive than a trade representative office that can engage only in business development activities. The most popular structures of incorporation for foreign owned entities are the Limited Liability Company and Joint Stock Company.

Tax – Foreign companies doing business in Iraq are often mystified by the tax system as its tax rules are often vague. Normally, Iraqis and non-Iraqis living in Iraq must pay tax on income that originates there. Foreign companies should however, seek expert advice on how their businesses will be dealt with under Iraq’s tax laws and how to track and convey income.

Entry and exit – The Status of Forces Agreement, which removed immunity, made all foreign company employees subject to Iraq’s visa processes. Visas must now be obtained from an Iraqi embassy before travelling to Iraq. The visa procedure is lengthy and can sometimes take weeks or even months. This process can be speeded up by obtaining a letter of approval from an Iraqi representative office. Additionally, any foreign company that obtains an investment licence must have a guaranteed entry and exit for its employees.

Businesses looking to get involved in rebuilding Iraq have to conduct a large amount of due diligence and weigh up the risks and rewards. However, they should not be put off as Iraq offers huge potential for businesses to invest in a key emerging market and contribute to programmes that are shaping the country’s future. Operating in Iraq is about making a difference on the ground and seeing the impact on a daily basis - it’s truly rewarding work.

PwC firms provide industry focused assurance, tax and advisory services to enhance value for their clients. More than 161,000 people in 154 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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Legal considerations for doing business in Iraq

Since 2003, Iraq has been in a period of rapid transition, both politically and economically. This article highlights the legal foundations for economic transition.

In order to understand the economic transition in Iraq, one needs to consider the following key matters:

- Between 1990 and 2003, the Iraqi economy faced a debilitating series of international sanctions that had a massive negative effect on the Iraqi economy and the buying power of Iraqis. Coupled with this was an economy that had, since the early seventies, become heavily centralised and therefore, by 2003, there was a weak private sector.
- In 1991, the Central Government withdrew from the Kurdistan Region which allowed the Kurds to develop their own government and economy. In many ways, this economy, though tied to that of the rest of Iraq, has been able to evolve at a different, faster pace. As a result of the politico-economic developments in the Kurdistan Region, relations with the Central Government have encountered tensions, especially with respect to the development of oilfields in the Kurdistan Region.
- Following the removal of Saddam Hussein from power in 2003 and the subsequent establishment of the Coalition Provisional Authority (CPA), the latter attempted an aggressive economic liberalisation campaign, which was somewhat alien to the Iraqis. It intended to lay the foundations for a western style economy and attempted to

quickly integrate the Iraqi economy into the world economy. Examples of this include; establishing the Trade Bank of Iraq to finance Iraq's trade needs; introducing new legislation such as an investment law that opened Iraq to foreign investment and Western type intellectual property laws; and putting in place institutions that were intended to create transparency such as the Public Integrity Commission. In due course, after the CPA was dissolved, successive Iraqi governments only partially began to implement these laws and in certain instances reverted to Saddam era laws, as the Iraqis were more familiar with them.

- In 2003, Iraq had massive debts to the international community, as well as compensation to be paid to Kuwait following the Iraqi invasion of Kuwait in 1990. These obligations had led to a large number of judgments and attachments on Iraqi assets all over the world. It was therefore difficult for Iraq to engage easily in international trade. In late 2003, the United Nations Security Council established the Development Fund for Iraq into which all Iraqi oil revenue was to be deposited and introduced immunity for the fund's account. This immunity continues to be in place, although it is extended solely through the discretion of the UN and the US.
- The security agreement between the US and Iraq went into effect on 1 January 2009. Prior to that, pursuant to CPA Order No.17, foreign companies carrying out business in Iraq with the coalition were exempt from complying with Iraqi law. After the agreement went into effect, such companies had to comply with Iraqi law.

“Since 2003, there has been tremendous interest by foreign commercial organisations in conducting business in Iraq. There has been a large influx of foreign companies that have entered Iraq”.

This background is intended to provide an overview of the problems faced by Iraq after the fall of Saddam Hussein, factors that continue to strongly affect doing business in Iraq in 2010.

A brief overview of the constitutional framework

In 2005, a permanent Constitution was adopted in Iraq by a referendum. It replaced the Transitional Administrative Law, which played the role of a temporary Constitution and laid the foundations of the permanent Constitution.

The principal aspects of the Constitution are:

- That it basically provides for a Federal State, with both a Federal Government and at this stage, one Regional Government, the Kurdistan Regional Government. Although the Constitution allows for the establishment of other regions, no other regions have so far been formed.
- The Federal structure divides powers between those that are exclusively of the Federal or Central Government, shared powers and those exclusively of the Regional Government.
- The Constitution divides powers between the Executive, Legislature and Judiciary. In turn, the Executive powers are divided between the positions of President, who is the Head of State and the Prime Minister, acting through the cabinet, who is also the Commander-in-Chief of the Armed Forces.

There have been a number of developments with respect to the Constitution after its adoption that need to be kept in mind when conducting business in Iraq. These include:

- From almost the beginning, the various political actors have not chosen to necessarily comply with the provisions of the Constitution, especially its deadlines – or at least only comply with it when it suited their needs. For example, the Constitution provided for amendments to be introduced within four months by the first parliament elected under it. These proposed amendments were not introduced until 2009, at the end of the term of that Parliament. Another critical requirement of the Constitution was that Iraq hold a referendum by the end of 2007 relating to Kirkuk and other disputed areas. To date, this has not been done and continues to be a hotly debated matter.
- When the suggested amendments were introduced – they require a referendum to be implemented – they included the establishment of a Federal, higher assembly to effectively make Iraq a bicameral state.
- One of the principal purposes of the Constitution was to introduce checks and balances on the Executive, especially the position of Prime Minister. In practice, however, for a number of reasons, two inconsistent consequences have resulted. On the one hand, on many executive matters, there have been no checks and balances, such as on the Prime Minister's powers as Commander-in-Chief. On the other



hand, the checks and balances that have been effective have resulted in deadlocks that have tended to weaken the ability of the State to act cohesively.

- As a result of the extremely tense political atmosphere between different political factions, coupled with the relative inexperience of certain MPs, Parliament has not acted effectively as a check on the executive and in terms of legislation, with laws including key laws like the budget being held up for long periods.

Legal framework for conducting business in Iraq

Since 2003, there has been tremendous interest by foreign commercial organisations in conducting business in Iraq. There has been a large influx of foreign companies that have entered Iraq. However, most of these were involved in providing services and goods to the coalition forces. CPA Order No.17, which continued in force until 31 December 2008, provided companies that carried out

business with the coalition forces immunity from complying with Iraqi Law. Accordingly, most of these companies, mainly service providers, did not attempt to comply with Iraqi Law by, for example, registering their companies or by otherwise complying. In particular, these companies were exempt from paying Iraqi taxes.

At the time of writing, the current framework for conducting business in Iraq effectively divides businesses into those carrying out business with Iraq and those carrying out business in Iraq. Those carrying out business with Iraq include companies that sell goods to Iraq, whether to the Government or to companies doing business in Iraq by way of tender or otherwise. These companies are not subject to Iraqi Law, other than the laws relating to the implementation of tenders, anti-corruption laws and importation laws. These companies are not subject to taxes.

Companies that, however, carry out business in Iraq are subject to Iraq laws. The principal laws affecting these companies include:

1. Iraqi Companies Law of 1997 (as amended): This law basically provides that any company doing business in Iraq must be registered with the Companies Registrar Office at the Ministry of Trade. This only applies to companies doing business outside the Kurdistan Region; if a company is carrying out business in the Kurdistan Region, it must register with the Ministry of Trade of the Kurdistan Regional Government. Companies can have one of three types of registration:



a. **Representative office:** a company can establish a representative office in either Iraq or the Kurdistan Region. The process is relatively simple, although it may take some time to complete. The activities of a representative office are limited to marketing and support services and it cannot transact business or enter into contracts.

b. **Establishment of a subsidiary:** a foreign company can establish an Iraqi subsidiary in both Federal Iraq or in the Kurdistan Region. There are usually capital requirements depending on the type of business the subsidiary is conducting as well as requirements for renting space and hiring legal representatives and accountants. A subsidiary would be a stand alone entity with limited liability and could transact the businesses it was incorporated to carry out.

c. **Establishment of a branch of the parent:** a foreign company can establish a branch in either Federal Iraq or in the Kurdistan Region. Currently, the requirements for establishing a branch differ between Iraq, where the key requirement is that a company have a contract with the Iraqi Government or an instrumentality thereof, whereas in the Kurdistan Region there is no such requirement. A branch would be able to carry out the business activities of its parent, yet there would not be any limitation on the parent's liabilities in Iraq.

2. **Taxation Laws:** Companies that are carrying out business in Iraq must generally pay taxes to the Ministry of Finance; the general rate is 15% of net income. There are, however, two significant exemptions that companies must be aware of. First, the security agreement between the US and Iraq provides tax exemptions for

companies carrying out business in Iraq through a contract with the US Government. A prerequisite for this exemption would therefore be a contract with the US Government. Second, if a company is investing in Iraq and obtains an investment licence (issued pursuant to the Investment Law No.13 of 2006, as amended), then it is exempt from Iraqi taxation for ten years, which period is extendable for an additional five years upon meeting certain criteria.

3. **Employment Laws:** With few exceptions, Iraqi Law does not have a requirement against the use of foreign labour to work on projects in Iraq. However, where a foreign investor seeks to obtain an investment licence, the National Investment Commission will look for 50% of the labour force comprising Iraqi labour, provided that such labour has the requisite skills. It is also important to note that a foreign business entity in Iraq must enter into a contract, governed by Iraqi Law with its employees and the contract must be in the Arabic language. It must contain certain provisions relating to health and safety and training, as well as termination provisions.

4. **Investment Law:** As stated above, the Investment Law provides certain benefits to foreign investors, including a tax break and the right to own land if such land is to be used for building housing in Iraq. Other benefits include the right to import, for a period of three years, equipment and machinery for use in their projects without paying customs duties.

Salem Chalabi
DLA Piper, Iraq

Iraqi banking sector - Huge opportunity for growth

James Hogan – Chief Executive Officer, HSBC Iraq

Much as Iraq is a country with an extraordinarily rich and cultured past, similarly its financial services industry has a long and varied history. While there is no question that the banking sector has a bright future, charting a clear roadmap is not straightforward. Similarly, being able to take a long term perspective is essential.

The banking industry in Iraq is currently dominated by the Government sector. It is estimated that the two largest state owned banks, Rafidain and Rasheed, account for approximately 90% of all Iraqi banking assets and a similar proportion of deposits. The private sector is therefore currently small. It is very clear, however, that it will be the privately owned banks which will support growth in the wider economy in the years ahead.

For the Iraq economy to prosper once again, there is a clear dependency on sustained growth in the private sector. This will create a better standard of living for all Iraqis and create employment. In order to achieve this economic growth objective, the country needs a modern banking sector which will allow the means for Iraqi entrepreneurs and multinational investors to build profitable businesses in Iraq. The privately owned banks therefore play a vital role in the future development of Iraq. As such, their progress can be seen as a proxy for the well being of the wider economy.

Milestones in the development of the privately owned banking sector are as follows:

1890/1	Entry of Ottoman Bank
1922-1964	Establishment of a series of privately and government owned banks*
1941	Rafidain Bank formed
1964	Nationalisation of banking system
1992	Re-establishment of private sector banks approved
1992-2002	Private sector banks established but prohibited from international transactions
2003	Private sector banks allowed to process international transactions, eg. cross border payments and letters of credit

* A number of the privately owned banks active in Iraq today previously operated in the country. For example, HSBC which, through Dar Es Salaam Investment Bank, is currently the largest private sector bank in Iraq by market capitalisation (see table), had branches in Baghdad and Basrah after World War I.

Finance - Banking

In its present form and in the context of international banking standards, the privately owned banking sector is less than ten years old. It is therefore understandable that the sector is still small and underdeveloped. Currently, there are 36 private sector banks of various shapes and sizes.

Including the state owned banks, Iraq has around 900 branches across the country. Its neighbour, Jordan, with a population of 6.1 million, has over 600 branches. By this same measure, Iraq requires a network of around 3,000 branches to support its population of near 30 million.

Another relevant comparison is the volume of bank lending. The Central Bank of Iraq advises that total bank loans amounted to US\$5.8 billion as at June 2010. This compares to around US\$20 billion for Jordan and approximately US\$250 billion for Saudi Arabia.

In summary, despite the current size of the banking sector, the potential upside is clearly huge. It is also positive that the larger of the private sector banks have a reasonable product capability to benefit both corporate and consumer customers. It is likely this trend towards improving services and capabilities will accelerate as the sector consolidates in the short to medium term. The Central Bank of Iraq requires all private sector banks to have a minimum capital of IQD250 billion by 2014 (US\$214 million). This will require an increase of three to four times for even the larger private sector banks, as this table illustrates:

Leading private sector banks by market capitalisation

Private Sector Bank	Majority Shareholder	Date Established	Paid Up Capital 30 June 2010 US\$ Million	Market Capitalisation 30 June 2010 US\$ Million
Dar Es Salaam Investment Bank	HSBC (70.1%)	1998	57	315
Bank of Baghdad	KIPCO Group/Borgen Bank (55%)	1992	86	170
Credit Bank of Iraq	National Bank of Kuwait (75%)	1998	86	169
Middle East Investment Bank	Iraqi Shareholders (100%)	1993	56	98



Entrance to the Baghdad Branch of the Imperial Bank of Persia, 1926

It therefore follows that, in four or more years, the private sector bank industry will comprise a smaller number of banks than the current 36. It is inevitable we will see consolidation and some estimate that, by as soon as 2015, Iraq will have around ten to fifteen well capitalised private sector banks.

Other key changes that are likely to take place, at an industry level, over the coming years include:

Education – there is a considerable need for investment in training. Looking at employees of private sector banks, many either entered the industry before the early 1980s (when the period of war/embargo commenced) or have joined very recently. Either way, they have had no opportunity to learn modern banking techniques. A key role for foreign banks entering Iraq is the ability to provide access to training resources in such vital areas as Risk Management and Finance.

Finance - Banking

of the larger private sector banks provide the following products and services:

- Local and foreign currency accounts – Iraqi dinar, US dollar, Euro and a host of other currencies
- Transfer of funds within Iraq – paper based and electronic transfer
- Inward and outward cross border payments – same day processing capability
- Trade finance – import and export financing through both Letter of Credit and Open Account
- Payroll – processing of salary payments for employees
- Treasury and foreign exchange – buying and selling of Iraqi dinar against other currencies
- Lending – short and longer term financing
- Leasing – cars and other consumer products
- Mortgage – property financing
- Insurance – distribution of life and non life insurance products
- Stockbroking – purchase and sale of shares listed on the Iraq Stock Exchange

Some banks already support the above products through a variety of delivery channels such as telephone, ATM and internet.

In the not too distant future, as the industry matures, other retail and wholesale banking products will also become available. Corporate borrowers will also benefit from the establishment of a syndicated lending market, where banks jointly support a single borrower and effectively share the risk. Such initiatives require the

close collaboration and cooperation of banks. But this trend is already starting to emerge to the benefit of the wider banking industry – another example of such collaboration will become evident through the development of interbank foreign exchange or lending markets (which do not currently exist).

To conclude, the industry holds considerable potential but is not for the faint hearted. Various challenges and risks remain. However, just as the private sector banks have evolved over the past one to two years, it is likely this speed of change will continue and allow the banking industry to play an ever increasing role in Iraqi economic development.



Foreign Investment in Iraq

Case study: MerchantBridge

Despite all the uncertainty concerning the appointment of the Prime Minister and the new government since March 2010, all the ministries have continued to work without interruption. This is in stark contrast to the previous election time, when ministries were effectively shut for business. Investing in Iraq requires both the public and private sector to be fully functional. Amongst others, this is because several milestones must be achieved to invest in Iraq:

- Invariably, an Iraqi registered company is required to channel investments. However, it takes up to five months to register a company with foreign shareholders. Bureaucracy is to blame and is unlikely to improve.
- Private Iraqi banks will only provide credit to Iraqi companies. Most of these require corporate guarantees from the shareholders. However, an 'instruction' from the Central Bank of Iraq requires the private Iraqi banks not to accept guarantees from foreign entities, unless they are foreign banks lending in Iraq.
- Tax exemption and holidays are available, subject to filing with the National Investment Commission (NIC). This file must be presented by an Iraqi registered company.

Despite this multitude of challenges, Iraq is open for investments. No one knows this better than MerchantBridge, which has made

several successful headline investments in Iraq in communications, banking, manufacturing and very recently, oil & gas. MerchantBridge is an international private equity group with diverse interests operating from offices in Iraq, Lebanon, the UAE and UK. It has been present in Iraq since 2003 and its first assignment was to advise the Ministry of Industry and Minerals with its Programme of Lease of 35 State Owned Enterprises. Today, MerchantBridge is the most active private equity investor in Iraq, with current investments totalling over US\$1.5 billion in debt & equity.

Sectors ripe for investments

MerchantBridge is currently increasing its investments in the sectors they regard as the leading areas for investment; these are:

Oil & Gas

Iraq boasts a recent 24% increase in proven reserves to 143.1 billion barrels and given the limited exploration over the past two decades, this figure can increase by up to 215 billion barrels including probable and possible reserves. The Iraqi oil sector benefits from premium quality oil, low extraction costs and abundant reserves. Despite these attributes, the country ranked ninth among world producers at 2.48 million bpd in 2009.

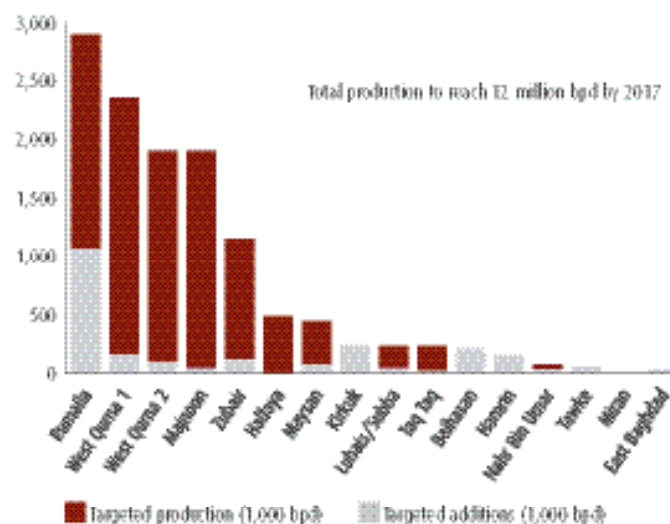
1	Saudi Arabia	264.59
2	Venezuela	211.17
3	Iran	150.31
5	Kuwait	101.50
6	UAE	97.80
7	Russian Federation	74.20
8	Libya	44.27
9	Kazakhstan	39.83
10	Nigeria	37.20

1	Russian Federation	10.03
2	Saudi Arabia	9.71
3	US	7.20
4	Iran	4.22
5	China	3.79
6	Canada	3.21
7	Mexico	2.98
8	UAE	2.60
10	Kuwait	2.48

Source: British Petroleum, MerchantBridge Research

Since 2009, the Government has scheduled two bidding rounds allowing foreign companies to develop Iraqi oilfields with ambitious targets of expanding production to circa 12.0 million bpd by 2017.

