IEITI Annual Reports Continue
but Changes in Form, Quality and Substance are Crucial and Needed

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Iraq Extractive Industry Transparency Initiative- IEITI issued its 2018 annual report and, currently, is processing its combined annual report, i.e., for 2019 and 2020 in a single issue.

Releasing the annual reports, though with two year time-lag, is undoubtedly commendable efforts. But the qualitative aspects and lack of impacts of these reports have been constantly identified with flaws and, thus, cause much concerns and raise very serious questions. Consequently call upon IEITI and EITI is long overdue to undertake thorough revision aiming at making such annual reports different, better, relevant and helpful in enhancing real and effective transparency in the extractive industry in Iraq, more than what has been the case so far.

IEITI issued its tenth annual report, covering 2018, by end March 2021. 2018 preliminary report was delivered on 5 February 2020 and the final version was supposed to be released by latest end of 2020. Due to Covid-19 effect an extension of three months was granted by the International Secretariat of EITI-Oslo; it was release by 20 March 2021.

Currently, IEITI is processing its combined annual report, i.e., for 2019 and 2020 in a single issue; the preliminary report was presented to the MSG on September 2021 and the final report is scheduled for publication on March 2022.

Davinci Consulting-Geneva Group international (DCGGI) was contracted as the Independent Administrator- IP (according to EITI guidelines) to produce the annual reports for 2018, 2019 and 2020.

I reviewed all previous nine IEITI annual reports, and this current review is a continuation of my constant follow-up and monitoring of IEITI activities and my database relating to this topic.

This review covers first IEITI 2018 report followed by brief notes on the preliminary report of the forthcoming 2019/2020 combine report and ends with a few concluding remarks

IEITI 2018 Report

The 2018 Report comprises seven sections with executive summary and list for terms and abbreviations. It is a rather long report, 131 pages, and has 25 files (accessed through different web-links)

After reading the report I can make the following brief remarks on this report. The executive summary, comparative to previous annual reports, is poor and limited in coverage, conceptually ambiguous, misleading and, though it is short, its' data was presented twice in tabular and graphic forms; totally unnecessary.

Except a few substantive improvements much of the contents of the main report were repetition from previous reports and sometimes using the usual copy, modify and paste- CMP method.

The web-links to the above mentioned 25 files indicate those files are either prepared or provided by the related entities, mostly Iraqi entities. Some of the files are in MS Excel with many sheets of varying size, while others are in MS Word.
The consultant, i.e., the IP did not analyse or provide explanatory notes or reconciliation of the contents of most of these files. A random check on the contents of some of these files raises many questions on the validity, accuracy and relevance of their contents. IP left the burden of assessing and using these files on the readers. And since no comments on or revision of the annual report were posted on IEITI website, it seems the MSG members, probably did not read thoroughly the report itself and most or all these 25 files!!!

The reports uses excessively and unjustifiable both tabulations and graphs even for simple two items; this lengthened the report (page wise) and increase its size (bitwise). Moreover, some of the graphs are confused and confusing.

All tables in the reports haves no number and no title and some of them are not professionally done. No references were provided for these tables and thus, it is impossible to check their accuracy or validate their contents.

There are many methodological and conceptual flaws, which could cause serious misunderstanding; below are a few examples.
Neither all activities of the Ministry of Oil nor all activities of the Ministry of Industry and Minerals are "extractive"!!!

Similarly, “associated gas”, “free gas”, “dome gas” all are “natural gas”; but the distinction between them is vital when one considers their data and how it is used. Moreover the term “gas burnt non-investable” is technically wrong and misleading as it justifies flaring!!!! Also there is difference between “liquid gas” and LPG!!

There is no “Amman” oil in SOMO’s export price setting mechanism for the Asian market. This error has been repeated in previous annual reports due to CMP method; but, why SOMO representative in the MSG did not correct this apparent repetitive flaw!!
Also SOMO do not use “ICE Brent” or “NYMEX WTI” as marker crudes in its price formula for European and Americas markets.
SOMO is not “The revenue recipient government agency” for “Crude oil exports” and not recipient government agency for “the value of oil loaded by IOCs operating within the licensing rounds”.!!!!
Moreover, IOBs do not make direct payment of export revenues to DFI.
When it comes to SOMO, the IP seems to be totally confused in understanding the role of SOMO and the flowchart of oil export revenues, or different parts of the report were written by different people without coordination among them!!!

The focus on “Budget allocation” and “actual transfer” regarding petrodollar and governorate development funds is misleading because it ignores the chronic problems regarding actual spending and how it was done; as the experience since 2010 demonstrates.

There is no West Qurna oilfield; what there are WQ1 and WQ2 oilfields and each is contracted to very different consortiums of IOCs, offered under different bid rounds and thus having different technical service contracts.
Moreover, Majnoon oilfield has been under the National Efforts since mid-2018.

