Oil Export, OPEC Cut Effects and Budget Implications

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Monthly data during the first half of this year are important for Iraq for two main reasons: they reveals the test of OPEC-cuts and how Iraq is actually comply with and affected by them; and the second is the budgetary implications as far as its main thresholds: oil exports, oil prices, oil revenues and KRG oil delivery commitments.

While international business, banking and financial entities, energy consulting firms, media sources among other began a wave of reporting, estimating, speculating reports on these issues, nothing of substance on these issue came from the Ministry/Minister of Oil until SOMO released today its January export data.
As it is known, SOMO monthly reports are released, since 2008, and focuses mainly on oil export volume, oil revenues and average oil price. But such monthly report does not cover oil production and does not cover KRG production and exports; and since the Ministry has imposed anti-transparency environment by terminating the publication of data on oil production and its allocation since September 2016, I used reputable international sources to acquire the missing data.

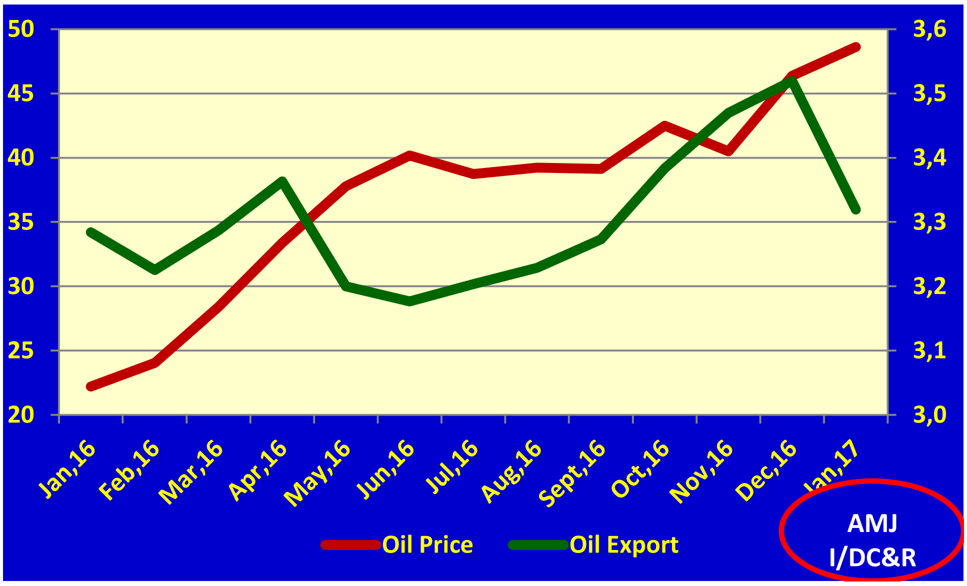
This brief intervention has three parts. First part provides assessment of oil export performance for 2016 and concluding that due to lower oil prices and oil exports had resulted in more than 26% deficit in the budgeted oil export revenues. The second focuses on January oil export and its implication for budget 2017; concludes that first month of OPEC accord worked contrary to Iraq's interest and, thus, warns against any call based on non-consolidated improvement of oil prices while ignoring the whole picture. The third part assesses Iraq compliance with OPEC cut of November 2016 through different sources of estimation and raises the possibility missing significant volume of oil produced during January.
Finally, the paper concludes by requesting the Ministry/Minister of Oil to clarify any ambiguities by making full, accurate and transparent disclosure of data and give convincing explanation; and stands against unjustified early revision of the state budget.

I- Oil Export and Revenues: January 2016- January 2017

After reaching its absolute floor in almost more than a decade, Iraq oil export prices began gradual recovery from that minimum of \$22.21/barrel for January 2016 to more than its double twelve months later, when it reaches \$48.61/b (Red line; read on left side on chart below). Much of that improvement occurred during the last quarter of the year following September OPEC-Algeria meeting and then OPEC accord of 30th November.