Active oilfields in Iraq



Source: Petroleum Contracts & Licencing Directorate

As the oil majors start to develop the fields, approved local contractors shall be required to undertake all the services they require, from drilling to pipes and life support. Furthermore, the increase in production shall prompt investments in Iraq's storage and transportation infrastructure, as well as its refining capabilities.

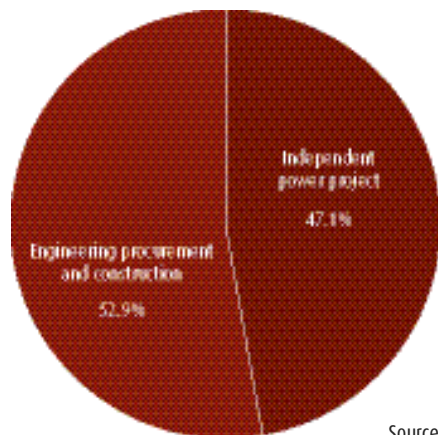
The gas platform, on the other hand is under-developed, with almost half the daily production lost due to flaring. This has triggered the Ministry of Oil to consider establishing the Basrah Gas Company to capture the flared gas from four fields. It also targets the expansion of production to 2.5 trillion cubic feet (TCF) per year within ten years from the current 0.5 TCF production rate.

Power

The power sector suffers from a supply demand mismatch; average demand in the second quarter of 2010 reached 9,441MW compared

Finance - Investment

to a supply of 6,202MW. Even if the country was to operate at full potential and eliminate the frequent outages, the installed capacity is insufficient at around 9,000MW. To meet domestic demand, Iraq is currently utilising floating power stations and has offered for investment 16 power plants adding more than 10,000MW in generation capacity.



Source: Ministry of Electricity

Banking

In total, there are 43 banks operating within the country, of which seven have significant foreign ownership. Despite the large number of private banks, sector assets remain controlled by the two state owned banks, Rafidain and Rasheed Bank. The banking system is highly liquid with total deposits amounting to US\$33 billion in 2009. In 2010, the Central Bank took the initiative and reduced the required reserve ratio to 15% from 25% as well as its key interest rate to 6%, facilitating future investment and lending in the economy. Additionally, the Central Bank set a minimum capital requirement for banks of IQD250 billion to be achieved within the next three years.

Regardless of the Central Bank requirements, the banks have an urgent need to upgrade their capital in order to increase their lending limits. Total outstanding lending amounted to US\$5.8 billion in June, a fraction of the future investments envisaged in the oil &

gas sector on its own. They also have an acute need to upgrade their systems and the quality of their staff, especially as the oil majors are establishing bases in the country. They will expect similar levels of banking services to those they are accustomed to in their country of origin.

The next few months should see some consolidation between the private sector banks, conceivably those without foreign partners and hence outside the following list:

Target	Acquirer	Foreign Ownership %
Dar Es Salaam Investment Bank	HSBC	70%
Bank of Baghdad	KIPCO/Burgan Bank	52%
Credit Bank of Iraq	National Bank of Kuwait & IFC	85%
National Bank of Iraq	Capital Bank of Jordan	72%
Commercial Bank of Iraq	Ahli United Bank	75%
Al Mansour Bank	Qatar National Bank	23%
Dijla & Furat Bank	Aayan Leasing	35%

Source: USAID, KIPCO, Zawya

Hospitality

The National Investment Commission (NIC) estimates that up to US\$145 billion in foreign investments is needed over the next five years within the hospitality industry. Several hotels have already taken the initiative: the Sheraton in Baghdad opened on 19 September 2010. The newest hotel in Erbil, the Rotana, is accepting bookings on its website from 15 December 2010 onwards. Three further hotels are confirmed to come online within the next three years.

The birth of capital markets

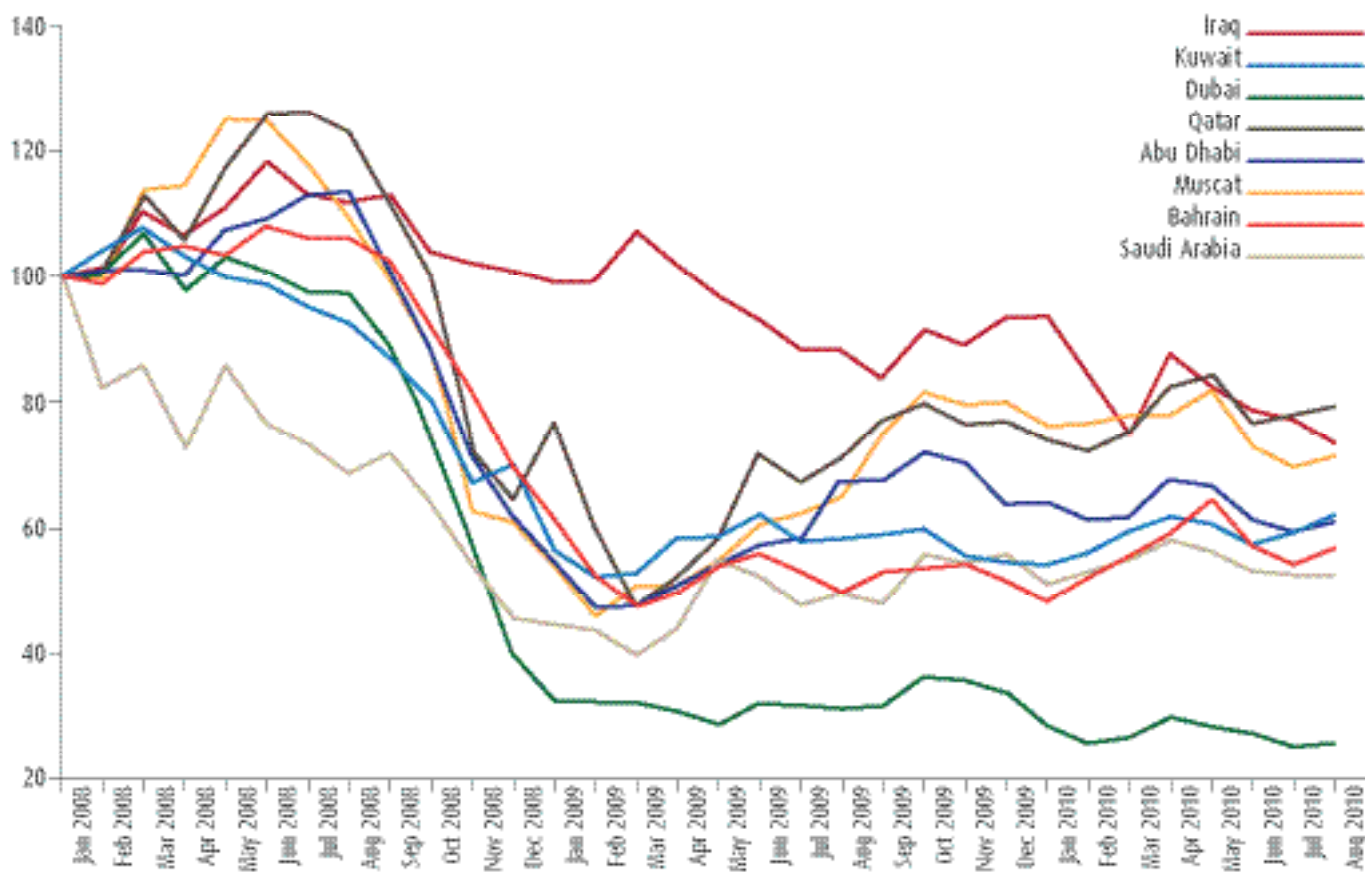
The ISX currently has 84 listed companies, growing from 15 companies at its re-launch in 2004. In August 2010, the total market capitalisation and monthly turnover reached IQD2.9 trillion and

IQD16.6 billion, respectively. Historically, the banking sector's combined market capitalisation represented more than 70% of total market capitalisation.

In early 2009, the exchange launched its Electronic Trading System provided by Nasdaq-OMX. With 45 licenced brokers, the exchange operates five days a week for three hours daily. Trades are settled at

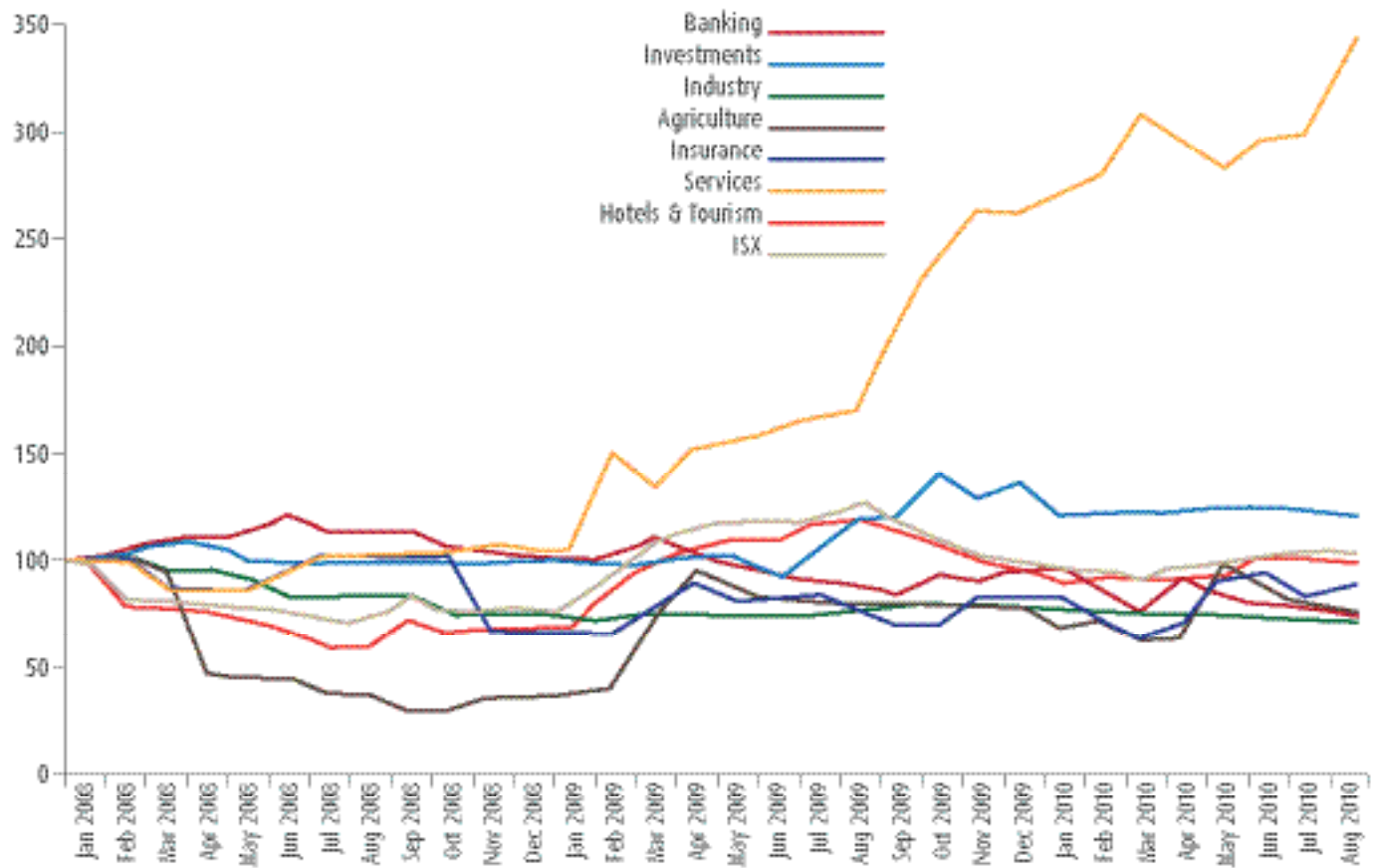
T+1 for share transactions with a price change limit of 20% of the previous day's price. The exchange suspends companies from trading 15 days prior to any general assemblies.

Since 2008, the ISX index outperformed several of its regional peers. Of the various constituents of the ISX index, the services index registered the most significant uptake.



Source: ISX, MerchantBridge

Finance - Investment



Source: ISX, MerchantBridge

For investors with a one to three year investment horizon, the ISX portrays attractive valuation multiples. The market's low correlation with global peers, coupled with full foreign ownership, would trigger a rapid pick up in international investor appetite. At present, foreigners contribute to around 20% of the market.

The new securities law anticipated privatisation of the telecoms sector and the mandatory increase in capital for the banking sector

could drive dramatic capital market expansion.

To seize this opportunity, in 2010 MerchantBridge launched one of the few funds investing solely in the ISX. The Iraq Mesopotamia Fund is a US\$ denominated open ended fund, with a minimum participation of US\$250,000. The fund aims to identify investment opportunities based on solid financials, sufficient stock liquidity and strength of the management team.

Perceptions versus realities

For the handful of private equity investors who took the risk to establish themselves in Iraq in the early days after the fall of the previous regime, when the general perception was that it was impossible to do business, the reality is that the returns have been commensurate with the risks taken.

While it is likely to remain so in the near future, experience from other countries reveal that, as the major oil companies start their operations, a corresponding increase in GDP and the credit environment, to which the returns are inversely linked, is triggered. As an example, Qatar credit ratings went from strong ("A") in 2002 to very strong ("AA") recently, following the increase in gas exploration. Correlatively, skyscrapers now dominate the city of Doha. It is within the reach of Iraq, whose credit rating is currently one of the worst in the world, to see similar improvements as oil & gas revenues drive growth in the construction, real estate, trade and hospitality sectors. It will, however, take time and Iraq is unlikely to see as fast a transformation as Qatar. Investors must therefore take a long term view.



“In early 2009, the exchange launched its Electronic Trading System provided by Nasdaq-OMX”.

Iraqi Insurance Market

William Wakeham – Chief Executive Officer, AAIB Insurance Brokers

Iraq's insurance evolution

Iraq's insurance market has shown great resilience and ability to cope with unique pressures over the last two decades. However, as the country rebuilds, its insurance industry faces key challenges and requirements in order for it to return to its pre-1980 glory days, when it was one of the strongest insurance markets in the Middle East.

Regulatory environment

To perform well and to grow, an insurance market requires investment in infrastructure, which includes regulatory and market institutions, technical resources and business capacity. It also needs suitable and supportive economic, legal and political environments. These are still evolving in Iraq, however, a great deal of hard work has been done and progress made on many fronts.

A major step forward was the introduction of the Insurance Business Regulation Act No. 10 of June 2005 and various regulations made subsequently to the enactment of the legislation. The insurance regulator (the Iraqi Insurance Diwan) assisted in bringing in the Law that regulates insurers operating in Iraq. The Law gives the Diwan various powers to govern areas of licencing, inspection, intervention, capitalisation, reserving, solvency, investments, sanctions, accounting and auditing. The Law meets international standards and made important changes bringing in greater transparency, financial security and consumer protection. It clarifies the process for setting up an insurance company and so allows a greater degree of competition. Most of these objectives behind the Law have been achieved and the Regulator has worked conscientiously to implement the Law and supporting regulations.

However, under the 2005 regulation, there is no requirement for local placement of insured risks - a disastrous state of affairs for Iraq, which has lost the country an awful lot of insurance premium when you look at the trillions of dollars which have been spent in the Rebuild Iraq effort. It is hoped that in the near future local placement of insured risks will be mandatory.

As an Iraqi registered and licenced international broker, AAIB Insurance Brokers operates on the basis that the local market should be involved whenever possible. Ultimately the decision is down to the client. We advise our clients of the situation from a legal perspective as well as highlighting considerations such as potential changes to future legislation as well as the importance of contributing to the redevelopment of Iraq. We find that most of the big multinationals are opting for local placement and then 100% reinsured in the international markets. These companies want to be compliant in advance of any change in the legislation.

Wider issues have also negatively impacted on market growth and insurer options. While I write this article there continues to be a lack of a political consensus with no formation of a Government following the elections in March 2010. There is also a perception of widespread corruption in the country as well as the ongoing security concerns. All of this acts as a further brake on investment and business development.

Measuring performance

There is little industry data available to see how the industry has fared over the last five years as it is not obligatory for all companies to make results publicly available. We can draw some conclusions, however, by identifying key trends in the industry:



Competition

Locally, a growing number of companies have entered the market, as illustrated in the expanding list of registered insurance organisations on the Insurance Diwan website. However, these companies are small and have not really changed the status quo. It is the state companies, Iraq Insurance, National Insurance and Iraq Reinsurance that continue to play a central and hugely influential role in the market.

Competition has increased from outside Iraq. Regional insurers such as Chartis and IGI are increasingly looking to write exposures in Iraq on the back of contracts signed by multinational companies with operations in Iraq or supplying equipment and goods to Iraq. The London Market is becoming more attracted and focused on Iraq.

There is clearly a growing interest in Iraq and its potential. At the General Arab Insurance Federation (GAIF) meeting held in March 2010 in Jordan, AAIB Insurance Brokers held dozens of meetings with insurers who were looking to write business and who were seeking information on the practicalities of doing business in Iraq. It was clear that areas such as conventional business processes, approaches to underwriting and product design will need a degree of modification. They will need to be flexed to meet the needs of clients and to accommodate local players.

Capacity

Capital requirements for insurers are still modest by international standards. An argument exists for further regulation to raise these requirements, in order to strengthen the ability of insurers to withstand financial and other events.

The legal minimum capital requirements are as follows:

IQD1 billion for companies transacting Reinsurance.

IQD750 million for companies transacting both Life and General.

IQD750 million for companies transacting Life insurance.

IQD500 million for companies transacting General insurance.

Note: US\$1.00 = IQD1,168.50, 1 October 2010

Recently, market capacity overall has increased but not markedly. This hampers the ability of insurers to absorb risk, as investors in large projects attempt to transfer risk, especially for the sizeable infrastructure, construction and energy related projects. Insurance on these types of projects is invariably required contractually and by prudent managements. If local insurers are unable to cater for these requirements, the international and regional markets will take a larger share of this business.

Limited capitalisation and retention capacity prevent local insurers from taking lead positions on key accounts and stops them from

“Companies in Iraq and those coming into Iraq must take the long term view”.

dictating the terms, conditions and rates; and earning potentially larger profits.

Products

The products supplied by local insurers are largely based in traditional wordings. The lack of experience and exposure to the international market means there has unfortunately been little innovation in domestic product design or service delivery.

Indeed, Iraq's insurance industry has never really recovered from the loss of high calibre people who left Iraq under the former regime to manage insurance companies in the Gulf and Europe. A lack of experience is one of the biggest factors holding back the industry. In this regard, AAIB Insurance Brokers takes its role in helping to develop Iraq's insurance industry very seriously. We organise an annual two day workshop to which all Iraqi state owned and private insurance companies together with regulatory officials are invited. Last year, a number of Lloyd's underwriters, claims handlers and trainers from the Gulf Insurance Institute participated in the workshop, which saw the sharing of best practice as well as addressing various issues and concerns.

Considering future prospects: supply and demand

Iraq's private sector will certainly not be the driver of Iraq's insurance growth. Insurance is still not properly understood and insurers do not enjoy a high degree of trust. Also, according to United Nations statistics, 23% of Iraqis are living below the income poverty line threshold of US\$2.20 per day, indicating that insurance is likely to remain a low priority. In response to this, we actually launched the first dedicated medical insurance policy for local

employees in Iraq and the Kurdistan Region, providing cover for in-patient and day-patient hospital treatment, including injury and illness resulting from acts of war, terrorism and kidnap. In today's culture of Corporate Social Responsibility, the Regional Health Plan provides companies, both local and international, the opportunity to provide their local employees with the best possible employment benefits and practises.

