

## SYRIA

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Syria has been moving slowly towards a more market driven and modernised economy. When President Asad died on June 10, 2000, his son Bashar al-Asad succeeded him and it was hoped that a new generation would usher in an invigorated era of reforms. The young President has indeed issued several decrees aimed at establishing a Damascus Stock Exchange, legalising private banks, attracting foreign investment, and harmonising Syria's various currency exchange rates. Nevertheless, large state corporations continue to dominate with resultant low investment, an overvalued currency, subsidies, foreign debt (2001 estimate US\$23.0 billion), falling exports, an unofficial unemployment rate of perhaps 20% and an increasing population that needs a more dynamic economy. Last August the government announced that it would increase salaries for employees in the large public sector by 25%. With low oil prices and a drought behind it, Syria's economy managed to grow last year and GDP by 1.5%. Real GDP growth is expected to reach 4.2% this year. Last year's estimated Real Gross Domestic Product (GDP - Market Exchange Rates) was US\$18.6 billion. Tourism and private investment in light industries have grown somewhat thanks to a 1991 law allowing the repatriation of profits and relaxation of foreign exchange controls, but it remains the oil sector that provides about 65% of export revenues and a third of Syria's GDP.

In January 2000, an EU delegation encouraged the country to launch significant economic reforms and extended the possibility of an association agreement – the EU is Syria's main trading partner and buys over half of the country's exports; last December the EU and Syria held their fifth round of negotiations on the possibility. Relations between Syria and Iraq have

improved. On January 31 the two signed a free trade-agreement and trade between them is estimated at around US\$500 million. They are also working out a plan to share waters from the Tigris and Euphrates rivers and have urged Turkey to join the agreement. Has Iraq been smuggling oil through Syria by truck or pipeline? Iraqi oil flows through Syria stopped in January but apparently increased in early February back to 150,000 bbl/d. On January 23, 2001, the Bush Administration offered to allow Iraqi oil exports through Syria as long as they were regulated by the UN food-for-oil programme. In February US Secretary of State Colin Powell ended up his first major overseas trip with a Syrian agreement on the Iraqi pipeline problem.

Syria is a member of OAPEC (the Organisation of Arab Petroleum Exporting Countries), but not of OPEC. Syria's oil output has been declining, however, as its reserves are becoming depleted, older fields are reaching maturity, and consumption is increasing. Last year's estimated average production was 530,000 bbl/d of which 522,000 bbl/d was crude oil with consumption estimated at 255,000 bbl/d and net oil exports at 276,000 bbl/d. Al-Furat Petroleum Co. (AFPC), a joint venture established in May 1985 between state-owned Syrian Petroleum Co. (SPC - 50% share), Pecten Syria Petroleum (15.63%), plus foreign partners Royal Dutch/Shell (15.63%) and Germany's Deminex (18.75%), is the main producer with fields located in the northeast particularly the Deir ez-Zour region producing about 400,000 bbl/d of high quality light crude. SPC's fields include Karatchuk (Syria's first discovery, located near the border with Iraq and Turkey), Suwaidiyah south of Karatchuk in the Hassakeh region and extending into northwestern Iraq which currently produces around 85,000-90,000 bbl/d, Jibsah, Rumailan, Alian, Tishreen, and Gbebeh.

Other oil fields include Maleh, Qahar, Sijan, Azraq, and Tanak. TotalFinaElf operates Jafra near Deir ez-Zour and produces some 60,000 bbl/d. Syria also has major shale oil deposits, mainly in the Yarmouk Valley stretching into Jordan.

In 1996, a geologist became Oil and Mineral Wealth Minister, which encouraged oil exploration a little, but only about two-fifths of an estimated 800 potential oil and gas structures have been drilled and no major new oil reserves have been discovered for a decade. More recently, Syria has begun to take a more flexible approach to foreign oil contracts, demonstrated by the publication of a favourable consortium agreement. Up until recently only a few companies such as TotalFinaElf, Shell and Deminex have endured less than attractive contract terms and mediocre exploration results. In May 2000, a small Canadian company called Tanganyika Oil (an affiliate of Sweden's Lundin Oil) signed an agreement to develop the Oude oil bloc in northeastern Syria near the Turkish border - the first time that foreign investment has been sought for a field operated by SPC. More may follow and Conoco, TotalFinaElf and Shell have bid for the Suwaidiyah field to enhance oil recovery and increase production to 150,000 bbl/d. Syria's two refineries are located at Baniyas and Homs. Total current production from these refineries is 242,140 bbl/d (135,000 bbl/d and 107,140 bbl/d, respectively). Syria is planning to construct a third, with an initial capacity of 60,000 bbl/d (possibly increasing to 120,000 bbl/d), at Deir ez-Zour to supply products to the eastern part of the country. All Syria's crude oil is marketed through Sytrol, the state marketing company, and its three export terminals are operated by the Syrian Company for Oil Transport.

