

Latest statement by the Minister of Oil causes concerns

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The Minister of Oil, Mr. Jabbar. A.H. Luiebi, gave interview to Ben Lando of the reputable Iraqi Oil Report-IOR that was posted on 13 March 2017, while the Minister in the USA after attending the CERAWEEK annual world oil industry conference in Houston, Texas.

I followed closely the news and analysis from and about this important CERA event especially those pertaining to OPEC accord; its implications, challenges and prospects.

Some of what the Minister of Oil has said in that interview was very surprising to the extent it constitute shocking, wrong and serious misunderstanding. The following provides highlights of what the Minister has said and why I think he was incorrect and inconsistent, to say the least.

1-The Minister insists that OPEC accord of 30 November 2016 was about “exports” not “production”! Though I am 1000000% sure that OPEC agreement was about, as has been the case for many decades, oil production, I went through the agreement one more time to be sure of its contents. The agreement, according to OPEC Press Release that was posted on OPEC website provides one table titled “Agreed crude oil production adjustments and levels (tb/d)”. The table has four columns: Member country, Reference Production level, Adjustment and Production level effective January 2017. The corresponding data for Iraq: 4.561; -210 and 4.351 (all in tb/d).

Moreover, the text of OPEC Agreement does not have even a single word of oil “export” Finally, all discussion on OPEC accord during CERAWEEK, referred to above, focused primarily on “production” not “export” of oil.

So, why the Minister holds such understanding that contravenes all others including the Formal statement by OPEC itself. And this wrong understanding leads to another wrong assertion by the Minister regarding Iraq “compliance”.

Ironically, he insisted on his understanding despite the correction made by IOR!!!

2-The Minister asserts “Our refining capacity is increasing”!

Data on Iraqi actual refining production does not support at all this claim due mainly to the destruction of at least Baiji and Qayara refineries of the North Refining Company-NRC post June 2014 (known as Da’esh effect).

Iraq’s total refinery production during the second half of 2013 (before Da’esh took over Mosul in June 2014) was 120204 thousand barrels; that went down to 85532 thousand barrels during the second half of 2016. This indicates clearly that Iraq had lost 29% of its refining capacity.

So how the Minister thinks the refining capacity is increasing??

3-The Minister declares that the Ministry has “very genuine and comprehensive [refining] strategy”.

Again, available information doubts and questions very much the adoption of such strategy and the validity of such a claim.

First, the Minister refers to a new Fao refinery with capacity starting with 300kbd increasing to 1mbd exclusively for export and petrochemicals through private investment. This new refinery was suddenly announced by the Ministry on 23 February 2017, only 5 days prior to the deadline announced for other refineries offered for private investment; then that deadline was extended to 16 March 2017. No FEED was done on this Fao refinery and it was not mentioned in the elaborated Integrated National Energy Strategy-INES. The proposed Fao refinery is huge and challenging by any standard; yet no feasibility study was known to have been done.

Second, the position on the Nassiriya refinery is confused and confusing; the Minister reduces the capacity of this refinery from 300kbd to 150kbd because as he said “I looked at it and it was too high of a scope of work, so I like it at 150,000 bpd”, in the meantime he proposes much higher capacity (300kbd-1mbd) for Fao refinery; why it is too high a scope of work in one location and not in another? The Minister has to provide convincing professional argument supported by feasibility study and FEED-not sentimental answer!

The Minister intends to “tender” Nassiriya refinery as “An integrated project” linking oilfield development and the refinery. But the Ministry has already included the Nassiriya refinery for private investment under current offer, which implies very different contractual modality than those for upstream oilfield development. Moreover, reducing the refinery capacity much below oilfield production capacity could very well undermines the attractiveness and economics of the integrated project. Again, the FEED for Nassiriya refinery was based on 300kbd and no recent revision on FEED or feasibility study has been done regarding slashing that capacity by half! Also, it is not clear why the Minister prefers tendering the integrated project and not through specific bid round. Finally, the Minister did not provide any premises for his expectation that, “Before the end of the year, all of this will be finalized” when the reaction of any interested investors will not be known until the deadline of 16 March 2017 elapsed and when no announcement on the “tender” have been made

Other views by the Minister regarding Erbil KAR refinery, his direct negotiation with ExxonMobil, and his somewhat negative assessment of Fao Project (not Fao refinery) also puzzling and causing further concerns but I leave them for the time-being.

By taking such positions and expressing such views, the Minister of Oil in fact doing disservice to him and to the country; eroding his credibility and exposing his shaky awareness of even public knowledge. If he makes such puzzling reckless statements to international media, then who knows what he says during the Council of Ministers meetings when petroleum issues are discussed??

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