Within the corporate sector, the non oil & gas industries are being stimulated and insurance is sometimes purchased for areas such as marine cargo and construction. However, evidence suggests that many Iraqi companies prefer to self insure.

Iraq's oil industry is where the insurance market can significantly contribute. The industry underpins the entire economy, with oil accounting for 95% of exports and 98% of government revenue. The growth of this sector will help deliver improvements in the wider economy and the Government is forging ahead with challenging expansion targets for oil production. The recent awards of technical service contracts will result in major oil companies, oilfield support and service companies, making huge investments in the country. Huge sums will be spent establishing depots, drilling facilities, field operations to overhaul, refurbish and expand production, refining and distribution capabilities. This major initiative offers a unique opportunity for Iraq's insurance industry.

The way forward

I am optimistic about the prospects for the Iraq insurance market. In my mind approach, vision and flexibility are the key elements to its continued success.

1. Approach

Establishing mutually beneficial relationships between local insurers and international brokers and insurers will play to the strengths of both parties. The importance Iraqis place on relationships cannot be underestimated. Certainly for AAIB Insurance Brokers, by working on the ground in Iraq over the last five years, we have been able to forge important relationships. Iraqi insurers have distribution channels, local market knowledge and valuable contacts in commercial and government networks. In turn, brokers have access to a range of markets and can play a key facilitation, placement and servicing role and foreign insurers have the capacity and underwriting, pricing and risk management expertise. We have been feeding information on Iraq to those who are eager to know more for some time now. It has engendered a lot of goodwill both in Lloyds and other international markets. Working together is certainly a potent and powerful combination.

2. Vision

Companies in Iraq and those coming into Iraq must take the long term view. The Iraqi insurance market continues to rebuild its

reputation; it has a proud history; has proved resilient in the face of considerable challenges and is positioned to grow larger and stronger, if it can improve its integration and access to the international insurance market. Understandably there is apprehension about moving into high risk, emerging countries like Iraq but the country is turning a corner and there has been a gradual but noticeable improvement in the security situation in Iraq.

3. Flexibility

Based on the commendable tenacity and adaptability demonstrated by local insurers and their flexible approach in overcoming obstacles, I have no doubt that they will continue to flourish. I also believe that after many years in the wilderness, Iraq's insurance industry will gain more and more exposure to the international market. What's more, regional and international insurers will come to work in Iraq. The questions are how quickly and what are they prepared to invest in the local market?

William Wakeham is the Founder and Chief Executive Officer of AAIB Insurance Brokers, a company specialising in high risk and non standard insurance cover for emerging countries.

“I am optimistic about the prospects for the Iraq insurance market. In my mind approach, vision and flexibility are the key elements to its continued success”.

Iraq's golden investment opportunity

The improvement of the security situation in 2009, resulted in an impressive improvement in the investment projects presented to the National and Provincial Investment Commissions. This is shown by a 427% increase in the number of investment licences issued from 33 in 2008 to 174 in 2009.

The value of the projects that have been granted investment licences in 2009 also increased by 230% reaching US\$6.6 billion from US\$2 billion in 2008. Housing projects had the lion's share with 36%, industry projects came second with 28%, hotels at 14%, tourism projects at 11% and malls at 6%. The remaining projects were in the agriculture, transportation and communications sectors amongst others.

As for launching the one million housing project within the upcoming period, the picture is going to shift dramatically and the investment scene throughout Iraq will gain an upward trend. This mega project will stimulate other sectors in the economy throughout Iraq's provinces, with a variety of investment activities which will include; power, water, sewerage systems, communications, malls, commercial and entertainment centres.

On the strategic investment level, the National Investment Commission (NIC) is negotiating with a number of investment companies to execute several strategic projects. These include:

Building 1 million housing units throughout Iraq for US\$50 billion

This includes 1 million housing units throughout Iraq with distribution is based on population size in each province. Each

housing unit will sell for a maximum of US\$50,000 for each 100 square metres. Coordination has been finalised with three Iraqi Banks (Rafedain, Rasheed and Trade Bank of Iraq) to guarantee payments to investors after finishing the projects and sell it to NIC. The NIC have now reached the final stages of signing contracts with some of the companies.

The project to build Al-Rasheed City (previously Al-Rasheed camp) in Baghdad for US\$21 billion

This project includes building a complete city containing 65,000 housing units, along with all required services at Mu'askar Al-Rasheed area as a first phase. Signing the contract will be announced in the near future once all project details have been finalised.

Defaf Karbala City project for US\$30 billion

This includes building a complete city containing 40,000 housing units as a first phase which can be increased later along the banks of Al-Razaza lake, the pilgrimage route and the strategic line for transporting crude oil. This project will have a positive impact on Karbala province, famous for its religious tourism.

City of the Future project in Baghdad for US\$12 billion

This project includes building a complete city containing 35,000 housing units as a first stage, subject to increase. Contract award will be announced in the near future once all the details of the project have been finalised.

“As for launching the one million housing project within the upcoming period, the picture is going to shift dramatically and the investment scene throughout Iraq will gain an upward trend”.

Electricity projects

The NIC in direct and ongoing coordination with the Ministry of Electricity and through a joint committee is leading the investment efforts in this sector. The NIC is promoting investment in the units supplied by GE and the establishment of new power plants. The NIC has received applications from investors to produce 27,000MW for a gross value of US\$30 billion. Currently, the NIC is focusing its efforts to invest the GE units in four select locations according to the fueling plan provided by the Ministry of Oil.

The NIC, in coordination with the Ministry of Oil, has also received several direct investment applications and joint venture proposals to establish refineries in the provinces of Kirkuk, Karbala, Amara and Thi Qar. Based on the technical and the implementation value of these projects they are estimated by the Ministry of Oil to total US\$25 billion. These opportunities were presented in a conference designated for this purpose in June of 2010.

Overview of Iraq Investment Law (13) 2006

Opens all sectors and areas of investment to foreign and Iraqi investors, except:

- Oil & gas extraction and production
- Banking and insurance

All investors have the right to repatriate capital brought into Iraq and any profits derived from that investment in convertible foreign currency.

Stock Exchange – Investors can trade in shares and bonds listed on the Iraq Stock Exchange (ISX) and create investment portfolios.

Land – Investors may rent or lease land for the term of the project, not to exceed 50 years. An amendment to the Investment Law passed in October 2009, allows foreigners to own land for housing developments, excluding hotel projects.

Guarantee – There shall be no seizure or nationalisation of a covered project, except by order of the courts.

Insurance – Investors may insure projects with any licenced foreign or national insurance company.

Tax Exemptions – With the approval of the NIC, a project is exempt from all taxes and fees for a period of ten years from the date of operation, depending on conditions.

The NIC can extend the period to 15 years if Iraqi investment in the project is more than 50% of the initial investment.



Iraq: market of potential

In this article, Gary Soper, former Head of UK Trade & Investment operations in Iraq reflects on his twelve months in Baghdad.

Business: the potential remains...

It will likely be some while before Iraq loses its 'market of potential' label if for no other reason than its potential is unlikely to be fulfilled for some time yet. But why should that be? There are some positive and not so positive reasons. On the positive side, it's the sheer scale of the opportunity that continues to exist here in Iraq from healthcare to education; from hydrocarbons to manufacturing; from construction to power; and from communications to life support services. Iraq still needs more investment in these sectors, especially where it can improve the delivery of its public services. However, whilst the opportunities undoubtedly exist, so unfortunately do the obstacles. Some companies, British ones among them, are doing good business in Iraq but they still face a number of hurdles such as securing a licence to operate; finding a reputable partner; registering a company; dealing with day to day difficulties of the poor communications infrastructure; or simply getting around.

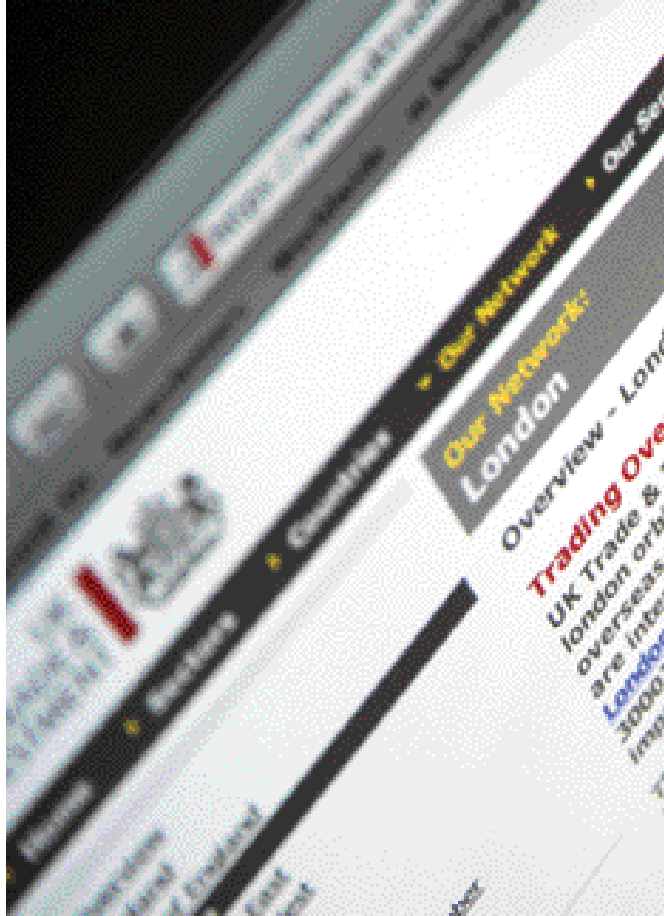
New democracy is still working to reform the inefficient and bureaucratic practices that had become ingrained in many of the ministries here: and every business needs to deal with one ministry or another. The Iraqi Government has identified corruption as a major problem in all areas and has set up bodies and developed programmes to tackle it but these are in their early stages.

Whilst improvements have been made to the Government's planning and budget execution processes, a huge amount of central Government of Iraq (GoI) funds remain unspent at the end of the year, which is a great pity in a country that still has around 23% of the population living below the poverty line. Potential investors are keen to see a more joined up approach across the ministries.

We need to recognise that in a post conflict society such as Iraq, it will take time for the situation to 'normalise'. The GoI has made huge efforts over the past 18 months in particular to encourage higher levels of Foreign Direct Investment (FDI). It is right that they should but I believe there needs to be a greater recognition of the wider benefits, which can be brought by the rather simpler extension of existing trading relationships.

Much of the economy is still dominated by the activities of a very large number of State Owned Enterprises, that will continue to dominate the economy for many years to come. In addition, the small but growing private sector in Iraq is largely inexperienced in dealing with international business. Whilst that is changing, it is changing slowly. Many of the private sector medium sized Iraqi companies I have met, are eager to get into partnership arrangements with overseas companies. This will help bring the skills and technologies they need to succeed at home and increasingly in international markets too.

I was heartened to see the formation of the Iraq National Business Council (INBC) at the tail end of 2009. This organisation, with the



“There are good opportunities for companies willing to invest time and money... some things are worth the wait”.

blessing of the Government, aims to promote the Iraqi private sector; increase foreign investment in Iraq; and help reduce corruption. Many of the country's leading businessmen are members, representing companies operating both on and off shore. Hopefully with the INBC now in place we will see a valuable contribution to Iraq's economic recovery in the coming months and years.

In my time here, one key to the success of any foreign business looking to operate in Iraq is being able to identify and work with a trustworthy local partner. In many cases that partner may be a State Owned Enterprise, in others a private sector company. As I have said, the private sector is growing and indeed the UK Trade & Investment team is compiling an expanding list of what we believe could be suitable partners for British companies. It should be noted

that obtaining a validated list from UK Trade & Investment is not a substitute for undertaking your own due diligence. Whilst company information here is not always easy to come by, there are specialist companies who are happy to undertake that work for you. One way to get this information would be to commission UK Trade & Investment's Overseas Market Introduction Service (OMIS), which can provide market advice and support during a visit from the embassy. This can include arranging meetings with key contacts, analysis of market entry strategies, bespoke events and identification of potential business partners.

I have hardly mentioned security. Whilst security related issues are never to be under stated in this market, for many companies this is simply another cost to be taken into consideration. It is not cheap but there are a number of excellent companies (many of whom are British) who can help in this regard and who offer a broad range of business facilitation services – some of whom will be advertisers in this publication.

So the message remains: there are good opportunities for companies willing to invest time and money in building up the contacts and getting a good understanding of the market. But it's unlikely to be a place where you'll get a quick return on your investment. But some things are worth the wait....

Source: World Bank/COSIT/KRSO Iraq Household Socio Economic Survey 2007

Oil bonanza will fuel engineering boom

With the signing of a deal in May 2010, with a consortium comprising China National Offshore Oil Corporation and Turkish Petroleum for development of the Missan field in southeast Iraq, the Government finalised negotiations for all 11 oilfield development licences it offered in an international bidding round in 2009.

The implementation phase is now beginning for the technical service contracts awarded for the development of Iraq's oilfields. It is the first serious development of Iraq's oil resources in several decades.

As a result, Iraq's Ministry of Oil is confident it can achieve an increase in the country's crude production to 4.5 million barrels per day (bpd) by 2014 - a result that would represent a near doubling of existing production rates.

Some estimates conclude that the country's oil output could rise to around 7 million bpd by 2015 and as much as 12 million bpd by 2017. If all goes according to plan and this prediction is fulfilled, Iraq could become the region's petroleum sector leader.

At the same time, Iraq's hydrocarbon vision is widening. As oil production increases, gas output has the potential to rise considerably, providing for domestic power needs and for exports.

In 2008, Royal Dutch Shell signed a heads of agreement with the state owned South Oil Company to form a joint venture to capture and sell natural gas. The plan envisages capturing the gas currently flared and exporting part of the volume in the form of liquefied petroleum gas.

Shell's Vice President for New Business in the Middle East, Mounir Bouaziz, predicts that "Iraq will become a regional player in the gas sector and an exporter to the region and the world".

The focus for the moment is on potential oilfield investments. These are huge, with a figure of US\$20 billion reported for Rumaila alone. Drilling contracts for the latter, which has estimated reserves of 17 billion barrels, have already been let by the development consortium comprising BP and China National Petroleum Company.

The contract's reportedly valued at US\$800 million, have been awarded to China's Daging Oilfield Company, the US' Schlumberger and Weatherford, Iraq Drilling Company and Turkish Petroleum International Company.

Work will lead to big increases in demand for equipment, particularly rigs. Pipelines, floating oil terminals, pumping stations and processing plants will also be required.

New York based consultant Ergo estimates that if all the deals from the licencing rounds proceed as planned, the value of the oil services sector in Iraq will increase to US\$8 billion by 2014, a more than 80% increase on 2009.

Extremely substantial supplies of water for reinjection into wells are also going to be required as well as power generation. In addition, paved roads will need to be built in order to bring in vast amounts of equipment and supplies to remote areas.

There will also be a growing demand to connect the new and expanded oilfield operations with export facilities. Hundreds of kilometres of pipelines as well as pumping stations need to be built from the oilfields to the coast.

While US engineering company Foster Wheeler is building three pipelines and offshore moorings to serve the port terminal at Umm Qasr, considerably more expansion is going to be required since the port is struggling to accommodate current export volumes.

While an array of engineering, procurement and construction work is opening up, there are many difficulties still to overcome. Some of these are procedural such as inadequate entry points for oil industry equipment and cargo. Other difficulties include inconsistent customs procedures and problems concerning visas for non-Iraqi skilled and non skilled workers.

Not least, progress is also awaited on a proposed new oil law codifying the position of those firms participating in the sector. At present, there is no comprehensive and regulatory framework for the petroleum sector.

This legal vacuum makes the Government of the day the only guarantor of any deals struck with foreign companies, which adds to political and commercial risk.

The status of oil development contracts signed by the Kurdistan Regional Government with foreign oil companies also has to be clarified. In addition, as the country's crude production is increased, difficult discussions are likely to lie ahead in agreeing a new oil production quota for Iraq within OPEC.

The last agreement was nearly 20 years ago when Iraq was allocated a quota of 3 million bpd, a similar figure to Iran's. This is a production level that has not been reached for years but seems likely to change within the near term.

After decades of under utilisation and production in its oilfields, observers believe though that Iraq has a convincing argument to be allocated a much higher figure in future by the cartel.

In spite of uncertainties, companies from around the world are seizing the moment to participate in a unique and unlikely to be repeated opportunity to develop the world's greatest untapped proven hydrocarbon resources.

Iraq's oilfield development licences

Oilfield	Developer	Estimated reserves
Rumaila	British Petroleum, China National Petroleum Corporation (CNPC)	17 billion barrels
West Qurna-2	Lukoil (Russia), Statoil (Norway)	12.88 billion barrels
Majnoon	Royal Dutch Shell, Petronas (Malaysia)	12.58 billion barrels
West Qurna-1	ExxonMobil (US), Royal Dutch Shell	8.7 billion barrels
Halfaya	CNPC, Petronas, Total (France)	4.1 billion barrels
Zubair	Eni (Italy), Occidental (US), Kogas (South Korea)	4 billion barrels
Missan	China National Offshore Oil Corporation, TPAO (Turkey)	2.5 billion barrels
Gharraf	Japex (Japan), Petronas	1 billion barrels
Najmah	Sonangol (Angola)	850 million barrels
Qayarah	Sonangol	800 million barrels
Badrah	Gazprom (Russia), Kogas, Petronas	50 million barrels

Training the next generation of oil & gas engineers

Case study: Penspen

INTRODUCTION

1.1 Iraq and the oil & gas business

The oil & gas business is big and will become bigger: the US Energy Information Administration (EIA) [1] predicts that world energy demand will grow by 49% between 2007 and 2035 with fossil fuels remaining the primary sources of energy. Liquid petroleum demand will be 111 million barrels per day (bpd) by 2035. At US\$60 per barrel, this is a US\$6.6 billion a day business.

Iraq will have a key role in meeting this demand: Iraq currently has proven oil reserves of 143.1 billion barrels, which is 10.4% of the world's total reserves and is producing 2.2 million bpd (2008). Depending on the political and security situation and the price of oil, Iraq could be producing 8.3 million bpd by 2035 [2], with 11.1 million bpd being a government target [3]. It is also worth noting that it is believed that Iraq has significant untapped natural gas resources.

Currently, according to the International Monetary Fund (IMF) [4], crude oil export revenues represent over 75% of GDP and 86% of government revenues in 2008.

Politics and security are obvious challenges facing Iraq if she is to fully develop her vast petroleum resources. There will also be a need

for huge infrastructure investment: the World Bank estimates that at least US\$1 billion each year needs to be invested in the oil industry, just to sustain current levels of production [5].

There is one other area that will need heavy investment – people. There will be a need for men and women with the skills and abilities to drive Iraq forward into this oil & gas future. An expansion in the industry will need an expansion in the workforce – both in terms of numbers and in terms of skill.

The oil & gas business relies on engineers for everything from safety to profits and as a country expands its oil & gas business, it must expand its workforce and ensure employees have the necessary skills.

These skills are needed for rehabilitation of existing infrastructure, to building the new infrastructures to accommodate the increased flows. Unfortunately, this obvious need for people and skills is usually overlooked, as there is always a hope that 'market forces' will produce the required workforce. This will not happen [1], as there is already a major skills crisis in the oil & gas industry and it is expected to worsen.