There are no reconciliation done for “Quantities and Values of Crude Oil, Oil Products and Gas provide to Refineries, Oil Products Distribution Company and Ministry of Electricity during” between related entities and MoE.

Occidental (Oxy) relinquished its participation interest in Zubair oilfields in 2016; so why it lifted more than 7.6 million barrels in 2018!!

I have computed that average oil price for “Crude oil lifted by the licensing round companies in exchange for cost recovery and remuneration fees entitled to them” was $64.29426 a barrel, while the average oil price for “Exported crude oil to International Oil Buyers” was $65.73435 a barrel; IP provides no explanation or clarification for this price differentials or aware of it at all??

The report provides no information or data on DFI but refers to 18 page report, so who supposed to do the needed reconciliation comparative to SOMO or IOBs data!!??

The Report says “The revenues of crude oil exports in both the federal Iraq and the Kurdistan region are considered material revenues as their contribution to the total revenues of the extraction sector exceeds the materiality threshold of 1%.” This is a manifestation of gross confusion and total misunderstanding, on part of the IP, of what “materiality threshold of 1%” is all about and what the purpose behind it.

The percentage of unpaid CIT by IOCs amounts to 19% of due CIT; this huge difference should have been investigated, specified and explained in details by the IP, but did not do it convincingly.

Total oil production was reported without making specific reference to the effect of the natural decline on base-line production particularly for the six oilfields contacted under first bid round. Ignoring this fact is erroneous and causes serious miscalculation especially with regards to remuneration fees and related CIT.

The “the value of internal service payments made by the MoF through SOMO to the North Oil Company to cover the cost of production that is exported” does not correspond to oil exported by this company compared to other NOCs such as Missan OC and ThiQar OC; IP provides no clarification or explanation!!

There are more important comments, but I think the above provides enough indication on the quality of the report.

IEITI Forthcoming Joint 2019/2020 Annual Report

Currently, IEITI is processing its combined annual report, i.e., for 2019 and 2020 in a single issue; the preliminary report (99 pages) was presented on September 2021 and the final report is scheduled for publication on March 2022.

The structure of the preliminary report is, in substance, similar to that for 2018, with one important difference or improvement, i.e., MSG remarks on 2019/20 report.
Item twelve of the preliminary report provide 44 different remarks made by MSG members; some of the remarks are broad and generic, while others are specific and to the point.
It remains to be seen whether and how IP addresses, these remarks as well as my notes mentioned in the previous part above, in its final joint report due in March 2022.

As there are only three months left to deadline for releasing the 2019/2020 annual report, it might be a farfetched hope for a well improved report.

Concluding remarks

1- By end March 2022 IEITI have had issued twelve annual reports; on the face of it this is impressive record. IEITI should have accumulated enough human and systemic professional capacity at its National Secretariat to have active, proactive and impacting contribution in preparing the annual reports and to ensure its quality control;
2- It is about time that IEITI and EITI (IS-Oslo) take a stock of the experience so far and revise the structure, contents, methodology and the process for future annual reports that should focus on recent issues and their future implications more than the repetition of a distant past.
3- Future reports should focus on providing detailed and verified data relating to the operational aspects of bid rounds field development in terms of reconciled costs (Capex and Opex), payments, remuneration fees, taxes-CIT among others more than repetition of their contracts terms that have been known since 2009/2010.
4- Comparative data for field manged by national efforts and those manged by IOCs should be provided in as much details as possible and reconciled accordingly.
5- The same applies to different SOMO activities according to a well-articulated matrix comprising different types of crude for different market configurations and related data reconciliation framework. Records of actual oil export price setting during the year should be provide instead of repeating SOMO’s standard document.

6- Corruption has become very serious complex problem in the country, and much of it is in the extractive activities; yet not a single word on corruption was mentioned in IEITI Final Annual Report 2018 or in the preliminary report for 2018/2020 report. Future IEITI should provide sufficient cover on this issue.

7- All contracts signed under the bid rounds have mandatory obligations to undertake at least two Environmental Impact Assessments-EIAs. IEITI annual report should call upon MoO and related IOCs to undertake and publish these EIAs.

8- All contracts signed under the bid rounds have non-refundable contribution to TTS Fund which has a total annual allocation that exceeds $55 million. IEITI annual report should provide comprehensive reconciled data on the annual utilisation for such funding.

9- A "Validation" mission, as per EITI framework, is scheduled for July 2022; it could be an opportunity to address the necessity and feasibility to improve IEITI future annual reports as proposed here. Unless such change and improvement take place, future IEITI reports will be released unnoticed, with no real impacts and become unnecessary formality.

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