Syria's proven natural gas reserves – mainly located in the northeast while population is concentrated in the west and south unfortunately - are estimated at 8.5 trillion cubic feet (Tft<sup>3</sup>). Most (around three-quarters) of these reserves are owned by SPC,

including about 3.6 Tft<sup>3</sup> in the Palmyra area, 1.6 Tft<sup>3</sup> at theal-Furat fields, 1.2 Tft<sup>3</sup> at Suwaidiyah, 0.8 Tft<sup>3</sup> at Jibsah, 0.7 Tft<sup>3</sup> at Deir ez-Zour, and the remainder at al-Hol, al-Ghona and Marqada. About half of Syria's gas is non-associated, with the rest either associated (with oil) or 'cap' gas. In June 1999, a new gas field, called North al-Faydh, reportedly was discovered by SPC. The field reportedly has production potential of 35 million ft<sup>3</sup>/d. In 1999, Syria produced about 213 billion ft<sup>3</sup> of natural gas, an approximately five-fold increase over the past decade. Increased production is planned in order to substitute natural gas for oil in power generation and so free up as much oil as possible for export. A number of new gas-fired power projects are currently under construction or being planned. In January, Syria signed an agreement with Egypt and Lebanon on a US\$1 billion, 250 mile underwater gas pipeline from El Arish on the Sinai Peninsula's Mediterranean coast to the Lebanese port city of Tripoli (then onward to Turkey and possibly Jordan as well). Syria's Jibsah gas treatment plant, which came online in 1988, accounts for more than one-quarter of the country's total gas processing capacity. Jibsah's capacity was increased 88% in a project completed during the first half of 1997, and now is being increased again (to 105 million ft<sup>3</sup>/d from 60 million ft<sup>3</sup>/d currently). In November 1998, SPC signed a US\$430 million service agreement with Conoco and TotalFinaElf to utilise associated gas, now flared, in the Deir ez-Zour oil fields. TotalFinaElf and Conoco each hold a 50% interest in the project, with Conoco as lead operator. In March 2000, two companies awarded Kvaerner ENC a US\$160 million contract to engineer, procure, and construct infrastructure for the project. Construction is expected to be completed by September 2001, with Stage 1 possibly finished in July 2001. TotalFinaElf announced that it is also considering joining a project to build a US\$175 million, 105 million ft<sup>3</sup>/d pipeline that would supply power stations in Lebanon with natural gas from Syria.

With its natural gas and ample phosphate reserves, Syria is adding capacity to produce fertiliser. Two nitrogenous fertiliser plants and one phosphate-based unit are located at Homs. Expansion plans in fertilizer production include a 450,000 t/y nitrogenous complex near the northeastern town of Haseko. This plant would utilise gas from the Omar field. More than 1 Mt/y of phosphate rock have traditionally been produced and have mainly been destined for Europe; now a 500,000 t/y triple-super-phosphate plant is being constructed near Palmyra by Bechtel and Makad International.

Other significant mineral industries include gypsum as well as the manufacture of cement and steel from domestic and imported scrap. The Syrian Saudi Co. for Cement was formed in 1995 with 42% equity provided by a Saudi Arabian private business group, 14% provided by the Syrian public sector company, The General Establishment for Cement, and 44% as public offering. Other cement producers are the Syrian Company for Cement, Rastan Cement Co. and the Adra Cement Co., which have all undergone expansion programmes in the past few years. Syria's

cement demand was estimated at 6.5 Mt/y before 1997 and projections suggest that this will rise to 10 Mt in 2010. An integrated iron and steel plant at Al-Zara near Hamah was expected to include an 800,000 t/y capacity US Midrex direct reduction unit and two electric arc furnaces capable of producing 770,000 t/y of liquid steel and two ladle furnaces for refining the liquid steel at a projected cost of US\$750 million.

In 1999, the director general of Syria's Atomic Energy Commission signed an agreement with Russia on co-operation in peaceful uses of nuclear power, including construction of two nuclear reactors in Syria. Power generation in Syria is actually adequate, but distribution is more problematic. In December 2000, the European Investment Bank (EIB) agreed to lend Syria €75 million for expansion and upgrading of the country's power transmission network and in February the EIB agreed to lend another €115 million and the project is scheduled for completion by 2005. A project to link the electric power grids of Syria, Turkey, Egypt, Jordan, and Iraq continues to move forward and a 217 mile connection to Turkey is tentatively scheduled for completion by the end of 2001.