Hence, Iraq needs to start planning to develop its people and skills to allow its oil & gas business expansion. This article gives an outline of the strategy needed to achieve this development.

Education & Training - Penspen

2 DEMAND FOR SKILLS IN THE INDUSTRY

The oil & gas industry requires many differing skills and many of these skills can take decades to master. Increasingly, these skills are disappearing and there are a number of reasons for this [1]. Below, two major reasons are explained.

2.1 Ageing workforce in the industry [1]

The oil & gas industry workforce is old: a 'young' worker is about 43 and an 'old' worker is 55. Their average age is about 50 and their average retirement age is 55; therefore, it is obvious that the sector faces a major skills crisis in the next five to ten years, as more than half the experienced workforce will leave the industry.

This ageing workforce will be called upon to help with any rebuilding or expansion of an oil & gas business and it will be called upon to assist in Iraq's future but clearly, much of this workforce will be retired as the demand increases.

Why is the workforce so old? It is because of the 'missing generation' in the oil & gas industry. The workers who trained in the 1960s and 1970s are approaching retirement; but the new, young generation attracted to the industry by the boom and huge salaries of the past ten years are still too young to replace the retirees. Replacement takes time: it takes about 3 years for new staff to become familiar with the industry and about a further ten years to gain a professional discipline [6].

2.2 Increasing global demand for skills

There is a skilled workforce in the oil & gas business, albeit ageing but they are in great demand. Hence, we need to replace the missing generation, plus introduce another generation to meet the increased demand for skills. This is because new oil & gas finds will require huge workforces; for example, Brazil's Tupi field is equal to all the reserves in Norway. Also, the shift from the rapidly depleting older fields in the Middle East, to the new discoveries in places such as Canada, will create a global recruitment problem. Iraq will need to compete with these other regions.

Reference 5 quotes, *"Faced with one of the biggest periods of expansion in its history, the global oil & gas industry is already*



Photo © PwC

The key factor in this changing approach and academia/industry partnerships, is resolve.

3.2.2 Modular learning

Engineering is rapidly changing and engineers need to keep pace with all technical changes. This is not possible without life long learning. Additionally, all engineers need to be highly trained, to be able to move between jobs and countries. Structured modular training courses can provide this learning and these can complement or replace traditional qualifications such as degrees.

Globalisation, fierce commercial competition and changing technologies require engineers to be quick to react. Similarly, engineers need to have easy and quick access to new knowledge. This is becoming increasingly important: staff no longer want to spend long periods away from home and workplace; they would rather embark on modular learning where they select suitable training packages from a comprehensive list and participate in that learning programme in their own time.

Structured modular learning packages need to be offered to existing staff to allow continuous professional development. Traditional courses can still be undertaken but they will be spread over many years – focused, modular courses, will additionally allow a rapid but structured and systematic development of skills.

3.2.3 Harness the internet

The internet offers unlimited facilities for learning - today's students and existing staff expect modern learning. It is a 'now' generation: going to a library is time consuming and a chore. The internet and intranets can offer instant access to information and knowledge. This is an important point: the current baby boomers in the business have benevolent temperaments that want to transfer all their knowledge to younger staff but today's younger generation has a 'just in time, just as you need it' outlook [1]. This may not be ideal but all learning packages must recognise this.

3.2.4 Distance learning (e-learning or Virtual Learning Environments)

The security situation in Iraq currently deters visitors. Hence, it will be difficult to attract learning providers to the country in the short

term. This means in-country resources will need to be used extensively but distance learning can fill in any gaps.

Universities and colleges, both in Iraq and worldwide, need to offer distance learning packages for all their possible students. A flexible, distant learning approach is in line with the changing work place and the expectations of both the young and old today. It will appeal to both young engineers wishing to enter the oil & gas sector and existing staff in the industry.

The internet offers the platform for both modular courses and distance learning. Distance learning formats can be easily produced, albeit at a price but the distinction between campus learning and distance learning is fast disappearing with the advent of 'Virtual Learning Environments' (VLE).

VLEs are internet based 'platforms' – software that organises all the information needed for distance learning. The platforms can be commercial and paid for or open access and free which allow staff and students to log on and access all course materials, bulletin boards, chat rooms, information updates, announcements, libraries, etc., in an easy user friendly web page format.

There are a number of commercial VLEs [10]: we now have the technology to offer distance learning to the oil & gas industry. Now we need to:

- Produce the learning modules
- Produce experienced staff to supervise the modules and students
- Place the modules on a suitable platform
- Manage and maintain the learning

Distance learning will be essential for all the oil & gas business but particularly in Iraq. Again, there needs to be a major investment in this area as very few distance learning packages exist and many will need to be newly developed.

3.2.5 Learning strategy

The industry is entering a period of great technological challenges: the world's new oil & gas reserves are in difficult (deepwater and

Education & Training - Penspen

arctic) environments and our existing reserves may be in regions of conflict, such as Iraq. Also, the increasing cost of conventional oil will take us into unconventional sources (oil sands, shale gas, etc.) requiring new technologies and new skills. These challenges require the industry and its staff to adapt, change, develop and expand into new skills areas.

These challenges will not be simply solved by new university and college courses, or bespoke modular training courses. The solution rests in a coordinated approach to staff education, training and development.

We all know that a raw engineering graduate is of little use in a company; they require training. Then, 'trained' is not enough: an old army saying is 'trained doesn't mean ready'. An engineer is 'ready' for unsupervised decision making after an intense period of on the job training and organised mentoring.

The essential development steps for engineers.



The above is a life long learning journey: there is no 'finish' with education and training.

3.2.6 Industry mindsets

Developing skills rapidly is not a cheap exercise and learning should always be of the highest quality. This means the industry must invest and invest heavily. There is no excuse not to, when there is a clear gap to fill and a healthy flow of oil revenue to finance it.

The oil & gas industry needs to be as enthusiastic about developing and buying training and learning packages, as it is when buying new IT systems, or gleaming HQ buildings. They are a fraction of the price, better value and attractive to all staff. This is an important point: our limitations in the oil & gas industry and the pipeline sector, over the next ten years will not be computers, communications, finance or technologies. It will be learning, experience, values and information: the successful companies will be investing in these.

4 THE START OF A NEW ERA OF PARTNERSHIP IN EDUCATION IN IRAQ

The Iraq Britain Business Council (IBBC) [11] is an organisation which facilitates business, trade & investment, human resources, training and transfer of technology and 'know how' into the Republic of Iraq. It seeks to bring together Iraqi, British and international companies and public sector bodies by giving them a joint platform and identifying their mutual interests and common goals. Prime Minister Nouri al-Maliki and through him the National Investment Commission, fully support IBBC in its goals.

The IBBC has as a core goal; the mission to search out and implement increased cooperation in the fields of tertiary education and vocational training in all fields of business and industry, in order to achieve technological transfers and to expand the skills base at every level of Iraqi society.

During recent months the IBBC has, in partnership with the Iraqi Ministry of Higher Education and with the University of Basrah, laid the foundations for the establishment of an IBBC University. The University will work as a private/public partnership between the IBBC and the Iraqi Ministry of Higher Education. The first campus will be initiated in Basrah University this academic year (2010-2011).

The IBBC University will be partially modelled on the successful establishment of the Kazakh British Technical University (KBTU) in Almaty, Kazakhstan. The IBBC's Executive Chairman, Baroness Nicholson of Winterbourne, has recently returned (2010) from a visit to Almaty, where she has received the full support of the Rector and the Vice-Rectors of the KBTU for the establishment of an IBBC University in Iraq.

being held back by its failure to attract, recruit and retain highly skilled staff. This is true from rig workers to senior scientists and engineers. Through short term thinking and a belief that required staff can be bought, the oil & gas industry has stretched its resource base to breaking point”.

The oil & gas industry will also face fierce competition from other industries; for example, the demand for skilled staff in the renewable energy sector has increased by 60% over the past two years [7].

3 DEVELOPING SKILLS IN THE OIL & GAS BUSINESS

There are two approaches (or combinations of these approaches) to supplying skills in the oil & gas business in Iraq:

- ‘Buy-in’ skills via expatriates and foreign providers
- Grow skills in-country

Clearly, the first option is a short term fix with considerable risks, as this foreign workforce is already in great demand, ageing and

may not be attracted to countries such as Iraq while security is a problem.

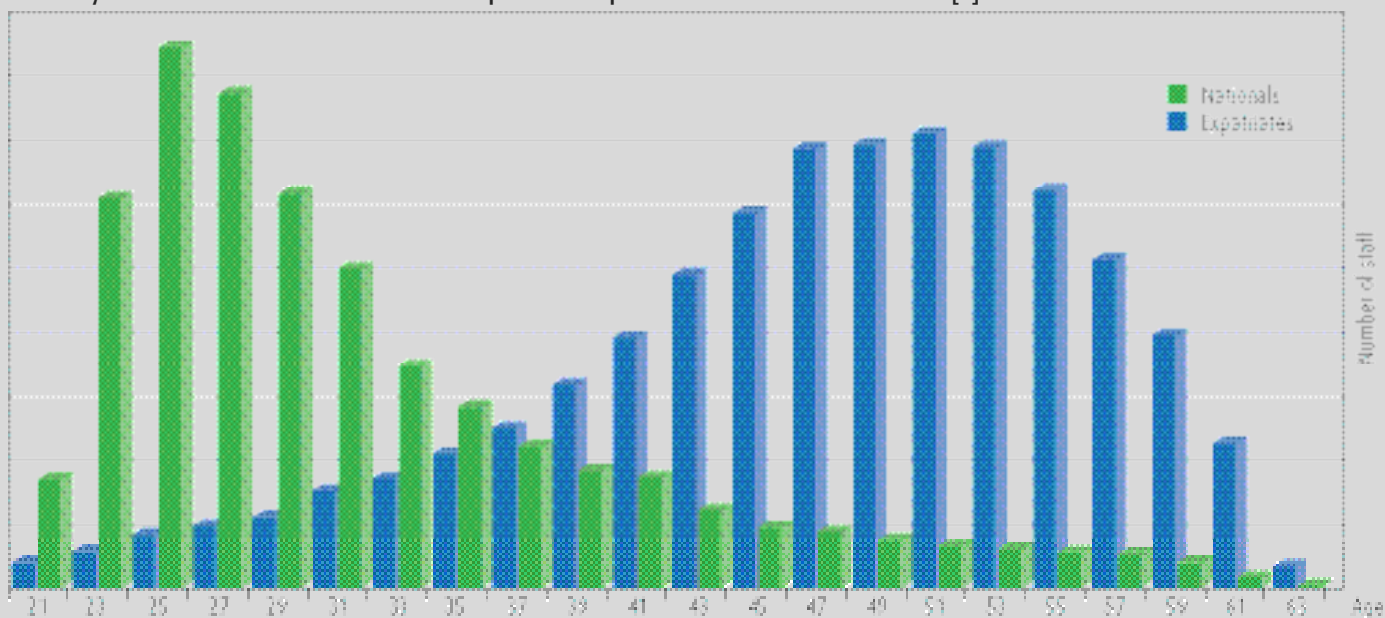
Hence, the only realistic, long term solution is to grow skills in-country.

3.1 Growing skills in-country

State run companies in the Middle East and Asia have already identified the reliance on ‘ageing’ expatriate workers and the need to develop their own skills base. These countries and companies are now systematically employing nationals, with the intention of replacing the existing foreign and ageing workforce.

This means organisations have to make large numbers of new recruits ‘job ready’ quickly [6] but this influx of inexperienced, albeit able staff require training, mentoring, etc., by the older, existing expatriate workforce. These latter workers are overworked, short staffed and many may be looking forward to retirement; therefore, they are unlikely to be able to help.

‘Push’ by Middle East and Asian Countries to Replace the Expatriate Workforce with Nationals [6].





It is not sufficient to 'hope' that skills can be grown in-country. There needs to be a strategy to guarantee skills development.

3.2 Oil & gas education and training – a new strategy

Countries such as Iraq will need to rapidly produce staff with oil & gas skills but this will not be easy. Therefore, there needs to be a focused, aggressive, fast track strategy put in place to create and nurture these skills. This will require both use of the existing in-country learning centres and external providers.

To ensure we have the necessary skills for the expansion of the Iraq oil & gas business we need to:

- Increase industry involvement in universities and technical training colleges
- Change to modular learning
- Use the internet and distance learning
- Change how we learn
- Change industry mindsets

3.2.1 Universities and industry working together

Industry and academic organisations must work together to bring both young and older engineers to attractive, tailored courses that satisfy skill shortages. Industry must take the lead and invest in

learning organisations willing and able to offer oil & gas engineering education. We need to be extremely careful in these learning initiatives – academic organisations may well try and put forward training packages that they already have, rather than bespoke courses and industry may not give the necessary technical leadership and effort. Without a common goal and resolve, all this learning will fail.

Students also appreciate 'hands on' and industry involvement in courses [8] and it is unlikely that universities will be able to produce and deliver the intense, focused courses the industry now needs.

There is a good example of the oil & gas industry working with universities in the UK: Newcastle University has set up two Masters programmes in oil & gas engineering topics [9]. UK companies such as Penspen Ltd., are taking a leading role in the development of these courses and are committed to their delivery and success [1].

It may be that the industry has to finance its own institutions to meet its education and training goals but rapid reviews of universities and colleges in Iraq will determine if new resources and facilities are needed and how much external assistance is required.

The oil & gas industry and academia need to work together to produce and offer 'modular learning': modules related to current and future industry issues should be on offer. This is a major change for both academia and industry.

Baroness Nicholson has said: “The IBBC has already set up a range of IT and English language classes in Basrah University, which will be complemented by oil & gas sector related classes, as led by Professor Phil Hopkins of Penspen Ltd, UK. We are looking forward to establishing a fully fledged Technical University which will be combined with Business and Project Management related faculties”.

5 CONCLUSION

The success and growth of the oil & gas industry in Iraq is dependent on many things. One key element will be the skills of its people. These skills will need to be rapidly developed and this will require a partnership between industry and academia, modular learning packages, distance learning and heavy financial investment.

The need is real and the start time is now.

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“The internet and intranets can offer instant access to information and knowledge”.

A fresh perspective on growth in Iraq

Case study: Consilium Risk Strategies

Consilium Risk Strategies (CRS) is playing a pioneering role in the development of Iraq's business infrastructure and is increasingly optimistic about the country. Andy Edwards, CRS' Chief Executive says, 'The situation is slowly improving and is now dramatically better for business than when we first began'. CRS recognise that as the country rebuilds and improves its infrastructure, organisations wishing to work there also need to address how they operate.

Andy Edwards continues; 'Many organisations are so large and entrenched in the provision of one service, such as construction, oil and energy or security, that they have become monolithic and have difficulty in responding to different situations. In effect, they are forced to do what they have always done'.

CRS by contrast, have conducted research with Iraqi businesses and the results are clear: they want to make their businesses more efficient and more capable of competing on a world stage. They also want to attract foreign investors and to make it easier for them to operate and establish successful new businesses in Iraq.

This may all sound obvious but how does it translate into tangible actions? Following the Invest Iraq conference in 2009, CRS were the first Private Security Company to open a fully equipped business centre in the heart of Baghdad, providing a full range of integrated business and security solutions. This included; office and meeting facilities, legal services, due diligence and consultancy and 4 star luxury accommodations. This type of approach has been warmly welcomed by the business community, the National Investment Commission (NIC) and UK Trade & Investment (UKTI).

Over the past eighteen months, CRS has gained considerable commercial experience in Iraq and remains the premier 'complete

solution' provider in its field. CRS is now combining this experience with its findings from the business community, to launch two new initiatives, which are unique to Baghdad and Iraq. These include:

1) Human Capital Development

Is there sufficient internal resource to maximise a return on investment within Iraq's new infrastructure? This question underpins the Human Capital Development (HCD) initiative and reflects a period in which investment in building skills is becoming as important as investment in building structures.

As Ian Hearne, Director, Middle East & Asia for CRS Worldwide Inc. comments, 'We regard people as the single greatest source of competitive advantage, that is why we regard people as Human Capital and not simply as Human Resources'.

In keeping with this philosophy, CRS has developed two Human Capital Development programmes, which give stakeholders access to world class training and development.

This includes the CRS Management Development Initiative, which encompasses four distinct programmes and deals with the four most common challenges faced by managers:

Management Development Programmes:

- Recruitment Skills Programme
- Performance Management Programme
- Coaching Skills Programme
- Team Leadership Skills Programme

CRS is also launching the CRS Commercial Skills for Managers initiative. As Ian Hearne explains, 'If Iraqi managers intend to



compete with managers from the US, the UK, Japan and Europe, then they should be as well trained and supported as their competitors’.

This key initiative provides programmes that have been tried and tested in more than 25 countries and successfully delivered to more than 20,000 people. These include:

Commercial Skills Programmes:

- Marketing Skills Programme
- Tele-selling Skills Programme
- Selling Skills Programme
- Presentation Skills Programme
- Negotiation Skills Programme
- Account Management Skills Programme

2) Assisted Proactive Business Development Initiative

CRS also believe that organisations can do more to aid Iraq’s development. They recognise that simply providing business services is not enough, as Ian Hearne explains, ‘there are a number of prominent international Private Security Companies (PSC’s) operating in Iraq today, who simply do just that, provide security. Some are now trying desperately to reinvent themselves as providers of ‘business services’ without actually understanding what it means or how to do it. Supermarkets sell a lot of ingredients but they don’t

show you how to bake a cake. In essence that is the main CRS differential and the thinking behind the ‘Assisted Proactive Business Development’ initiative’.

Services included:

- Business Consultancy – due diligence
- Finance – international frontier investment facilities
- Legal services
- Connections and links to ministries
- People – recruitment, training, talent management
- Security – including full life support (secure 4 star accommodations)
- Contacts – translators, suppliers, customers, trade affiliations, embassies
- Support Services – accompanied travel, visas

Ian Hearne continues, ‘CRS aims to seek, meet and attract foreign investors into Iraq, through our relationships with affiliation bodies and commercial organisations based outside of Iraq. Thereafter, we will provide a full assisted business development service to those same incoming investors’. For more information regarding CRS and their services, please contact:

Ian Hearne - Director, Middle East & Asia
Email: ian.hearne@crsworldwideinc.com
Web: www.crsworldwideinc.com

Security is a challenging area but not insurmountable

Travel to so many emerging market areas around the world, particularly in post-conflict regions, can be a challenging experience for the uninitiated with apprehensions fuelled by a lack of clear and reliable advice.

Iraq is no exception and nobody can pretend it is an easy market in which to pursue business. However, in spite of most foreign ministry advisory notices continuing to caution against travel to Iraq due to the unresolved security situation, business goes on, albeit at a level well below its potential.

Perceptions can invoke extreme caution. A recent survey of 367 executives by the Economist Intelligence Unit (EIU) found that 64% of executives questioned believed that it was still too dangerous to do business in Iraq at the present time.

There has been plenty of adverse news coverage to add to the pessimism with a spate of serious incidents during 2010, not helped by the time taken to form a new government following elections, with insurgents exploiting the failure to reach a power sharing agreement according to the Oil and Electricity Minister, Hussain al-Shahristani.

Though the security situation in Iraq is still tenuous, however, improvements are being made. Sectarian and terrorist violence continues, though at levels lower than in previous years.

One clear message emerges that it is possible and practical for visitors to travel to Iraq and inside most of the country in relative safety, as long as the advice of security professionals is heeded.

