Analyzing December 2016 data prompts three disturbing remarks:
First, there is more than 128% difference between what the Minister of Oil and the DG of SOMO said on how much Iraq should cut its production to comply with OPEC requirements;
Second, the breakeven Iraqi export oil price should be at least $48.37/b sustained during the first half of 2017 to compensate OPEC production cut burden;
Third, there is a possibility that the magnitude of OPEC cut could prevent Iraq from attaining the export threshold adopted by Budget Law 2017, leading to increasing the breakeven price further to a minimum of $49.40/b.

I-Significant Discrepancy Within the Ministry of Oil

Despite the fact that the Ministry of Oil has, for very mysterious reasons, suspended publishing data on oil export production, export, prices, revenues and domestic consumption since end of September 2016, data and opinions were reported by (international) media sources pertaining to some of these issues.

During his late December visit to Kuwait, the Minister of Oil was reportedly said that Iraq “was committed to cutting as much as 210,000 barrels per day from production starting next month.” On the other had the DG of SOMO reportedly, on 6 January 2017, said that “total national production in December was 4.83mbd”

Iraq, according to OPEC cut agreement of 30 November 2016, is allowed to produce 4.351 mbd during the first half of 2017. Therefore, the actual cut in Iraq oil production will be 479 thousand barrel daily-kbd during the entire first half of 2017, based on what the DG of SOMO said. Hence, it is very troubling to see two very divergent understanding (210kbd vs. 479kbd) among the top leadership of the Ministry on how much the country has to cut-down its production in order to comply with OPEC production quota.

All available data gives credibility to what SOMO’ DG has said and the following analysis is based on 479kbd production cut from December 2016 total production of 4.83mbd.

II-The Impact of OPEC Cut on Iraq Oi Export Revenues

The impact of 479kbd production cut on December 2016 total production of 4.83mbd will have the following consequences for the first half of 2017:

1- According to MoO concluded service contracts with IOCs, production curtailment clause could cost the country “curtailment net remuneration fee cost-CNRFC” at least $295155 a day in net remuneration fee payment (the estimation was based on the calculation of Net Remuneration Fee; natural decline rates/effect on Base Line
Production for the six oilfields covered under bid round one; field-based contribution at end 2016, proportionally similar to what it was at end 2015; and *pari-passu* treatment of all producing oilfields, including National Efforts and KRG).

Contractually, Iraq could choose the “prolongation” option instead of cash payment; but this requires careful calculation by the Ministry of Oil. Also Iraq could confines the reduction to oilfield operated by National Efforts, but this option also needs even further and serious consideration.

There will be no CNRFC for oilfield operated by National Efforts. As for KRG the Production Curtailment Cost-PCC (in comparison to CNRFC) could be much higher and substantive since the “penalty” for capex recovery postponement of “cost oil” and the monetization of IOCs-take in “profit oil” under the signed PSCs are both complex and could increase proportionally with oil price increases; and thus curtailment cost to KRG could be much crippling (this matter is not included in my calculation due to time constraint).

2- Iraq’s lost income caused by such reduction at $46.5/b (average December Iraqi oil export price according to SOMO’s DG) is estimated at $22.274 million per day.

3- The cost of maintaining the “idle capacity” of 479kbd is not included in the calculation due to time constraint.

4- Therefore, the minimum cost to Iraq, including lost income and CNRFC only, during the first half of 2017 is calculated at $4.032billion (mostly in lost income); and to compensate such a burden, Iraqi actual oil export prices has to be $48.37/barrel ($6.37/b over the price adopted by the budget law and imposed by IMF), as exhibits in the following chart.

Chart: Impact of OPEC Cut on Net Revenues at Different Iraq Oil Prices

Historically, Iraq’s oil prices-IOPs are usually lower than Brent; the average monthly price differential (in favor of Brent) during 2016 (12 months for Brent and 11 months
for IOP) was $7.96/b. If this pattern persists for 2017, Iraq will not reach its budget-price threshold if Brent international oil price is less than $56.33/barrel, assuming an export rate of 3.750mbd.

III-Where the Production Cut Could Come From?
December data of total exports of 4.052mbd comprising 3.52mbd by the federal government (mostly from southern exports outlets of 3.45mbd) and 531kbd by KRG. Oil domestic needs, mainly for refineries and power-plants, daily average for the first eight months of 2016 was 571kbd for federal government and the daily average for the first eleven months for KRG was 78kbd.

Based on the above and due to the magnitude of OPEC imposed production cut on Iraq of 479kbd, the material balance of oil productions indicates Iraq has only a thin margin of 109kbd to cut; the remaining balance of 370 has to come by curtailing exports, which naturally comes by further corresponding production cuts.

In this case the daily exports for January 2017 onwards could be 3.672mbd, which is 78kbd short of the budgeted export threshold of 3.75mbd or 380kbd lower than December 2016 export level. Hence, the breakeven Iraq Oil Price increases to $49.40/b and corresponding Brent price have to be $57.36/b.

Concluding Remarks
The prospect of overcoming the fiscal burden of OPEC cut is very slim, if at all. The magnitude of such a cut on one hand and possible non-compensating improvement in Iraq oil prices on the other could be the main factors.

Most forecasts of international oil price during the first half of this year do not suggest they could sustain a price level that ensures breakeven of Iraq oil price adjusted for their Brent-differential: $56.33/b.

So far, the Ministry of Oil did not outline, formally and publically, how it could deal with OPEC cut; worst still there is very significant and disturbing divergence on even how much cut has to be done: 210kbd or 479kbd!

Furthermore, by keeping silent, irresponsible, preventing the publication and disclosure of any related data (except for foreign media!!) and completely non-transparent could only make things difficult for Iraqi citizens to know what is going on regarding this vital matter; and surely they are entitled to ask who should be held accountable for this mismanagement of their natural resource!!!

NB! Considering the importance of this issue I will prepare a series of monthly reports covering the first half of the year.

* The above contribution was circulated to and shared within my very large professional network on 8th January, which prompted the Minister of Oil making two statements on the Ministry website on 9th and 10th January: in the first he asserts that Iraq oil export in December was 3.510mbd (which is 10,000 bd lower than what SOMO’DG had said). In the
second, the Minister said Iraq began curtailing production by 160,000 bd leading, by the end of the month, to 210,000bd- the “ceiling for Iraq cut agreed within OPEC”.

It appears the Minister interprets OPEC agreement of 30\textsuperscript{th} November 2016 as allowing related countries (OPEC and Non-OPEC) to maximize their production prior to 1\textsuperscript{st} January 2017 then apply the agreed cuts to that maximum.

Surely this understanding contravenes the essence of the agreement, which asserts Iraq’s production level effective January 2017 at 4.351mbd. And if all countries hold such understanding and have the capacity to increase production to maximum by end of 2016, that would render the agreed cuts meaningless and ineffective, oil supply glut continues and the agreement collapses. Probably we have to wait until the established Ministerial Monitoring Committee holds its first meeting in Vienna on 21\textsuperscript{st} to 22\textsuperscript{nd} January to know better how the cuts apply and to what extent different countries comply.

The Ministry and I exchanged a few emails on the matter and the communication between us is still ongoing.

Norway

11 January 2017