Volume of oil exports, on the other hand, did increase as well but at inconsistent way; up-and down, as exhibit in the following chart (Green line; read on right side).

Iraq: Oil Export (mbd-RS) and actual Oil Price ($/b-LS)
January 2016- January 2017



Source: Author (AMJ: I/DC&R) compilation based on SOMO data.

During the covered period, Iraqi oil export (excluding KRG) registered its lowest level at 3.177 million barrel daily (mbd) in June, while its highest was 3.519 mbd in last November.

Due to improvement in both oil price and export volumes, oil export revenues were on path of gradual increase as well. They increase from $2281 billion in January (leaving the monster February with its $2249 billion due to lower number of days and usual rough weather impact) to the highest of $5059 billion in December, before falling back to $5002 billion in January 2017 due mainly to export decline, presumably inn compliance with OPEC cut as discussed later.

For 2016 as whole, average oil export price was $36.039/b with annual average of 3.301 mbd of exports generating a total of $43.643 billion in oil export revenues.
Comparing these numbers with Budget Law for 2016 would indicates to revenue deficit of $15.65billion (constituting 26.4% of budgeted oil export revenues) caused by deviations (lower) of actual oil prices and oil exports by $8.961/b and 299kbd respectively in comparison with those adopted in the budget 2016. The actual decline in oil export was due to non-delivery of the budgeted 550kbd by KRG, while the rest of Iraq out-performed its budgeted threshold of 3.05mbd by almost 232kbd.

II-<u>Oil Exports and Budgetary Implications</u>

The contents of SOMO January data are used in relation to the revenue thresholds adopted in the Budget Law 2017.
Budget Law adopts an average oil price of $42/b and 3.75 million barrels daily (mbd) for estimating export revenues during the year.

January Iraq actual oil price was $48.61/b; giving an excess of $6.61/b over budget threshold. During the month, prices for both Basra and Kirkuk crudes were higher than the threshold; Basra crudes sold at 4 cents/barrel over that for Kirkuk.
On the export side the situation is rather complicated. On the aggregate, SOMO oil export was 3.319mbd; which is 431kbd short of the budget threshold. The main cause for this shortfall is non-compliance by KRG; instead of delivering 550kbd, KRG delivered to SOMO only 4.5kbd.
KRG-MNR did not publish its monthly report since last November and removed its previous reports back to 2014 from its website; thus no formal information on KRG export volume, revenues or export price are available. One estimate (IOR) put January 2017 export at 535kbd. Theoretically, if one adds this KRG export to that of SOMO's that gives surplus of 104Kbd over the budget threshold.

On the other hand, oil export through southern terminals was higher by 74kbd over the assumed budget threshold of 3.2mbd.

Export revenues for January under budget law were estimated at $4882.5 million; this, against the actual oil export revenues of $5002million through SOMO only gives a surplus of $120 million. The surplus could be much higher had KRG exports are delivered as perceived by budget law and included in the calculation.
But, January export revenues were less than preceding month by $57 million though January export oil price was $2.24/b higher than December. Hence, the decline in oil export revenues was attributed mainly to the reduction of oil export and based on this one can argue that OPEC accord worked, in January, against Iraq's interest.

Fiscally, under budget law if KRG does not deliver to SOMO all or part of the stated 550kbd, a corresponding reduction from KRG entitlement in the budget will be imposed; that remains to be seen!
Speaking about budget 2017, it is important to highlight and raise a note of caution. On Sunday 4th February the Chairman of the Parliamentary Financial Committee, Mohammed Al-Halbossy, anticipated revision of budget 2017 by the government due to the financial surplus generated through oil price of $56 a barrel, which is higher than the $42/b adopted by the budget law.
The above analysis should alerts those calling for any premature revision of budget 2017, due to non-consolidated improvement of oil prices while ignoring the whole picture, to be cautious and should not rush into quick and shaky conclusions or suggestion; there is still significant degree of uncertainty regarding international oil price levels, especially during the first half of this year.