The security situation in Sulymaniyah, Erbil and Dahuk governorates in northern Iraq has, for example, been more stable relative to the

rest of Iraq in recent years. Other areas including the capital continue to strive towards a much more secure environment.

Most of the EIU's respondents even expected the security situation for foreign executives and their employees to improve over the next two years, with 46% saying it would improve somewhat and 9% saying it would improve dramatically.

While a majority judged that the ongoing violence means doing business in the country will remain off limits for some time, 38% considered Iraq to be a country with significant opportunities for those willing to accept risks in the short term.

One of the biggest changes in the campaign to subdue terrorism in Iraq over the last 14 months has seen Iraqi government forces taking over responsibility for an increasing amount of the country's internal security. In 2009, US military combat forces began to withdraw from all major Iraqi cities including Baghdad.

The last US combat mechanised units left in August 2010, while a bilateral agreement between Iraq and Washington calls for the withdrawal of the remaining 50,000 American military personnel by the end of 2011.

It represents a major challenge for Iraq, for which they are receiving substantial support and mentoring from members of the former coalition. The US has allocated more than US\$22 billion in training and equipping Iraq's security forces since 2004, according to the New York Times.

The US State Department has also said it intends to hire a further 7,000 security contractors in 2011, to help the Iraqi Government improve its police department and other civil agencies.

While the increase in Iraq's security forces has allowed them to take on work previously done by the American army, they are not a like for like replacement. Nevertheless, they do understand how Iraqi streets and communities operate in a far more detailed and sensitive way, which augurs well for long term community protection and development.

For the time being, the effort is drawing on the assistance of more than 50 private security contractors currently working in Iraq for a variety of clients including foreign governments, private industry and international organisations.

Some 12% of the US\$50 billion that the US Government is expending on reconstruction in Iraq goes on security services provided by private companies.

They provide an array of armed and unarmed security services, including static security, personal security details, intelligence analysis and operational coordination.

The work includes; providing bodyguards for diplomats and top commanders as well as guards for military bases, military supply convoys, contractors and subcontractors supporting US activities in Iraq.

Some security firms offer a wider remit than just securing the physical safety of people and assets. This can range from organising itineraries in particular sectors as well as briefing insurance companies on what cover is advisable for a visitor. Other services include arranging accommodation in Baghdad's 7.7 square kilometre International Zone or in private secure compounds and villas as well as protected travel in the country.

Sound expert advice is essential for visitors knowing what is safe and reliable. It is not a question of having the nerve to visit but rather in spending time on detailed preparation.

Having the right intelligence allows outsiders to be attuned to such fault lines, allowing business visitors in particular to operate with much more confidence and efficiency.



Securing Iraq

Case study: Erinys



The Erinys mission is to create and maintain a safe and secure environment, enabling its clients to focus on their core activities and achieve their business objectives in remote and difficult areas. This is achieved with minimum acceptable risk to people, assets and reputation.

Erinys Iraq Ltd, part of the Erinys Group of Companies, has been in continuous operation across Iraq since May 2003. During that time, Erinys has witnessed many momentous changes in Iraq. It has continually adapted and refined both its business model and approach, fully engaging with the reconstruction and rehabilitation process, alongside its commercial clients and the Government of Iraq.

Erinys' hallmark is its ability to manage large and complex projects in demanding circumstances. As well as contracts with both Iraqi and US Governments, Erinys has also successfully supported many commercial organisations engaged in Iraq's post conflict reconstruction efforts. Success has been achieved by working hard to anticipate and understand their clients' requirements in dynamic operating environments and implementing jointly agreed courses of action, maximising the benefit to host nation stakeholders.

Erinys continues to develop its range of services to suit rapidly developing commercial requirements for organisations seeking to enter and succeed in Iraq. Two examples of these are:

- The development of the suite of Enterprise Support Services that address differing requirements throughout project life cycles from project planning to demobilisation. Erinys is able to package services using a range of experienced capable partners. The 'single face to industry' approach not only delivers a safe and secure environment but has the additional benefit of reducing clients' administrative and

management burdens and associated costs. This invariably increases the clients' operational efficiency.

- In recognition of the fact that Iraq presents commercial organisations with a critically important emerging market, Erinys has launched the Bridgehead range of services including: Visa processing, secure accommodation and secure transport. These are designed to enable clients' preparation and market entry, with the minimum of fuss. The Erinys Bridgehead service is complemented by the InSight intelligence service that provides a comprehensive range of market intelligence products, including specifically commissioned surveys and reports.

Erinys' enterprise support services and Bridgehead are not mutually exclusive but rather complementary, enabling Erinys to better understand their clients' service requirements, allowing them to embed security by design.

Foreign commercial, government and non-governmental organisations wishing to achieve their objectives in a rapidly changing post conflict Iraq, require a robust level of situational understanding and a finely developed sensitivity to the country's cultural heritage. Both can be readily obtained by seeking the advice and help of organisations who have gone before and learnt from their experiences.

Erinys has provided services to the Iraqi Ministry of Oil, the US Government and a host of commercial organisations engaged in the reconstruction effort. In the process, Erinys has employed thousands of Iraqis across the tribal spectrum and provided training and advancement for many along the way. Erinys has thus developed a deep understanding for the culture and environment, which may not otherwise be immediately obvious to market entrants.

Infrastructure review

Iraq is emerging from its struggles and seeking to diversify its economy in order to create long term economic opportunity. If you consider the baseline position and look at the progress made on the previous year, things have moved on. At the end of 2009, Foreign Direct Investment (FDI) had increased by almost 241% on previous years. This was largely due to the successful oil licencing rounds. The UK was fourth in terms of FDI in Iraq, well behind the UAE and US. Oil & gas currently attracts 46.58% of all investment in Iraq (FDI 2009). This is followed by mixed residential, commercial & industrial developments 32.05%. The successful development of the oil sector will increase overall business confidence in the Iraqi market and endow the Iraqi Government with the resources to implement its ambitious infrastructure redevelopment plans.

11 oilfield development licences have now been awarded with an estimated potential production output of 12 million bpd. Crude oil prices currently stand at US\$81.58 per barrel (as of 1 October 2010) indicating the huge potential wealth of the country. Iraq has the potential to become the world's 2nd biggest producer of crude oil. These long term service contracts will provide a back bone for the Iraqi economy. Oil is without a doubt the key driver of development in Iraq but in order to deliver the ambitious oil production targets, supporting infrastructure must be developed. Oil revenues will enable the necessary economic diversification, job creation and investment required for long term economic sustainability in Iraq.

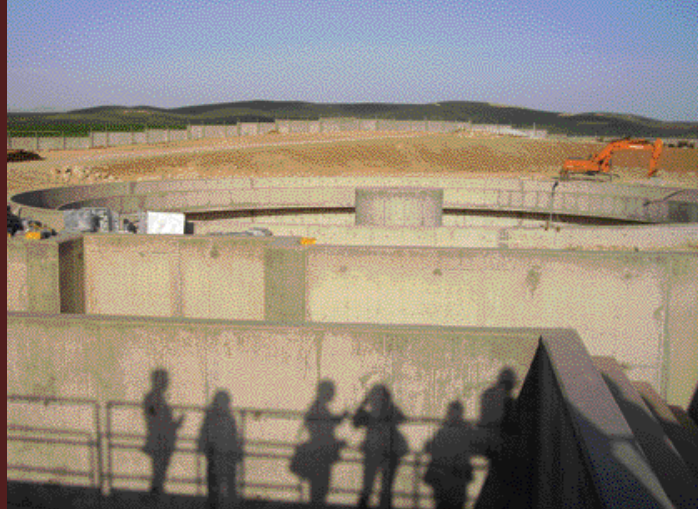
There have been a number of positive changes that make the reality of rebuilding Iraqi infrastructure and achieving long term goals

possible. The economy has shown promising signs of stability with successful policies limiting inflation and achieving high rates of annual growth. Significantly improved levels of security make travelling to Iraq a more attractive proposition for foreigners and the successful staging of the elections held in March 2010 gave a signal that things were improving. The improved security situation has also been the basis for positive economic forecasts and over the next five years economic growth is predicted to average 5.8%. However, the stalemate in the leadership contest is doing little to support the significant improvements seen in the security situation over previous months but there is still a sense of optimism as to an agreement being reached and progress continued.

The important challenges still facing the country also represent opportunities for organisations that view the rewards as worthwhile and believe that they can adequately manage the risks. These companies must also be prepared to commit to building long term relationships in Iraq. Both the international and the Iraqi private sector will play a catalytic role in the redevelopment of Iraq. In addition to the oil & gas sector, large international companies are now participating in Iraq's economic growth.

The Iraqi Government has always publicly stated the need for the participation of foreign experts and investors to achieve its objectives. A challenge that has seemingly appealed more to the European, Asian and US nations than the British. Apart from a handful of pioneering British companies, most large UK companies involved in infrastructure have perceived Iraq as too high risk.

“This year the first round of power stations were tendered, putting forward six plants for redevelopment. Again the response from international companies was significant”.



Although it remains challenging there is now a mounting body of evidence that with the right approach it can be a manageable risk and a risk worth taking.

Infrastructure projects are key to unlocking Iraq's economic prosperity and are essential in achieving the stability of the country. The ability of the Government to meet basic needs is a prerequisite for a successful state. What that state looks like will be determined by the Iraqis but the unequivocal truth is that a successful state will only exist with significant infrastructure development.

Prior to 2009, the Ministry of Electricity (MoE) put in place programmes which resulted in significant increases in power generation. Some estimate that production doubled between 2003 and 2009. However, the current production of electricity in Iraq still fails to meet basic needs, with electricity supply averaging less than 14 hours per day. The future plans for the industry are necessarily ambitious with the sector facing many challenges. The biggest challenge is the wide ranging need for new power plants, a challenging requirement not least due to the extraordinary costs of such an overhaul and the limited resources available. This year we saw rioting in the streets of Basrah due to public frustration at what was perceived as the failure to improve the provision of electricity. This prompted the then Minister of Electricity to step down and the Government to take the step of appointing Hussain al-Shahristani the Minister of Oil, as custodian of the MoE until further notice. The MoE has developed a model which stimulates foreign

investment in the sector through a buy back agreement, a development that required significant change in approach and legislation. This was part of an ongoing process to remove some of the financial constraints faced by the sector. The MoE has also engaged in discussions with the World Bank and international financiers in an attempt to develop suitable financial models for investment.

This year the first round of power stations were tendered, putting forward six plants for redevelopment. Again the response from international companies was significant.

Iraq is aware that it needs to almost double its current electricity production in order to meet demand and is taking steps towards achieving this objective. With a growing population and increasing economic wealth, demand is steadily increasing. Iraq is already considering the use of nuclear power plants to meet this demand but will also need to give serious consideration to sustainable power generation options. Under the previous Minister there were plans to tender a further ten power projects this year. With the change in leadership at the MoE there is no doubt that adjustments will be made to plans to meet the increasing demand for power in Iraq.

The National Investment Commission's US\$70 billion infrastructure package announced in 2009, included a broad range of sectors and a clearly ambitious target. The package included targets of US\$25



“A fascinating array of projects has come to life, everything from the Baghdad Eye to Monorails”.

billion for housing development and US\$8 billion for transport. Concerns were raised over the supporting infrastructure that would make this scale of investment possible. However, the subsequent housing development plan assembled by the NIC Chairman, Dr Sami Al-Araji has been significantly progressed.

Amendments to the Investment Law which relate specifically to land possession have increased the attractiveness of physical development projects in Iraq. A number of hotels and other leisure developments have sprung up, including the large and ambitious Basrah Sports Stadium project. The US\$500 million scheme was tendered in 2009 and received a considerable response from international consortiums partnering with Iraqi firms. The project was eventually awarded to an Iraq/US consortium and construction began last year. When completed, the sports city project will accommodate 65,000 spectators and also includes the development of four hotels.

Housing is a major priority for Iraq which already faces an acute housing shortage. 3.5 million housing units are required in the next five years alone. Large scale housing projects have been agreed with UAE and South Korean backing. The exciting redevelopment of Sadr city is underway. A notoriously deprived area of Baghdad, overcrowded and rundown, is the focus of a reconstruction programme. Ten firms were shortlisted this year to complete the

Phase 1 planning and design of the programme. The intention is to include 75,000 new housing units and supporting utility and community infrastructure.

Water is perhaps the most highly political and critical issue facing Iraq. Iraq known as Mesopotamia in ancient times, meaning, between two rivers surely provides an indication of the importance of access to water for the future of Iraq. The Ministry of Water Resources was one of the first ministries to start the process of privatising its state owned companies. In order to solve the potential water shortage crises, the Iraqi Government is employing diplomacy and looking at ways to increase efficiency. The US\$70 billion infrastructure package identified an investment target of US\$5.539 billion for the development of water resources and sewerage networks in Iraq.

In the transport sector, the focus has been given to plans for the development of major transport hubs comprising of ports, airports and railways. Iraq has an extensive railway network, with some 1,900 kilometres of track. Both the track and rolling stock are antiquated and in much need of modernisation. The efficiency of the railway network has a significant part to play in supporting the Iraq redevelopment plan. In 2009, the Ministry of Transport announced signing a Memorandum of Understanding with Deutsche Bahn for the redevelopment of the railways.

In 2009, the US was firmly focused on the redevelopment of the port of Umm Qasr, they claimed that this would be the only major port development in Iraq. At the same time the Iraqi authorities were talking about the development of the port of Al Faw in addition to Umm Qasr. To anyone looking independently at the situation it was immediately clear that Al Faw was about to see some major change. In 2009, an Italian consortium were awarded the project. The project is ongoing and the design and planning stage is expected to be completed in 2011.

The development of the aviation sector and major Iraqi airports form a fundamental part of the transport plan. There has been much talk about the possible development of Baghdad International Airport (BIAP) and it is rumoured that agreements are in place for its development with international partners. There has been a marked change in approach at BIAP in 2010 and Etihad announced the addition of Baghdad to its international flight list.

Tenders for projects such as the Baghdad Metro, an ambitious project set to ease congestion in the city with a 2 line, 41 station metro, developing over 39 kilometres of track. An idea that has been lying dormant for some time suddenly came back to life. The Monorail was also tendered this year.

The resolve of the Iraqi Government to initiate major development has been clearly demonstrated in 2010 with the steady stream of tender announcements. A fascinating array of projects has come to life, everything from the Baghdad Eye to Monorails. The resolve of the Iraqi's to bring on large scale change and engage with international investors and developers should be applauded. However, tender announcements can sometimes be more of an expression of the abstract rather than a well developed and clearly defined project need.

The development of Al Faw Port and the Italian consortium, led by Technital that eventually won the project is a stunning example of how long term engagement can be rewarded in Iraq. International engagement demonstrates that there is a way to manage the risk. Many of the perceived risks are misconceptions. Admittedly, Iraq's modern history of centralised government structures has endowed it with a limited private sector and many basic systems in developmental stages. This can make it difficult for international companies to grasp the real demand for goods and services in Iraq. Even those companies that take steps to initiate active engagement in Iraq can find it difficult to navigate the challenging environment. However, many companies are overcoming those challenges and doing business in Iraq. This is a clear indication that with the right knowledge Iraq is a country worth exploring.

So are UK companies leaving it too late? They are put off by the lack of clarity and the speed at which things progress but are they missing the point? While other international companies are in Iraq helping with the streamlining process and helping the Iraqi government take these crucial steps, they are developing valuable knowledge and relationships that will make it difficult for British companies to catch up later. Over the last year, numerous projects have been announced but have not seen the light of day falling foul of challenging financial systems or other bureaucratic difficulties. Despite these challenges, Iraq still possesses outstanding natural resources, a rich archaeological heritage and vast human resources – with such strong foundations Iraq has every reason to succeed.

Leanne Case is a consultant specialising in Economic Development and Business Strategy and has been helping companies in Iraq since 2009. Email: leanne.case@btinternet.com



Rebuilding a nation - It's more than just projects

Case study: Parsons Brinckerhoff

Parsons Brinckerhoff (PB) has been providing programme and project management services to rebuild, expand and modernise Iraq's war torn electric power system since 2004. Programme Director Jeff Larkin looks back over his team's contributions.

Electricity is the life blood of modern day economies and although water, fuel and communications are also essential services, nothing effectively happens without power. In March 2004, PB mobilised to Iraq to support the reconstruction effort and the development of the Iraq power system and found itself in the middle of political, economic and social tensions. PB was supporting the US Government's Projects and Contracting Office (PCO) - an independent body established by the US Government to provide management and oversight of the US\$18.6 billion Iraq Relief and Reconstruction Fund (IRRF). The reconstruction programme wasn't just about building and handing over projects; it also aimed to employ thousands of local workers, stimulate the economic recovery of Iraq and if possible, provide 24 hours of power each day.

By October 2008, PB had overseen the implementation of more than 600 electrical reconstruction projects worth over US\$3.6 billion throughout Iraq's 18 governorates.

The task ahead

The amount of reconstruction work taking place in Iraq at the time was unprecedented in this part of the world. The electrical sector team awarded over US\$750 million worth of projects during the summer of 2006 alone. In addition, PB was responsible for supplying equipment, critical spare parts and training totalling some US\$150 million.

During the reconstruction programme, PB completed 68 major power plant projects, 417 distribution projects, 60 transmission projects and seven nationwide Supervisory Control and Data Acquisition (SCADA) projects. The entire reconstruction programme increased the power generation capacity in Iraq by over 2,000MW and in December 2008, daily output finally exceeded 6,000MW, the target set by the Iraq Reconstruction Management Office (IRMO).

However, the Government soon realised that simply restoring systems to their previous state would not achieve its ultimate objective - 24 hours of power a day for all of Iraq. Although output today exceeds 6,000MW and has peaked at 7,400MW, this is still far short of the estimated 13,000MW needed to achieve 24 hours of power per day. Additional consideration needed to be given to the

provincial cities and towns outside of Baghdad, which had never benefited from 24 hours of power, even before the war.

The magnitude of the problem facing Iraq's electricity system before the reconstruction programme began, was bigger than anyone realised. US\$3.6 billion is a large sum but with a shortfall of 7,000MW it would take closer to US\$20 billion to achieve 24 hours of power for all. Today, the country is still hampered by rolling blackouts from governorate to governorate and many people only have access to as little as five hours of power each day. The shortages hamper the economy by restricting local industry and commerce, hindering communications and making efficient and effective business difficult.

Tackling unique challenges

At the height of the insurgent activity, daily meetings with the Ministry of Electricity (ME) to discuss developing new projects, identify network expansion needs and determine which projects would provide maximum benefit, became situation reports on which towers and lines had been taken out of service the previous day. PB, along with other contractors in the region, found themselves in the unique position of being able to contribute to real time discussions on how the ME were going to manage the destruction that was taking place around them.

Even now, Iraq continues to face chronic power shortages, rolling blackouts, an overloaded distribution network and demand increasing at an exponential rate. Striving to maintain existing facilities, while trying to rehabilitate and expand the electrical generation assets and the transmission and distribution networks is a constant battle for the Ministry.





Milestones

In 2007, PB stepped in to take over completion of the Doura Power Plant rehabilitation. That August, Units 5 and 6 at Doura, both 160MW steam turbines, became operational simultaneously, both serving Baghdad for the first time in six years – a truly great achievement for Iraq and a rewarding one for the PB team.

