

Syria's civil war stagnates oil production



In May 2013, Syrian Oil Minister Suleiman Abbas told the parliament that output was down 95% from the 380,000 b/d produced prior to the start of the uprising in March 2011, to 20,000 b/d, and that gas production had halved to 15mn cm. In November, Abbas gave the parliament worse figures for the sector, with output at 772,540 tonnes (105,374 barrels) in 1Q2013, down 37.1% from 1,299,100 tonnes (177,197 barrels) in 4Q2012, according to a report in Syrian daily Tishreen. This would be a steep fall to just over 1,000 b/d for oil in government-controlled areas. Natural gas output – which is still held largely in government hands – had declined from 2,020,800 cm to 1,558,760 cm during the same period, a drop of 22.9%. OPEC's December 2013 monthly oil report was more upbeat, estimating Syria's output to average 90,000 b/d in 2013.

This almost certainly has to include rebel-controlled area production, although OPEC did not clarify this and added a health warning: 'The lack of production data from Syria due to the ongoing political situation might bring a large revision once the numbers become available.' Indeed, knowledge of what is happening inside Syria's oil sector is scant. One prominent international energy consultancy firm turned down an interview with Petroleum Review, stating: 'The situation is still unclear and it's very difficult to assess the impact on oil and gas infrastructure. We do not provide speculative commentary.' Estimating damages to infrastructure is clearly difficult to quantify, although the regime has estimated it at some \$70mn. Damage to the country's 6,000 km of pipeline has been minimal, however. 'There are clearly losses in terms of production, and determinate costs on what it will cost to re-

start production, as to whether damage to facilities is due to the conflict or because it was not maintained or used. There is no idea what the scale is,' says David Butter, Associate Fellow at the Middle East and North Africa Programme at Chatham House. Losing oil control What is clear is that Syria's energy sector is in bad shape. Abbas stated to the Syrian parliament that 40,000 barrels of oil were being stolen every day from across the country, losing the industry \$1.4bn directly and \$17.7bn indirectly up to the end of 3Q2013.

Meanwhile, \$500mn was being spent monthly on imports of oil and derivatives to meet demand. While the government of President Bashar al-Assad blames sanctions imposed on Syria in late 2011 by the US and the European Union (EU) for the loss of oil revenues, the reality is that the regime has lost control of the key oil producing areas. 'While the regime is regaining important areas in the west and north-west of Syria, it has not achieved much in the desert close to the fields of eastern Syria, which has a large presence of the [rebel movement] Islamic State of Iraq and al-Sham (ISIS), some of the most capable fighters. I don't think the regime will create a new front with ISIS to control the fields because it cannot concentrate on these areas for logistical constraints, as focusing on the east would compromise the western front, which is already fragile,' comments Ayham Kamel, a senior Middle East analyst at the Eurasia Group. 'So the oil sector will suffer for a prolonged period of time, mainly because fields are in areas under the control of rebels, and they're unlikely to lose control for the foreseeable future,' he adds. With international oil companies having left Syria (Chinese companies pulled out in 2013) and oil sector workers having fled production areas, the rebels have been forced to extract oil as best they can, utilising very basic methods to refine the country's heavy crude oil. According to a report in the regional Arabic-language daily Al-Hayat, in the area around Deir ez-Zor in the north-east, rebels are operating some 3,000 small-scale refineries. 'Anecdotal evidence suggests

small amounts are produced and exported to Turkey, and refined in a rudimentary way, probably tens of thousands of barrels a day only,' says Butter. Kamel, however, thinks production is just in the thousands of barrels per day, which has been a stumbling block to the April 2013 EU plan of lifting sanctions on oil exports from rebel-controlled areas to help bolster the opposition. 'It's been a big fiasco. The plan was unrealistic, to export some of that oil to outside markets and create a sustainable revenue stream for, at that time, the Syrian National Council. It was mainly a tool to boost morale among the opposition, as implementing it was very difficult – the regime has an air force and could attack significant deliveries, and the opposition was always divided. If the opposition had made a coherent front and controlled fields, they could have had volumes in the tens of thousands of barrels – but again, vulnerable to regime attacks,' says Kamel. 'Now, many opposition groups control the fields, follow no political authority and they have little or zero experience in operating the fields. It is hard for the fields to be monetised in any significant way, as such small volumes are for local use,' he adds. Offsetting losses To offset domestic losses and keep its military machine running, the Syrian government has had to import fuel. According to Butter, prior to the conflict, Syria was consuming around 320,000 b/d, half of that figure being gas-oil and diesel, while half overall was imported. 'It is obvious that total consumption is a lot less than it used to be, but there's no real indication what it may be; perhaps around 150,000 to 200,000 b/d.

There are a few indications as to how the regime is meeting its liquid requirements, which appears to be a mix of importing products and crude,' he says. A key refinery at Homs city in western Syria has ceased operations, or at best is operating at 10% of capacity, notes Butter, leading to most refining happening at Baniyas on the regime-controlled coast, which has a capacity of around 130,000 b/d. International media reported in December 2013 that Syria is being supplied

with crude from Iraq and Iran via private traders in Egypt and Lebanon, with shipments routed to Beirut and Baniyas. 'My reading is Baniyas has four units – two for heavy crude from Iran, and two configured for lighter crudes for Iraqi crudes; but there's no firm information on it,' comments Butter. Indicative of neighbouring Lebanon's role, mineral (oil, gas and solid minerals) imports have surged, as have exports, going from \$3.7bn imports in 2010 and exports of \$56mn, to \$4.6bn in 2013 and exports reaching \$350mn, according to Lebanese customs data. 'State-owned oil companies are not allowed to sell to Syrians [due to the sanctions], but private traders can,' notes Lebanon Energy Analyst Roudi Baroudi. A positive note While the overall picture for Syria's energy sector is grim, in December 2013 Damascus inked a 25-year, \$100mn concession with Russian firm Soyuzneftegaz to explore for offshore oil and gas. Although offshore exploration is likely to go ahead because there are no maritime security concerns in Syria, revival of the sector onshore will have to wait for the end of hostilities – assuming the peace talks have any success. 'The oil industry should be the most important thing to come back on track, as a major aspect of GDP, so it should be up and running very fast [once peace is secured]. It all depends on the EU and US lifting sanctions,' concludes Baroudi.