III- <u>OPEC Cut and Compliance Rate</u>

The Joint OPEC and Non-OPEC Ministerial Monitoring Committee (JMMC) reported on 24th February that based on the Report of the Joint OPEC-Non-OPEC Technical Committee (JTC), OPEC and Non-OPEC producers achieved a conformity level of 86%. The JMMC statement did not provide compliance rates on the country level.

Other sources give further compliance rate; OPEC compliance stands at 91% according to S&P Global Platts, while the IEA reported OPEC fulfilled 90% of promised output cuts in January. Bloomberg calculations give a compliance rate for non-OPEC producers of about 48%.
The above differences in calculating compliance rates reflect the methodologies, database and assumptions used by these sources.

Regarding Iraq, the compliance rate depends basically on two basic data items: the first is total oil production in December 2016 and the second is total oil production in January 2017; the difference between the two monthly data indicates actual production reduction.
As mentioned earlier, the Ministry/Minster of Oil did not officially declare publically or on the Ministry website oil production data for December 2016 and January 2017 and, accordingly, total reduction in January oil production.

Other sources provide data and information that are used here to assess Iraq compliance with OPEC cut.
It should be mentioned at this juncture that according to OPEC accord of 30 November 2016, Iraq oil production was set at 4.351mbd during the first half of 2017; a reduction of 210kbd from the adopted October 2016 total production of 4.561mbd. Strangely enough, the Minister of Oil thinks that "Iraq should have been exempted from the production cut due to the extenuating circumstances the country is going though"; this would raise the question where was he when the decision was taken and why didn't he fight, nail and teeth, for the interest of the country as sovereign and founding member of OPEC!? That was, probably, why the Minister had express his doubt regarding extending the accord to the end of the year.

According to SOMO' DG, Iraq (presumably KRG oil included) total oil production in December 2016 was 4.83mbd; this was also confirms by JODI database. Accordingly, December 2016 total production exceeds OPEC allowable threshold by 479kbd.
Three international sources (S&P Global Platts, IEA and OPEC) give different total reduction for January 2017 oil production in Iraq; each of them gives a daily production cut much less than the agreed-upon threshold of 210kbd.
Based on SOMO'DG/ JODI December 2016 total Iraqi oil production and the reported reductions in January 2017 oil production, the following table summarises different estimations of "possible" excess of Iraq oil production over OPEC cut threshold.

Table: Estimations of January Possible Excess of Iraq's Over OPEC Cut Threshold

	January reduction (kbd)	**January production (mbd)**	**Excess over OPEC threshold (kbd)**
S&P Global Platts	150	4.68	329
IEA	110	4.72	369
OPEC	166	4.664	313

Source: Author (AMJ:I/DC&R) compilation and the stated sources.

The above table clearly indicates that Iraq is not only non-compliance with OPEC production threshold of 4.351 mbd, it in fact produces much higher than that threshold; if these three

daily reductions are applied to December production, Iraq' January production still exceeds OPEC allowable production threshold by a range from 313kbd to 369kbd.
On the other hand, SOMO's export data indicates that oil export in January 2017 was 200kbd lower than previous month. If domestic oil consumption of 780kbd (including KRG as based on JODI database) was added to January SOMO oil export that would leave a balance of oil production ranging between 565kbd and 581kbd.
So where those excess oil production has gone? Is all of that oil production exported by KRG and, if so, why the rest of Iraq shouldered all oil export cuts? Or, that was an outcome of different methodological and data matters?
It is only the Ministry/Minster of Oil has and should provide answers pertaining to these questions.

In conclusion and based on the above, the Ministry/Minister of Oil is encouraged (if not indeed obliged) to provide full, credible and accurate national data on total oil production and its allocation for export and domestic purposes.
And considering the implications on budget 2017, I would suggest for the Parliament to:
First, call the Minister of Oil to attend before the House and make submission on the above issues in full transparent and truthful way; and
Second, do not rush into budget revision upward since OPEC cut impact on the country has been negative despite modest, but still uncertain, improvement in oil price.

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