Also early in 2007, the US Government agreed to support the ME with the completion of the Mussayib Gas Turbine Power Plant. PB mobilised a team to commence site assessments and commissioning supervision for the Mussayib GT power plant and the first LM6,000 unit was synchronised to the grid in August 2007. By the summer of 2007, PB had built up its team to 240 staff in Iraq with 60 staff in the UK, US and Jordan supporting the programme.

Operations and maintenance

In October 2007, PB was awarded the follow on Operations & Maintenance and Sustainability (OMS) contract to provide support to seven major ME power plants, which accounted for 3,410MW of generation capacity.

PB was responsible for seven man-camps across Iraq under the OMS project. The work involved support and assistance to the ME to enhance the skills needed to achieve increased reliability and production of electrical generation output. The programme provided mentoring to the ME plant managers and support to the ME plant staff on a daily basis to investigate problems and failures, develop solutions and review operational data and procedures.

PB provided a full time technical team of international and local staff on every site. These sites made up a significant segment of the ME generation capacity in thermal and gas turbine plants. The average daily availability of these plants reached 65% as opposed to 45% from the previous year. The OMS sites increased production to the point where they produced over 2,000MW or nearly 50,000MWh daily - nearly 44% of the total daily generation. Across all seven sites, average production figures increased by nearly 30% from the previous year.

“The 20 year masterplan includes an updated long term load forecast study, a generation plan, a transmission plan and a distribution plan.”

The Kurdistan Region

The Kurdistan Region of Iraq has struggled to meet its own power demands for many years. Recognising what PB was able to accomplish for the Iraq Ministry of Electricity, the Kurdistan Regional Government's (KRG) Ministry of Electricity (MoE) asked PB to support the management of its region wide Electricity Network Rehabilitation Programme and develop an Electricity Masterplan for the Kurdistan Region to 2030 and so PB mobilised a team to Erbil in January 2009. The completed masterplan addressed generation, transmission and distribution expansion plans in an integrated manner, thereby ensuring that the proposed capital investments were part of a long term structured plan for the power sector infrastructure in KRG. In its management role, PB is providing programme and project management support services for project implementation.

The team in Erbil is currently supporting the Ministry in the management of more than 90 transmission projects worth over US\$650 million and the development of a 300MW thermal power plant project.

Iraq Transition and Assistance Office (ITAO)

To support the goals of transition, the Iraq Transition and Assistance Office (ITAO) has undertaken a number of capacity development initiatives and PB has been supporting some of these. These initiatives have included a survey and study of the private neighbourhood generation market in Baghdad, a load forecast study to determine the current demand and to develop a load forecast for the next ten years. This was the first such analytical and comprehensive load study undertaken since 2003 and not only produced a study but trained the Ministry's load forecasting team in

preparing such studies so that the work could continue on an annual basis. PB also worked with the Ministry to develop a regulatory law which will eventually establish the framework for an electricity regulator in Iraq.

As a follow on to this initial capacity development work, PB has been working on a long term electricity masterplan for Iraq over the past year, working with the ME's Planning and Studies Dept. The 20 year masterplan includes an updated long term load forecast study, a generation plan, a transmission plan and a distribution plan. The study will deliver a least cost power system expansion plan for Iraq but more importantly, it has also provided the training and capacity development to continue the planning process into the future.

Look into the future

PB is trying to help the Iraqis regain control of their country once again. The cultural change that the ME staff are going through is a long and arduous process. The damage caused by conflict and the oppression of the Iraqi people, systems and government will take time to mend but ultimately it will be mended. Carrying out reconstruction efforts in the face of continued terrorism, militia activities and warfare is not easy but to their credit, there are large numbers of Iraqis within the ME who have done just that. Iraq has a long and proud history of resourcefulness and creative problem solving and the whole reconstruction programme, which PB is proud to have supported, has helped to give the Iraqi people a renewed focus on their path to stability.

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Turning the tide

Case study: Mott MacDonald

Though there is much still to do, improvements to the quality and reliability of the water supply have been achieved across southern Iraq, writes Gordon Turley, Regional Director, Mott MacDonald.

Grim headlines on the state of Iraq's water and sewerage infrastructure mean that improvements made over the last seven years are often overlooked. Iraq's water and wastewater sector suffered from three decades of acute under investment. Many suburban areas were developed without adequate infrastructure. Maintenance and repair of existing treatment works, pumping stations and pipes was neglected. Leaking pipelines resulted in massive potable water losses. Leaks also allowed fresh water to become contaminated by foul surface water. The international trade embargo placed on Iraq during the 1990s meant essential parts and equipment were unattainable. In addition, acute power shortages meant that mechanical treatment processes and pumps frequently stopped working.

The legacy is that, according to the Ministry of Water Resources, today 65% of Iraq's 30 million population are without safe drinking water and 80% without adequate sewerage. Rivers and waterways – the principal sources of drinking water – are heavily contaminated with sewage. As a result, diarrhoea is rife. The United Nations

reported more than 500,000 cases of acute diarrhoea in 2008. It is one of the leading causes of child mortality in Iraq.

One of the leaders in tackling the huge challenge is Mott MacDonald, a global consultancy firm that has been working on relief and reconstruction projects in southern Iraq since 2003. Starting with work to restore basic services in the immediate aftermath of the second Iraq war, Mott MacDonald led repairs to water treatment works, pumping stations and pipelines, trunk sewers and wastewater treatment works, alongside power, fuel, communications, health and education projects.

Today, Mott MacDonald is playing a key role across southern Iraq in identifying, prioritising and delivering projects to improve water supply and sanitation. This involves working closely with municipal authorities and utilities companies on forecasting demand and assessing their existing infrastructure to identify specific needs. On their behalf, Mott MacDonald develops financial models and prepares business cases for work and presents them to funding organisations to assist in securing project finance. The company then provides world class design, management and construction supervision services. Clients include the international funding agencies in Iraq as well as Iraqi government departments.

Utilities - Water

While the scale of the challenge in improving the Iraqi water and wastewater sector remains immense, Mott MacDonald led projects are making a major difference to life for thousands of people across southern Iraq.

Needs assessment and master planning

In 2003, Mott MacDonald conducted a condition survey, identifying immediate investment priorities and longer term targets. This was followed by a master planning exercise to assess water and sewerage requirements in cities, towns and villages across southern Iraq. Master planning was focused not just on present needs but the future demands imposed by projected population growth and movement. This exercise was geared to matching resources to demand.

Stemming leakage

A major leak detection and repair programme was among the first investment priorities. In addition to leakage resulting from war damage and age related deterioration, the detection programme revealed widespread illegal connection to the supply network – people had drilled into pipes to take off water for everything from domestic use to crop irrigation, fish farming and providing ponds for water buffalo. Many connections were extremely poor, with water gushing from the pipe junction.

It was also found that, because mains pressure was so poor, people were rigging up pumps on their supply pipelines. In some places demand was so great it was creating negative pressure in the trunk main and, as a result, dirty water was being sucked through leak holes and contaminating the clean water supply.

Mott MacDonald designed repair works, set out construction methodologies, oversaw selection of contractors and provided project management. Over 30,000 major leaks were fixed, helping to reduce water losses by 30% and raising water pressures by 25%. Leakage repair in water and wastewater pipes significantly reduced cross contamination of potable water with sewage, making a major contribution to improving water quality.

Leak repair and network strengthening is now supported by programmes of public education aimed at encouraging water



“Mott MacDonald led projects are making a major difference to life for thousands of people across southern Iraq”.

conservation and getting people to report leaks. As part of the initiative, water information centres have been set up.

Strengthening supply

In parallel with the leakage campaign, 160 kilometres of new water trunk main pipeline has been laid and 400 kilometres of network reinforcement has been carried out across Basrah.

At Al Hayaniah, Basrah, three new water towers and service reservoirs – the largest water storage and distribution facility in southern Iraq – were commissioned in 2009.

In 2009, supply and quality were boosted further by completion of a major refurbishment of the R-Zero water treatment facility, involving replacement of filter media, valves and pumps, plus a major overhaul of tanks. A new treatment works was delivered at Az Zubayr. For both projects, Mott MacDonald provided both design and project management.

Salinity is a common problem with groundwater across much of southern Iraq. In rural communities reliant on wells or pumped groundwater supplies, Mott MacDonald has added reverse osmosis water treatment systems to remove salt. These typically meet the demands of communities of up to 5,000 people.

Enabling repair and maintenance

Over a decade of trade embargos meant that replacement parts for much essential equipment could not be obtained. Equipment had ground to a halt, was operating inefficiently, or was being nursed along with improvised parts. Mott MacDonald ordered spare parts and ensured they were distributed across southern Iraq to where they were required.

Improving resilience and reliability

Due to damage, inadequate maintenance, lack of funding and the unavailability of parts or chemicals, water quality has been poor in villages across southern Iraq. This is being overcome in part by Mott MacDonald's innovative design of water treatment plants that function without relying heavily on mechanical systems and chemical processes.

To successfully deliver treatment works with 'low mechanical content', Mott MacDonald has sited them so that water will flow to them from rivers or canals under gravity, removing any need for pumping. Simple but highly effective sand filters then remove impurities. The technique has been tried, tested and proven worldwide over centuries. Eight such treatment plants have been built to date, supplying a total of close to 250,000 people. All have been built by Iraqi contractors employing a workforce from the local community.

Capacity building

Mott MacDonald has been supporting government agencies and utilities companies in building up the necessary skills to operate infrastructure sustainably. Staff need to be able to identify immediate and long term needs, plan, secure and manage investment, develop and implement projects and tackle maintenance proactively, not just reactively. Owners and operators are being assisted in developing tariff charges and revenue collection strategies, enabling them to improve cost recovery.

The company has equipped water industry staff with the IT hardware and software needed to operate efficiently. This includes state of the art Geographic Information System (GIS) mapping, which enables



infrastructure owners and operators to compile comprehensive records of asset location and condition in a user friendly way. GIS mapping is a powerful tool for planning and logging maintenance.

Upcoming priorities

Among the most pressing needs is a comprehensive masterplan for sewage treatment across Basrah. In parallel with major water and wastewater infrastructure, significant power generation and transmission improvements are needed. The present intermittent supply hinders efficiency in all sectors.

About Mott MacDonald

Mott MacDonald is a US\$2 billion consultancy of unrivalled diversity, providing leading edge solutions for public and private sector clients across 12 core business sectors. It has over 14,000 staff and works in 140 countries.

The company has worked in Iraq since the late 1950s, helping deliver projects in the power, water, sanitation, telecommunications, buildings, transport, bridges, airports and oil & gas sectors. Contacts

developed with local consultants, contractors, planners, municipal authorities and other clients have endured to this day. In the last two decades, acquisitions made by Mott MacDonald have secured the company further experience of working in Iraq.

Since 2003, Mott MacDonald's experience and network of contacts have been of major advantage, helping the company deliver effective emergency relief and reconstruction projects and to build up a team of over 150 staff in the country. Mott MacDonald is a registered company with the Iraqi Ministry of Commerce and its offices are staffed principally by Iraqi professionals.



Gordon Turley led Mott MacDonald's re-establishment in Iraq in 2003 and remains the company's Country Director.

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Construction market will be region's largest

Iraq's construction potential has no bounds. Apart from the priority to build millions of new homes and repair existing buildings, huge infrastructure renewal is required, not least in the treatment of water and its distribution, new sewerage systems, roads, airports, rail systems and ports.

Oilfield developments already agreed, will necessitate substantial investment in access roads, workers' accommodation, pipelines, storage and pumping stations. For the private sector there is major work stretching ahead for decades.

There will be many prospects for pioneering innovation, where firms having access to new building technologies and design will be able to contribute to the rebuilding and development of Iraq's urban environment. Opportunities exist in every discipline and sector.

Much of the initial focus is on rolling out affordable housing projects, with the Government planning to build at least 3.5 million housing units over the next ten years to meet necessary demand and not just in Baghdad and Erbil. Maysan, Wassit, Muthanna, Qadissiya, Basrah, Najaf, Thi Qar and Diyala provinces have all announced housing schemes this year.

A New Zealand firm, Atconz Real Estate Development, is working on a US\$100 million project known as New Azadi to build 1,565 homes in Erbil. The company's CEO, Dean Michael, has described Iraq as likely to be the biggest emerging market in the region for the next 20 years.

Opportunities for investment are not limited to housing. The governorates of Anbar, Thi Qar and Karbala have announced projects for development of industrial areas, which when fully developed could involve billions of dollars of investment.

Wassit Province Investment Commission and the Ministry of Tourism have announced plans for a US\$1 billion development of a 500,000 square metre tourist city near Kut, to include real estate, hotels, sports, leisure and entertainment areas.

Basrah Sports City Complex is under construction to host the Gulf Cup football competition at the end of 2012. The focal point will be a 65,000 seater stadium surrounded by water and accessed by a bridge.

“So much attention is given to hydrocarbon resources that it is easily overlooked that Iraq has considerable untapped solid mineral resources”.



The 360 acre site will also contain a smaller stadium, practice facilities, a training complex and swimming pool among other facilities. The masterplan also calls for a commercial district to be developed, including two 500 room hotels, four shopping malls and entertainment facilities.

Implementation of Iraq's many investment projects and plans may take time but activity is gathering momentum in infrastructure renewal and housing schemes. As a result, opportunities are opening up across the construction sector for consultants, planners, developers, engineers as well as providers of building materials.

So much attention is given to hydrocarbon resources that it is easily overlooked that Iraq has considerable untapped solid mineral resources. Once rail and other transport links are in place, substantial opportunities lie ahead for the extraction of iron ore, copper, bitumen, dolomite and marble as well as for production of building materials including glass, bricks, steel and cement.

France's Lafarge Ciments has seized the opportunity and is steadily consolidating its presence in the Iraqi market, helping to reduce the country's need for imported materials. The company, the world's largest cement maker, has been involved in Iraq since early 2008, when it acquired plants near Sulaymaniyah at Taluja and Bazian, which now produce 2.3 million and 2.7 million tonnes a year respectively.

In May 2010, Lafarge launched a US\$200 million renovation of a cement production plant near Karbala. The company's Chief Executive in Iraq, Marcel Cobuz says he expects that the

modernisation of the 27 year old factory will see its output increase tenfold within two and half years.

"Iraq is a country in which we can do business. I think the fact that we have operated in the north for a few years made us comfortable to move to the south", he says.

Cobuz believes that Iraq's investment climate is improving, though foreign investors are awaiting the passage of national industry and consumer protection laws to further improve the environment. "The Investment Law of 2006 is a good step forward. It is guaranteeing basic industrial rights. It is paving the road with tax and capital incentives. So it is rather a modern legal framework".

In March 2010, the giant Luxembourg based steel maker ArcelorMittal agreed a joint venture with Turkey's Dayen Dis Ticaret to construct a new steel mill in Sulamaniya.

In its initial phase, the mill is due to produce 250,000 tonnes a year of rebars from locally sourced scrap. The investment of between US\$100 million and US\$130 million is to be jointly subscribed by the two companies. Production is due to start at the end of 2011 and could increase to 500,000 tonnes a year.

According to ArcelorMittal director Christophe Cornier "There are many opportunities to assist in the development of the country. There is great demand for steel produced for the local construction industry, which we aim to meet, working closely with our partner Dayen and the local government in northern Iraq". The firm is also planning to refurbish a steel making plant in Basrah.

Harlow International - Builds on Iraq experience

Case study: Harlow International

Harlow International, is a UK engineering company set up to establish an active presence in Iraq, supporting clients through the provision of contracting services from facilities in the International Zone, Baghdad and the Command Operating Base, Basrah. The company has become a respected member of the Iraqi and international business community, having successfully carried out a number of key contracts during a difficult and testing operating period.

The headquarters of Harlow is located within the International Zone and encompasses a self sufficient facility enabling them to provide the necessary secure business infrastructure required to operate in Iraq.

To deliver the business support expected from a quality company, Harlow has brought together a group of international companies, specifically chosen to provide a one-stop-shop of engineering services, carrying out infrastructure, oil & gas and power projects for clients.

The companies are chosen to add a significant depth of experience and strength to the established engineering capabilities of Harlow.

In addition, each member of Harlow staff has extensive experience of working in the Middle East and Iraq, with a number of engineers providing a direct service to Harlow's existing and current projects.

Currently, Harlow has been awarded a US\$56 million Engineering, Procurement and Construction (EPC) contract to refurbish the prestigious Al Rasheed hotel in Baghdad. This contract is a fast track project to bring the hotel standard to a 5 star rating ready to receive the Arab Nations Summit in March 2011.

Strength in cooperation

Harlow has the credibility and the capability to deliver successful projects in chosen market sectors within Iraq. More significantly, Harlow has the legacy assets critical to that success, namely country experience, market knowledge, cultural understanding, distribution channels, project management, established distributor networks, scalability and liquidity.

Our international partner companies include: Sinopec in China, STX in Korea, Honeywell and UOP in the US along with MCE plc and KPPS in the UK.

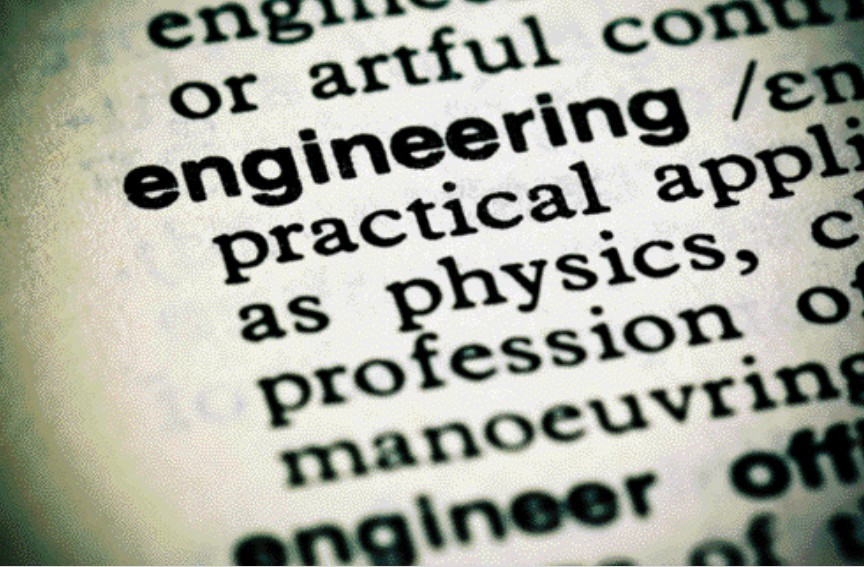
The strength of the partner team lies in the ability to meet project requirements both locally and regionally within Iraq.

As a team we are able to:

- Make more effective management decisions through wider knowledge and experience of techniques and processes from a range of organisations
- Manage change and uncertainty through an understanding of best practice
- Understand why and how systems and processes are applied in a variety of projects
- Identify relevant learning points and decide how to use them in their own situation

Building on excellence

While many teams offer strength in individual services, few have the resources and global perspective to provide excellence across a wide range of disciplines. With a globally diverse but complementary set



of services, Harlow can deliver sustainable solutions to meet the aspirations of clients and their projects throughout Iraq.

By integrating tools, techniques and the vast experience of our partners from different disciplines and areas, Harlow is able to provide innovative solutions for the most demanding of problems and environments.

Integrating resources to meet client needs

Over many years the company has learned that the most robust ideas come from sharing different perspectives. As a consequence, Harlow directs the strengths of partner organisations towards the different market and project requirements, alongside a deep awareness and understanding of local business values.

