

Iraq EITI Latest Annual Report: Disappointing Despite Improvement

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Iraq EITI National Secretariat-(IEITI-NS) lunched on 31 December 2016 its seventh annual report (Report 2015); a second annual report released in one year after it released its Report 2014 in March 2016 (though the written date was December 2015).

Releasing two annual reports in one year is an achievement by itself, which deserves praise and recognition. Moreover, this is in compliance with the EITI new standard requirement for releasing national annual reports by the compliant countries.

Furthermore, the Report provides very useful updates of and new data on some aspects on upstream petroleum and other petroleum industry sub-sectors.

Report 2015 was prepared, for the first time, by **KPMG**- a known international consulting firm, while the previous six annual IEITI reports were prepared by PCW and E&Y.

I am very grateful to my colleagues at IEITI-NS and MSG for providing me with copy of the Report once it was approved by the MSG.

The "electronic copy" of the Report has 151 pages comprises: Terms & Abbreviations, Executive Summary, Introduction, Transparency Initiative in Iraq, Legal Framework, Exploration & Production, Revenue Collection, Revenue Allocation, Social & Economic Spending, Impacts, Kurdistan Region and Annexes.

Generally, the Report is rather messy, without clear methodology, thematically overlapping, ambiguous, contains many inaccuracies and shocking errors. The length of the Report was not due to substantive contents but due to style: font size, line spacing, tables with large cells, repetition, etc.

The Executive Summary is rather confused, badly written and composed of texts copied from the main body of the Report and pasted here without any analytical or logical links.

Terms such as "index oil prices" and "oil prices" are used as if they are the same! They are not.

The list of "Institutional Framework for oil and gas sector in Iraq" is not accurate and needs redrafting: there is no "Ministry of Natural Resources" in the Iraqi government! It is in KRG. The Ministry of Oil includes many more entities and companies than the four and one Directorate mentioned in the Report.

Why the Report considers "SOMO is the most important company in the Iraqi oil sector"? Moreover, if SOMO exports "Basra Light and Kirkuk", who exports Basra heavy! Finally, Iraq has for years a surplus in fuel oil and do not "import fuel oil" as the Report says- a shocking lack of knowledge and information!

In the Oil Refineries section the Report makes another shocking lack of knowledge and information, when it says North Refineries Company “has a capability of refining a total of (402 000) barrels of oil per day”. It seems KPMG (the author of the Report) and those who approved it do not know that Baiji complex, Qayara refiner and other NRC refining capacities have been damaged significantly since June 2014!

The Report relied on what is posted on the websites of SRC, NRC and MRC, but most data posted on these websites are very outdated.

The list of IOCs was, as mentioned in the Report, related to 2014 and KPMG did not attempt to update it. Some IOCs have left at will, other by *Force-Majeure* and there was also a new one; but KMG seems to be unaware of such movements!

An un-necessarily long text on “Mining Industries in Iraq”, mostly of promotional material, was pasted in the Executive Summary. This should be removed from ES.

There is apparent inconsistency in the table on payment to IOCs that makes it difficult to use such data neither for oilfield level nor for IOC level. Moreover, the table has no title. Also table 6 has no title but also it is repetition of column one of table 5 but without the total!

The list of MSG members is inconsistent with the chart on MSG presented in the same chapter, which should be removed from there to this part;

On identifying who owns companies, one could argue that this is totally irrelevant for Iraq since all IOCs are known companies with long history in the business. Moreover, all these IOCs have, under the signed contracts, offices/ representatives in Iraq and their legal entity is stated in the signed contracts. So why spending money and efforts on this issue! EITI standard does emphasize this issue, but that is related to those unknown small and suspicious companies involved in various extractive industry activities in many developing countries. (Further remarks on this issue are provided below)

Constitutional articles 111 and 112 are related to “oil and gas” only, and 110 does not specify “mining sector”. Moreover it is not correct to say "oil, gas and mining sector" because such sector is not recognized legally or constitutionally in the Iraqi system.

The reference to Law 22 of 1997 is inaccurate: articles 11 & 12 of the Public Company Law deals with "profit and losses" of the Public Companies (as amended) in any ministry but not the fiscal system of the MoO or MIM, as the Report says! Each of these two ministries has its own la, which covers fiscal and administrative system as well as its mandate and authority.

Reference to “Article No.42 of the constitution related to “Oil prohibition Regulations”; there is no such a provision in the stated article on the Constitution.

The Report says, “There are many studies for licensing rounds explanation”, but it refers to only one study!! A questionable research and professional ethic!

On BGC, the Report refers to “The joint ventures that run the three giant oilfields of southern Iraq -Rumaila, Zubair and West Qurna1”. This is contractually not correct; they are “consortiums” not JVs.

