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The Iraq Oil Bonanza: Estimating Future Profits

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After the Iraq War of 2003, United States and United Kingdom oil giants are certain to gain privileged access to Iraq's oil resources. Excluded from control over Iraqi oil since the nationalization of 1972, Exxon, BP, Shell and Chevron will now gain the lion's share of the world's most profitable oil fields. Few outside the industry understand the huge stakes in Iraq, which amount to tens of billions of dollars in total potential profits per year.

The following tables estimate the magnitude of potential profits in Iraq, using four key variables. They aim to show the possible long-term Iraq profits for all private oil companies, assuming that one or more companies will be involved in all the country's producing fields. The exact legal status of Iraqi oil is not at issue here, since the same results could accrue for the companies whether the new government: (1) eventually privatizes the industry (which seems unlikely) or (2) maintains a national company which enters into production sharing agreements that offer the companies favorable terms.

The analysis uses four key variables, each of which is independent of the others. These variables are illustrated in Table 1 below, which shows four possible outcomes for each of the four variables. Note that there is no necessary relationship between the variables in each row, so that (for example) reserves might be 400 billion barrels but the recovery rate might be 65% and the oil rent average $30:

Table 1

Oil Reserves in Iraq (billions of barrels)	Oil Rent Average per barrel ($US)	Recovery Rate	Private Companies' share of Rent
112	$20	65%	40%
200	$30	70%	50%
300	$35	75%	60%
400	$40	80%	70%

The "oil reserves" estimates follow estimates given by industry experts and those published on the US Department of Energy website. The "oil rent average" refers to the very large spread between the cost of production (estimated at $1 per barrel) and the price of a barrel of oil on the international markets. The international price estimate is a fifty-year average, in real (inflation adjusted) terms, based on oil prices for 2004. Thus the lowest estimate assumes a very low average price of $21 per barrel, while the highest estimate assumes a high price of $41 per barrel under conditions of increasing future scarcity. The "recovery rate" is the percentage of reserves actually brought to the surface, a percentage that is generally believed to be high in Iraq compared to industry norms because of the very good quality of Iraq's oil reservoirs. The "rent appropriated by private companies" estimates the share of the total rent (profit) taken by the companies after government taxes, fees, production-sharing agreements and other deductions. Though companies have taken much lower shares since the 1970s, the current trend is moving towards higher shares in the range of the estimates shown here.

Table 2 below uses the four variables to estimate potential profits for the oil companies in Iraq. In order to understand the magnitude of these profits, it is useful to know that the worldwide profits of the world's five largest oil companies in 2002 were $35 billion. Our estimate of the "most probable" annual profits in Iraq are $95 billion, three times this sum! Total company profits in Iraq, over time, would be an enormously large sum – ranging from a low of about $600 billion to a high of about $9 trillion.

Table 2

Estimate	Total Profits ($US billions)	Average Profits Per Year Over 50 Years($US billions)
Low End	$582	$12
Lower Middle Range	$1,750	$35
Upper Middle Range	$4,050	$81
Most Probable	$4,725	$95
High-End	$8,960	$179

Our “most probable” estimate of corporate profits assumes the following:
1. 350 billion barrels of oil reserves;
2. $30 oil rent average over 50 years;
3. Recovery rate of 75%; and
4. Percentage of rent appropriated by private companies at 60%.