Within this approach, team culture has become an essential ingredient of the company's success. Partner companies are given scope to exercise flair and judgement but Harlow ensures that their collective skills are utilised to benefit all clients and all projects.

Quality based operations

Harlow is committed to continuous improvement and as such, the company's Quality Management System is based on the requirements contained in ISO 9000:2000, with a common structure based on standard management processes and supplemented by a series of supporting procedures specific to each operating division.

This ensures continuous improvement within the overall business, resulting in greater efficiency and strengthened capabilities when responding to clients' needs and expectations.

Harlow establishes particular Quality Assurance Plans for each project ensuring that design, construction process, products and installation of equipment conform to client specifications.

The quality plan includes details of procedures and practices that will be implemented during project execution and integrates the final operational performance of plant and equipment inspection and testing. When implemented in conjunction with the overall Quality Assurance Programme, this ensures full compliance with approved drawings, specifications and applicable codes and standards.

Typically, Harlow's defined procedures and practices comply with the contractual requirements for the following activities:

- On site inspections of delivered material and equipment to ensure product conformance to the specification requirements
- Assessment of subcontractors and suppliers
- Day to day control and monitoring of engineering processes that directly affect quality, ensuring that processes are carried out in compliance with approved drawings and contract documents/specification

“With a globally diverse but complementary set of services, Harlow can deliver sustainable solutions to meet the aspirations of clients and their projects throughout Iraq”.

- Review of shop drawings and material submittals
- Off site inspections at the point of manufacture and supply of various products
- Field testing and sampling as required by the project specifications or applicable building codes
- Maintenance of daily records of as-built drawings
- Maintenance of daily records of all Quality Assurance activities

Harlow expertise

Experience tells us that the traditional design-bid-build approach is the most popular delivery method for construction projects in Iraq. As a general contractor, Harlow organises a given project by scope and speciality then engages the appropriate experienced manpower in the following areas:

- Site work • Project resource logistics - manpower and plant/equipment delivery • Foundations/concrete • Building erection
- Heating, ventilation and air conditioning • Mechanical systems
- Power plants engineering • Electrical systems • Process piping and plumbing • Control systems - process plant and buildings
- Oil & gas services • Fire detection and protection safety systems
- Plant, equipment and system installation and commissioning
- Finishing work • Landscaping •

Harlow implements turnkey, design and build contracts where the company assumes responsibility and accountability for the delivery of complete projects. Harlow commits to clients in a partnership approach and simplifies coordination of project information streams between the design and construction. The company internally manages all stages of the project to successful completion. As such, the following services are provided:

- Feasibility analysis • Cost monitoring and control • Schedule development and control • Subcontractor management • Field engineering and site management • Quantity surveying • Quality management system • Safety assurance • Project accounting • Change management • Shop drawings and review of submittals •

In summary

Harlow in-country credentials include:

- Extensive experience in Iraq • Established, secure bases in both Baghdad and Basrah • Direct experience in working in hostile environments • Experience in delivering successful projects in difficult operating circumstances • established supply chains for materials and labour • International partner companies • In-house security on all projects • Proven track record on major projects •

Ports improvement is vital

Iraq is under pressure to increase its ports' capacity with much of the country's imports and exports now passing through the ports of Turkey, Jordan, Syria and Kuwait and then transported overland into Iraq.

Modernisation and expansion of the country's port infrastructure are vital to help provide for the growing imports of materials and equipment for economic development as well as to allow for a substantial increase in oil exports.

The most ambitious aim is to develop a new port at Al Faw, which could involve investment of up to US\$6 billion. Italy's Impregilo is leading a consortium to carry out design work for the planned new port, providing up to 100 berths and able to handle the world's largest container vessels.

The project may take decades to fully evolve but could change global trade patterns when linked with the country's ambitious railway developments. As a result, officials believe that Iraq could eventually compete with the Suez Canal for the transit of cargo between Asia and Europe.

For the immediate future the focus is on Umm Qasr, which at present is Iraq's only deep sea marine terminal. Around 80% of Iraq's imports and the bulk of its oil exports flow through the port, which is located at the southern end of the Shatt al-Arab waterway.

After years of neglect and lack of investment, improvements are well underway to enhance the port's handling capacity with a number of foreign specialist companies brought in to rehabilitate, enhance facilities and manage berths. These operators include the French shipping group CMA CGM and Sharjah based port operator Gulfainer.



There is no doubt that the whole of Iraq needs the investment and reconstruction activity that is already beginning to gather considerable momentum.

The Gulfainer Group is fully engaged in the country, aiming to provide the port, transport and logistics links so necessary to assist in efficient redevelopment – right the way from Zakho and Erbil in the North to Umm Qasr in the South (in all these places they have offices/operations).

Everyone including the Iraqi Government is acutely aware that Umm Qasr needs to be in a position to cope with the rapidly increasing volumes – and this is why Gulfainer have been awarded the concession to operate the existing all purpose berth 8, where they are installing container handling equipment and gradually ramping up operations over the coming months. Moreover, they have been awarded the long term concession to build and operate berths 10 and 11, which will be named the Iraq Container Terminal (ICT) – this will

be a dedicated container terminal, able to handle larger ships in a more efficient way than the all purpose berths. It is the largest concession awarded by the Iraq Ports Authority and the Iraq Ministry of Transport. The ICT will be operational in 2011.

In addition to the terminal facilities in Umm Qasr, GulfTainer are investing in logistics cities/Inland Container Depots (ICDs) throughout Iraq, both in the south near Basrah and in the Kurdistan Region, providing storage and distribution facilities linked with transport opportunities, to allow all customers, particularly those in oil & gas, to service their activities.

Work has also now begun on the Sulaymaniyah Cargo Village Project at Sulaymaniyah International Airport and the project, awarded to GulfMar Ltd (a collaboration between GulfTainer and Sulaymaniyah based Azmar Air), will provide a dedicated cargo facility for carriers flying into the Kurdistan Region to support the huge growth in the region, including the expanding oil & gas industries and major investment projects.

The site covers 250,000 square metres and will eventually contain an aircraft apron capable of supporting every type of cargo aircraft, a domestic and international cargo warehouse, freight forwarding units, truck parks and office space for rent by aviation support companies and freight carriers.

Work started on the site on 19 May 2010. The tender process is expected to be completed in a very short space of time so that work can begin on the apron and taxiway construction.

Construction is planned over several phases with phase 1 providing an aircraft apron capable of parking three B747 freighter variants, a cargo warehouse with integrated office space, a single block of freight forwarding units and a truck park.





Future of track in Iraq

Iraq's railway story had a glittering start more than 100 years ago when Imperial German engineers built a trunk line stretching from Istanbul through to Baghdad and into Arabia. While the First World War saw this crumble into decay and ended big projects, further lines were built during the twentieth century.

In particular, substantial investment was made during the 1970s and 1980s. This resulted in a system of almost 2,000 kilometres of track, 300 locomotives and extensive rolling stock served by some 12,000 employees.

However, Iraq's railway system, ravaged by war, deferred maintenance, international sanctions, theft and sabotage, had ground to a virtual stop by 2003. With its signalling defunct, barely 5% of its locomotives serviceable and staff unpaid the system was a sad epitaph to Iraq's wasted decades.

A fully operational railway system has been recognised by all as a key component of Iraq's economic recovery and future development. Putting the system back into service has been one of the country's success stories since 2003, with both passenger and freight traffic reinstated between the north and south of the country.

Iraqi Republic Railways has seen substantial investment made in new telecommunications, computerisation, auxiliary power systems, track maintenance, staff training as well as refurbishment of rolling stock and locomotives.

A new phase is now planned that will expand and transform the network into one of the Middle East's most important railway systems with links to Turkey, Iran and beyond.

Some US\$60 billion worth of rail projects have been outlined, that will see connections from the Gulf to Europe through Syria and

Turkey, as well as into Pakistan via the Iranian rail network. This year has already witnessed the start of services between Mosul and Gaziantep in Turkey.

The strategy envisages extensive new track, forming links between established and new communities through Iraq's heartland. These will connect Salahaddin province in the north through Baghdad, Al Kut and Al Amarah to Basrah.

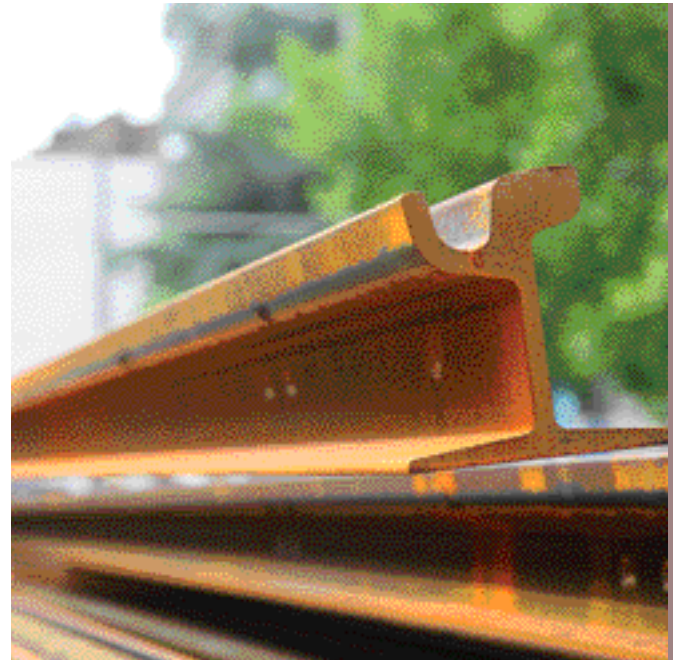
One of the new lines is intended to link the capital with Baquba, Kirkuk, Erbil and Mosul, while another line is planned to link Musaiib to Samawah via Karbala and Najaf.

Karbala and Najaf will be connected by rail with phosphate mines in Akashat. A new line will also link the planned new Basrah Grand Port at Al Faw with the national rail network.

Plans for a 284 kilometre loop line to serve Baghdad include a new central passenger station as well as a new station on the east side of the city, rail bridges across the Tigris and Diyala rivers, inland container depots as well as twin track high speed lines.

The ambitious plans for a circular network and the eventual implementation of metro and monorail projects will see Baghdad transformed into a much more liveable urban environment as the capital's and country's heavy goods traffic is redirected from road to rail.

Much faster and efficient transit times will also permit containers to be transported from the Gulf to Europe overland. Iraq's railway story started with big aspirations. After a long dormant period those ambitions are being rekindled.



“A new phase is now planned that will expand and transform the network into one of the Middle East's most important railway systems with links to Turkey, Iran and beyond”.

Automotives

Case study: Sardar Trading Agencies Ltd.

Land Rover, a premium SUV manufacturer, has expanded into Iraq.

The company appointed Sardar Trading Agencies Ltd. as the exclusive representative of the Land Rover brand; this venture marks the SUV manufacturer's first official entry in Iraq. Whilst the appointment of Sardar Trading Agencies will heighten Land Rover's market presence with premium sales and after service, it will also tap into the potential of luxury car sales in the Kurdistan Region and the rest of Iraq.

"We are already present in 19 markets in the Middle East and North Africa region and now with Sardar Group, a name which is synonymous with trust and customer care, we will be better poised to service the northern region of Iraq", commented Robin Colgan, Managing Director of Jaguar Land Rover, Middle East and North Africa.

Speaking at the motor show in Erbil in January 2010, Robin continued "We are bringing a strong Land Rover products portfolio to the market and the motor show and we expect the vehicles to be well received by consumers here just as they have been across the globe and the Middle East region". As part of its commitment to the brand, Sardar Trading Agencies has invested in a new state of the art facility for Land Rover vehicles.

The 2,400 square metre showroom and 1,700 square metre after sales centre is located on Gulan Street in the city of Erbil and marks the first integrated facilities that showcase the Land Rover and Range Rover vehicles and provide after sales support for existing fleets as well as new sales; other such facilities are expected to be inaugurated within 2011 in different Iraqi cities.

Sardar Trading Agencies is a member of Sardar Group, which started in 1980 and was envisioned in 2005 to utilise the synergies of the existing operations, covering various business activities and to diversify these activities in a systematic and streamlined manner.

With 30 years of experience in the automotive industry, Sardar Group became the most valued name in its field, not only in the local Iraqi market but also across the region.

With ten showrooms and three aftersales service centres inside Iraq, two branches in Jordan, a state of the art showroom in Dubai and one on the border of Syria-Jordan Free Zone, Sardar Group covers the diversified needs of the Iraqi market, where a substantial number of vehicles and equipment have been supplied throughout Iraq.

The Group's automotive business to date is one of the leading suppliers of new vehicles in Iraq. The demand of its customers for

Transport - Automotives

fully fledged vehicle sales, service and spare parts facilities has led the group to expand its operations to now include these disciplines in various cities all under one roof.

With a great desire for presence in every area of the automotive sector, ranging from spare parts, accessories, batteries, lubricants and tyres to fitment centres with integrated workshops, the automotive business group is committed to support its existing and future customers. "Through these businesses, we aim to provide customers with the most complete automotive

product portfolio in the industry" said the Group's Chairman, Mr. Sardar H. Hasan.

Sardar Group's most valued asset are the professional teams whose passion for the automotive industry, product knowledge and customer focus are second to none, in addition to the various facilities that are fully equipped with the latest machinery from industry leading manufacturers.

Sardar Group is also the official dealer for Jaguar, Nissan, Volvo Construction Equipment, Mitsuoka and Rida in Iraq.



Air travel security

Case study: G4S Risk Management

As more and more companies look to setup operations in Iraq and with international staff moving in and out of the country on an increasingly regular basis, Baghdad International Airport (BIAP) is poised to become a central hub of activity for the Middle East. Certainly that is the hope of the Iraqi Ministry of Transport.

Since G4S assumed responsibility for security at BIAP in January 2010, Terminal C – known as Babylon, has reopened and is now utilised on a daily basis, in addition to Terminal D – known as Nineveh. Adding to this success, are the international airlines now offering flights into and out of Baghdad. As well as Gulf Air's regular service from Bahrain and Royal Jordanian's service from Amman,

“In choosing G4S to secure BIAP, the Iraq Government was placing its trust in an organisation that has an unrivalled knowledge of the air transport industry”.

Etihad commenced a daily service in April 2010 and a number of European airlines such as Lufthansa, are planning to follow suit.

Although there continues to be the occasional security incident across Iraq, BIAP is now seeing 1,800 passengers per day pass through its doors, equating to nearly 650,000 passengers each year. With 42 flights on average arriving and departing every day, this represents a significant volume of traffic. As investment in Iraq increases, particularly from the oil & gas industry, these passenger numbers and volume of daily flights are set to increase significantly.

Aside from the number of passengers arriving and departing from the airport, there are approximately 800 G4S staff providing security at the facility. Another 2,000 people work at the airport providing services such as catering, cleaning and staff operating retail outlets as well as representatives from government agencies.

Iraq's Ministry of Transport (MoT) and National Civil Aviation Authority (NCAA) are working towards achieving the International Standards set out by the International Civil Aviation Organisation's (ICAO) Annex 17 Standards and Recommended Practices (SARPs). Annex 17 sets out that each individual airport shall write and implement their own Airport Security Programme (ASP), which G4S has worked closely with the MoT and NCAA to develop. The hope is that achieving this standard will lead to more international airlines flying into and out of Baghdad. This will in turn increase the number



of passengers arriving in Iraq via BIAP and eventually lead to the reopening of Terminal B – known as Samarra.

With the aim of increasing the number of airlines and establishing BIAP as an internationally recognised transport hub, achieving the ICAO standard is the ultimate goal. The key to achieving this standard is the development and implementation of the ASP, which includes the organisation of the airport, access control to restricted zones, security passes, security screening of passengers and their cabin baggage, contingency and business continuity plans and security training. Beyond simply achieving the standard, the MoT and ICAA hope to exceed this standard and provide the Iraqi people as well as local and international passengers, with a safe and secure experience.

All of this is achievable through the hard work and dedication of the six different agencies who work together, ensuring the smooth operation of the airport on a daily basis.

Whilst security is tight, with only passengers holding valid tickets and travel documents being able to enter the terminal buildings, G4S' predominantly local staff work tirelessly to move passengers through the various checkpoints and screening areas as quickly as possible. G4S rely heavily on the cooperation of passengers, members of airport staff and representatives from other agencies to make this happen and ensure the facility runs as smoothly as possible.

It may take many years before BIAP rivals the 180,000 passengers or the 1,260 flight arrivals and departures that London's Heathrow

Airport faces every day. However, with the desire to achieve the ICAO's Annex 17 standards, BIAP is well on its way to becoming an internationally recognised facility. The combined efforts of the Iraq Government and associated agencies, businesses such as G4S and the number of international organisations that are looking to build their businesses in Iraq, are all helping to achieve this.

In choosing G4S to secure BIAP, the Iraq Government was placing its trust in an organisation that has an unrivalled knowledge of the air transport industry. Securing over 74 airports and 81 airlines across the world, G4S provides a level of expertise that is vital to helping achieve the ICAO standard. However, G4S is able to offer more than just knowledge of the air transport industry. Operating in Iraq since 2003 and employing over 80% local Iraqi nationals, G4S offers a thorough understanding of the local operating environment as well as a vested interest in the future success of both the country and the airport itself.

As Iraq becomes a more stable operating environment and more and more businesses look to contribute to the economic development of the country through establishing and growing their operations, BIAP will increasingly become a focal point for facilitating the success of these activities. Through the accomplishment of providing a safe and secure environment for all, the Iraqi people and their Government will ensure their future triumphs.

Royal Jordanian

Royal Jordanian has been flying to Iraq since 1975 and was the first airline to relaunch services there in 2003. The airline currently offers daily flights to Baghdad and Erbil and operates direct flights to Basrah and Sulaymaniyah. Royal Jordanian Airlines was established by a Royal Decree issued by His Majesty the late King Hussein in 1963 as Jordan's national carrier and is today one of the leading airlines in the region. Royal Jordanian's vision is to be the airline of choice connecting Jordan and the Levant with the world. Its headquarters are located in the Jordanian capital Amman and its home base is Queen Alia International Airport, Amman.

Royal Jordanian was transformed from a public to a private sector company at the end of 2007 and has a capital of JD84.4 million. The airline carried 2.7 million passengers in 2009 and registered a net

profit of JD28.6 million. Royal Jordanian has won awards in the fields of strategic transformation, technology and service as well as excellence.

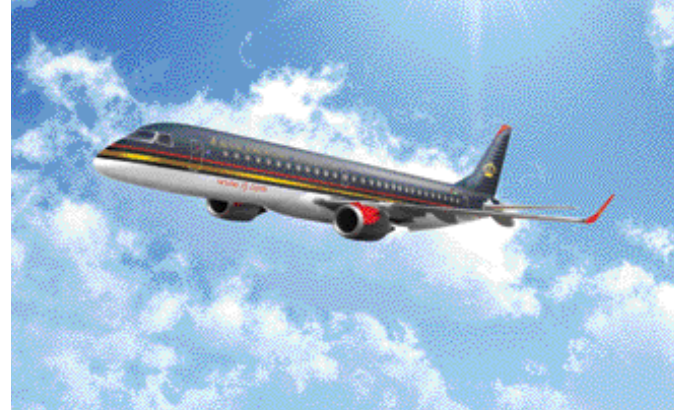
Fleet

Royal Jordanian operates one of the youngest fleets in the world, with a fleet comprising 30 modern Airbus A330, A340, A321, A319, A310 as well as Embraer 195 and 175 aircraft. The airline is committed to providing optimal comfort to its passengers in terms of seat pitch and legroom as well as the latest in-flight entertainment.