On the Beneficial Ownership (Road Map)

The Report says, “IEITI had maintained a publicly register related for beneficial owners of the corporate entities that bid for, operate or invest in extractive assets, which defining the beneficial owners, the level of ownership and details about how ownership or control is exerted.”

First; I doubt very much that IEITI had such a register;

Second; the web-link given by the Report does not indicate to any register but to consultancy assignment to be done in the future on this issue with specific budget and scheduled activities;

Third; as I mentioned earlier I do not think this is an urgent issue for Iraq since all involved IOCs are with known ownership structure. Simply, improper use of funding!

The Report provides extremely brief basic information on the exploration blocks, but nothing on the activities done on any of them, while there is good deal of information on progress especially on Block 9, 10 and to some extent to block 12.

Export of Oil and Revenues

During the year Iraq exported 1.097 billion barrels at \$46.44/b that generated total revenue of \$50.932 billion.

The variance of \$2.4 billion in oil revenues between what SOMO and IOBs declared was well explained in details. However, my calculation indicates to an alarming increase in the cost of “demurrage” incurred by SOMO; it represents 211% over 2014 and costs 13.32 cents a barrel.

There are shocking errors:

There were only two shipments to one destination (one in March and the other in October) but the Report divides the total of the two shipments by 12 to get a monthly average! What a shame!

The Report does not provide monthly data on exports, revenues and average price, but it provides a web-link for that purpose. When I checked the provided link I was shocked, again, to find that “**Monthly Average Price in (USD)” for the “exported through Basrah port (for heavy crude oil) reported by SOMO” to USA, Europe and the Far East was: \$213.915, \$246.838 and \$286.308 (a barrel) respectively.**

Actually, this is the most shocking for many reasons:

first, how is it possible for any person to read these extremely and unusually high prices of oil without ringing a bell?;

second, if these prices were reported by SOMO, as the table of the Report says, then it is a real disaster and could lead any one to question the credibility of SOMO’s accounting procedures;

third, why and how all members of the MSG, the staff of IEITI-NS did not observe such shocking prices despite the fact that these tables were posted on the IEITI website many days before submitting the final Report;

and finally and most shockingly, how is it possible for an international consulting company, KPMG, let such a grave error go? Where is the cross-checking, the revision, the quality control and the final approval of the draft report before submitting it to your client? The above errors in oil prices were resulted from “adding” the monthly prices instead of calculating their “average”; simple statistics!!!!!!!!!!!!!!!

A further shocking, but also naïve, content in the Report is related to many charts concerning “monthly average price of oil”. In these charts the scale (axis) of oil price starts with “0”; is there any zero price for oil or, may be, oil is given away free-of-charge or donated ????? And of course when there was no export there is no price (but not zero price), therefore all these charts should be redone with oil price scale based from minimum to maximum monthly oil prices for the covered month; again elementary statistics!.

Another shocking item in the Report is the mentioning of “Amman” as marker crude! This is the same error that was mentioned in previous year IEITI Report 2014, and it tells the “Copy & Paste” without checking and verification. There is no such marker crude in SOMO’s price mechanism; what is there is “Oman” crude, referencing to Sultanate of Oman!

The Report does not explain why it uses international oil price \$46.44/b when addressing supplies to domestic refinery and variances!

Other shocking errors in the Report are “Each 1 Barrel is equivalent to 6.2891 Cubic Meter” and “Crude Oil Price per Cubic Meter during 2015 was USD7””; it is the other way around: 1 Cubic Meter is equivalent to 6.2891brels. Therefore all related calculations by the Report are erroneous and should be redone.

Petrodollars were mentioned for two provinces only: Basra and Kirkuk, what about others?

There is no need, and could be misleading, to include the Iraqi State Partner regarding capex recovery because it is “carried” by other IOCs. Moreover, the participation interests for IOCs should be amended accordingly.

The Report says 2015 “budgeted barrel oil was USD 60”; Wrong it was \$56/b as in Budget law 2015.

All items in the column “Ratio of Foreign to Iraqis” are totally wrong and thus needs correction!!

The Report says, BGC employees constitute 17% of total Iraqi employees. Again totally wrong; it constitutes 0.0018% only.

The chapter on KRG was disappointing again; it only reproduces what KRG says emphasizing pre 20015 conditions while ignoring the harsh reality of Kurdistan-Iraq economy in 2015, which this Report is all about.

The Report presents a distorted interpretation of Budget Law for 2015 regarding the KRG share of 17%.

The table on monthly production includes, again, wrong indicators!

The Report has many other serious problems related to charts, footnotes, references and the accuracy of reported data and information.

I sincerely suggest to read carefully the below assessment and ask KPMG to redraft its report.
The Report should not be printed or translated before correcting all the identified, and other, shortcomings.

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