Route network

Royal Jordanian flies to 57 destinations on four continents from Chicago in the West to Bangkok in the East. The airline inaugurated





a direct service from Amman to Medina in Saudi Arabia in May and resumed direct service to Kuala Lumpur in June 2010.

Royal Jordanian is a member of the **oneworld** airline alliance and has code share agreements with several international airlines.

Services

In addition to its use of the latest in technical systems to conduct its core activities, Royal Jordanian is continuously updating and adopting systems to simplify the passengers' travel experience such as e-ticketing, internet booking and self service check-in system (CUSS). The airline's 24 hour call centre offers customers from all

over the world reservation services, information regarding its Royal Plus frequent flyer programme, flight schedules as well as fare information.

Future plans

As part of its endeavour to ensure that it has one of the youngest fleets in the industry, Royal Jordanian has 11 Boeing 787 dreamliners on order and will introduce seven new A320 and A321 aircraft to its fleet to replace six of the current Airbus fleet.

For more information about Royal Jordanian, please visit our website: www.rj.com

Telecommunications revolution takes off

Development of telecommunications is one of the big business success stories of post war Iraq. "Modernisation of Iraq's communications infrastructure is as important to us as the contracts Iraq has recently signed with international companies to develop the oilfields," says Farouq Abdelqadir Abdulrahman, Iraq's Minister of Communications.

The Iraq telecoms market has undergone much repair and development since 2003, with the restoration of telephone switches and international gateway communications via satellite. New digital switches have been installed as well as 1,300 kilometres of high capacity fibre optic cable.

The emphasis is now on developing the network, with the national regulator launching a tender for wireless local loop licences. The latter provides for reliable telephony via wireless from dense urban environments to trunk exchanges obviating the complicated and expensive need to excavate and install cable connections.

The biggest innovation and catalyst has been the establishment and rapid growth of mobile services. It is a technology only made available to the trusted elite under Saddam Hussein but since the dictator's overthrow the market has boomed. At the end of 2009, there were an estimated 20.3 million mobile phone subscribers in Iraq.

The nurturing of the telecoms sector has been assisted by the restructuring of the regulatory system. The Ministry of Communications and the Communications and Media Commission oversee telecommunications licencing in Iraq.

The latter is the country's first independent media and telecoms regulator. It is charged with defining regulations, promulgating policy for frequency management and licencing wireless and telecommunications services.

The Ministry of Communications operates two state owned companies, the Iraqi Telecommunications and Post Company (ITPC) and State Company for Internet Services (SCIS).

Undoubtedly access to mobile services is a huge benefit to business and ordinary Iraqis. For the three main providers, who each agreed to pay US\$1.25 billion for their 15 year licences, the investment has proved to be highly successful.

Zain, the largest mobile provider in the country and the first to offer the Blackberry device in Iraq announced a 10% increase in revenue to US\$723.9 million for the first half of 2010, while revenues for 2009 went up 4% to US\$1,342 billion.

Emad Makiya, CEO of Zain Iraq is quoted as saying the company intends to invest 16% - 20% of revenues into expanding its network in Iraq over the next three years. The next step he says is introduction of third generation (3G) services.

"The Iraq telecoms market has undergone much repair and development since 2003, with the restoration of telephone switches and international gateway communications via satellite".



All providers are aiming at further increases in their subscriber base. Zain is looking at an increase of 1.2 million when it starts operations in Kurdistan in 2011. Asiacell, owned 30% by Qatar's Qtel, expects to have increased its subscriber base from 7.5 million to 10 million by the end of 2010. Korek, based in the Kurdistan Region, aims to expand its subscriber base to 3 million from 2.5 million.

However, it has not all been plain sailing. All of the operators have faced considerable difficulties in terms of security issues, power needs and not least official criticism and contentious fines for interrupted services.

Cellular providers have blamed the reception problems experienced by customers on the jamming of their frequencies, particularly by US forces in the strategy to prevent bombs detonating.

Nevertheless, the mobile market continues to expand. In July 2010, the Government approved a plan for a fourth cellular operator. The plan for the Ministry of Communications to have a 35% shareholding in the venture has, however, raised questions of whether a conflict of interest arises in regulation.

It is not just voice traffic that is being aided by mobile telephony. The advantages of advanced mobile messaging technology are already apparent. During the summer, Info2Cell launched three new SMS-based services for its subscribers in Iraq via Zain Iraq.

According to Info2Cell's CEO, Bashar Dahabra, "Iraq's mobile market segment is currently experiencing excellent growth rates, accompanied by a rapidly increasing mobile subscriber base".

There is still much to be done to expand and modernise the country's wider telecommunications. Opportunities include; projects to repair Iraq's legacy network, expand the existing network and supply and construct new telephone exchanges. There are considered to be particularly good prospects for implementation of wireless local loop technology.

The internet in Iraq is still a tool of the privileged few. Only 1% of the population have access, the lowest in the Middle East but penetration is growing.

Wireless internet provider Itsaluna saw its subscriber base double in 2009 to 256,000.

Kalimat Telecom says it aims to provide a nationwide fixed wireless network providing broadband, wireless internet and internet telephony services in 2011.

There is significant potential for broadband growth in Iraq as the security situation gradually improves and businesses, the Government and universities demand greater speed and capacity. Residential demand will not be far behind these institutions and is likely to expand considerably once competition drives prices down.

Links to more developed networks in the region are also likely to accelerate introduction of advanced services. In January 2010, a US\$445 million deal was signed with Qatar based Gulf Bridge International for a landing party agreement providing Iraq's first international fibre optic cable connection. This is expected to significantly improve telecommunication speeds across Iraq.

Healthcare needs are immense

35 years ago, Iraq was looked on as one of the Middle East's leading healthcare providers. Sanctions, compounded by military conflict, led to a steady deterioration and by 2006, the World Health Organisation rated health outcomes in Iraq amongst the poorest in the region.

The system's collapse is reflected in the country's number of doctors. Around 34,000 physicians were registered with the Iraqi Medical Association in the 1990s. By 2008, that number had dwindled to 16,000, a trend that has yet to be reversed.

A decline in nursing personnel and technicians has been as dramatic, with a huge number of professional people from all sectors leaving the country for economic and security reasons during the years of conflict.

Substantial increases in salaries for physicians has helped to draw some back but it will take time to fully reverse the loss of medical skills over the last three decades.

Conditions in the country's 208 state run hospitals vary but by 2003, many institutions were extremely run down lacking medicines, equipment and personnel. Iraq's healthcare provision has been bolstered to some extent by 80 privately administered hospitals and some 2,000 clinics.

In addition, there are hospitals exclusively serving military personnel, police and senior civil servants. The Ministry of Health's (MoH) focus is on developing capacity and infrastructure as well as

seeking to build relations between the private and public sectors and encourage the participation of private doctors in state run institutions.

The Government recognises the priority of reversing the decline in standards for the bulk of the population through investment across the board in new hospitals, training and organisational reform. This commitment was reflected in the increase in the MoH's budget allocation to some US\$4 billion in 2009.

A steady increase in funding commitment is continuing. The news agency Aswat al-Iraq reported in September that the country's 2010 federal budget allocates 6.9% to the health sector, an increase of 2.5% on the previous year.

There has been a tangible improvement. A new specialist paediatric hospital has been completed in Basrah to accommodate 94 beds. Turkey's Acarsan Group is discussing building five new hospitals to be located in Karbala, Basrah, Babil Hillah, Missan and Nasiriyah, providing a total of 2,000 beds at a reported cost of US\$750 million. The UK's MJ Medical is designing hospitals planned for Diyala and Diwaniyah.

A new trauma hospital including a burns unit has been completed in Erbil equipped with nine operating theatres, X-ray, CT-scan and MRI facilities. The US\$12.5 million project, built by the US Army Corps of Engineers, is now the primary emergency unit in the area. It also has its own power and water supply and is equipped with a helicopter landing pad.

Healthcare



However, much more is needed. The number of beds in specialised areas such as intensive care and dialysis is still very limited, while shortages of experienced nurses and paramedical staff mean that some hospitals continue to rely on relatives to provide care to patients and obtain drugs.

A sustained and huge commitment is required to build facilities, equip them with modern diagnostic equipment together with auxiliary power supplies. There is also a need to ensure stocks of reliable medical supplies, to train managers, laboratory technicians as well as provide many more nurses in addition to doctors and specialist physicians. Iraq also requires coordinated emergency response and ambulance support services.

The MoH is keen to promote private sector involvement in the running of healthcare facilities as well as pharmaceutical and medical device manufacturing and to attract consultancy providers to assist in this.

Modernisation, for example, is needed for the State Company for Importation and Distribution of Drugs and Medical Appliances (KIMADIA), a highly centralised organisation which operates a distribution network of specialised central, governorate and district warehouses.

There is also a long term need to re-establish pharmaceutical manufacturing in Iraq, which would have export potential and help to meet domestic requirements. In the 1980s about 30% of the country's pharmaceutical needs were produced domestically, principally from five plants operated by Samarra Drugs Industries.

A more immediate need is an up to date nationwide logistical system for pharmaceuticals and medical equipment and other supplies. A lack of properly managed inventories allows widespread pilfering of drugs in hospitals that end up in the black market. Most medicines in pharmacies that are run by unqualified people are not analysed or registered to check for corrupt and contaminated supplies.

Iraq's health facilities have not seen any development for 35 years and the process of developing them to reach international standards is a long and complicated one, observes Iraq's Health Minister, Salih al-Hasnawi.

However, modernisation of the system is underway and the Minister believes the country's health system has turned a corner and that after contracts already awarded are fulfilled, the standard of Iraq's health system will not be too far from others in the region.

Building recovery on 10,000 years of history

Whilst global tourism contracted by 4.6% in 2009, Iraq's visitor economy grew by 31%. Every month between the middle of 2009 upto the summer of 2010, another airline announced additional capacity or another route into Iraq; British Airways is expected to return in 2011. In November 2010, the Tourism Board of Iraq will for the first time ever exhibit at World Travel Market (WTM) in London. Across the country new hotels are being built, ancient monuments are being restored and entrepreneurs are recognising the opportunity offered by tourism.

When Hammurabi adopted Babylon as the capital of his empire in 1782 BCE, this was just another chapter in the history of a settlement that had been established at least five millennia earlier. The proud and hospitable people of Mesopotamia have been building and rebuilding their magnificent cities since before Stonehenge and Skara Brae appeared. The last few decades have been but a blink in the story of a land that is rightly known as the 'Cradle of Civilisation'; its 10,000 years of history is the History of the World.

Although some of the airport security measures remain laborious, there is no shortage of airlines to get you to Iraq. There is a growing number of international flights to Mosul and Najaf but the four main gateways remain Baghdad, Basrah, Erbil and Sulaymaniyah. Airlines already offering connecting flights between the UK and Iraq include: Air Berlin, Austrian Airlines, Etihad, Gulf Air, Lufthansa, Middle East Airlines, Royal Jordanian and Turkish Airlines. With the demise of

Iraqi Airways and the imminent entry of leading European airlines, tour operators and independent travellers will find fares becoming more competitive, especially with the new Global Distribution System being established for Iraq by Sabre Travel Network in partnership with Kanoo Travel.

In 2009, Iraq received 1.3 million visitors. This figure excludes military and diplomatic personnel, civilian support staff and official trade delegates. The vast majority (92%) were pilgrims from Iran, eager to reach the Shia shrines to which access was denied throughout years of war; the numerous sites include those in Najaf, Karbala, Kufa, Samarra and in and around Baghdad, all of which are also extraordinary destinations and deserve to be on every tourist's radar.

Even though the number of Western visitors remains only a small proportion, this volume of business has produced some very experienced and capable local tour operators. These operators have the capability to become destination management companies and key partners for groundbreaking operators from Europe and North America. Iraq's Rafidain Travel & Tourism is heading up Iraq's private sector delegation to WTM 2010, which will also comprise leading hotels and some of the 494 tourism companies operating in Baghdad, Najaf and Karbala.

Several operators in the UK and across Europe are exploring opportunities and some are already taking groups to the Kurdistan



Tigris River in Baghdad © Dunira 2010

Region of Iraq, which promotes itself as 'The Other Iraq' but Yorkshire based Hinterland Travel is the only European tour operator with a full Iraq programme. A leading authority on Iraq, Hinterland's Geoff Hann has pioneered the return of tourism and in 2008 co-authored Bradt's *Iraq Then and Now: A Guide to the Country and its People*, which remains the only current guide to Iraq, remarking, "tourism is in its infancy after the problems of recent years but the sites are worth seeing and this really is where civilisation began". Following his most recent tour, he commented, "the mood in Iraq was upbeat, vibrant and improving daily. The security situation ensured that we could see almost all of the important sites but for the foreseeable future all visitors should pack some patience and flexibility!"

Apart from pilgrims and the vast Iraqi diaspora, Iraq's immediate target markets are 'Young Adventurers' and 'Culture Vultures'. An important future market will be veterans and their families, whilst the ethically complex phenomenon of 'Dark Tourism' attractions is already apparent, perhaps best exemplified by two sites associated with Saddam Hussein: the town of Halabja and his grave in Al-Awja. With more than 3,000 historic sites in the Kurdistan Region alone, visitors are spoilt for choice. United Nations Educational, Scientific & Cultural Organisation (UNESCO) has so far only inscribed three World Heritage Sites: Ashur, Hatra and Samarra (although two of these are on the World Heritage in Danger list) but at least nine more candidates have been identified – an overwhelming list that

includes Babylon, Erbil, Nimrud, Ninewah, Ur and the Mesopotamian Marshes. Iraq's Minister of Culture observes that, "All Iraqis have pride in our shared heritage" confirming that it has a role in reconciliation. It should be remembered that UNESCO is not primarily a heritage organisation but exists to promote peace; its Constitution drafted in 1945 declared "That since wars begin in the minds of men, it is in the minds of men that the defences of peace must be constructed". Cultural heritage, science and education are tools to support this vision, much like post-conflict tourism.

All tourism development is about communication, embracing national identity and celebrating heritage; in a post-conflict situation, It is also about helping to establish a common understanding and supporting sustainable livelihoods.

Both the Tourism Board of Iraq and National Investment Commission are focused on the sustainable development of tourism. Airport projects have been a first priority to facilitate access. Renovating some of the 794 hotels and interpreting the thousands of cultural and natural heritage sites will ensure tangible tourism product that can be marketed.

Cruise operators are devising plans to return to Basrah, the city from which the legendary Sinbad set sail in *The Thousand and One Nights* and which has temporarily lost its moniker 'Venice of the East'. Security companies are considering options for transforming their

“The last few decades have been but a blink in the story of a land that is rightly known as the ‘Cradle of Civilisation’; its 10,000 years of history is the History of the World”.



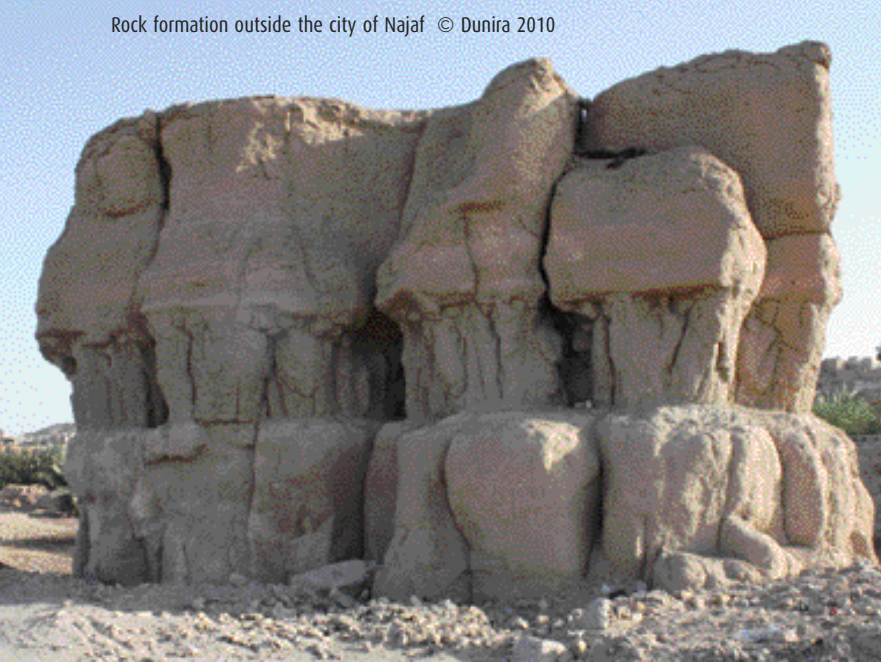
Roof of the 'Tomb of Ezekiel' at El-Khifal. © Dunira 2010

networks of secure villas into comfortable guesthouses. Oil & gas companies are exploring how supporting community based tourism can contribute to their corporate social responsibility plans. The Tourism Board is keen to speak to investors who share its vision and ambition and is also seeking assistance with hospitality and other training.

Tourism is a very open industry and Iraq wants its fair share of the 220 million jobs supported internationally by the US\$9 trillion of global annual travel and tourism activity.

British expertise in the field is well recognised. The British Museum has for some time been leading the way in supporting the research and interpretation of Iraq's cultural heritage, which is such a key part of the country's emerging tourism product. Dunira Strategy was commissioned to arrange the Tourism Board's fact finding mission to WTM in 2009, which achieved global network coverage and led to Iraq's decision to exhibit in 2010. Board Chairman Hmud al-Yakobi commented, "we decided to come to London because we recognise that WTM is the world's premier travel fair and we already know how much expertise there is in the UK", adding "we look forward to sharing our hospitality with visitors from Europe and working with British tour operators and experts to help realise Iraq's tourism potential".

Rock formation outside the city of Najaf © Dunira 2010



Many potential visitors are concerned by the UK Government's Travel Advice, which (with the exception of the Kurdistan Region, which is considered safe and received 60,000 visitors in 2009) is almost invariably "against all but essential travel" and assume that it is not possible to get insurance. In fact, fully comprehensive insurance (including war and terrorism cover) can be arranged for a modest premium for travellers that choose to travel responsibly against official advice. The insurance market is even becoming more competitive and user friendly. Emerging markets specialist AAIB Insurance Brokers has launched the first online travel insurance service for professionals and individuals travelling to Iraq and needing instant and reliable cover. William Wakeham, CEO of AAIB said, "There has been a marked increase in incoming business traffic but we must not forget leisure travel, religious tourism and VFR ('Visiting Friends & Relatives') are growing segments. Whilst we don't expect to see huge numbers of

holidaymakers flocking to Iraq for some time to come, more adventurous travellers will not be able to resist the opportunity to visit". With sensible planning, all of Iraq's most important sites are accessible.

Recalling his most recent visit to Baghdad, Benjamin Carey of Dunira Strategy commented, "Security remains the greatest challenge but tourism in Iraq has the potential to be transformational, contributing to national identity, helping to rebuild confidence, tackle some of the sectarian scars and creating enduring social and economic opportunities, especially for young Iraqis. Although Iraq will for some time be for specialists and intrepid travellers, it is a destination waiting to be discovered by tour operators and individual tourists."

Tourism in Iraq represents an outstanding opportunity for investment and development.

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