TotalEnergies Agreement Smells Filthy- Part 2

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The more information becomes available about this agreement, the more it exposes the extent of unfairness and damage to Iraq national interest, and the deception or scandal of "investing $27 billion" that was propagating and promoting this agreement. (1)

The Ministry of Oil-MoO keeps mute; insists on a complete blackout and not publishing the terms of this odious agreement with TotalEnergies and contracts of its four projects. But available information indicates, so far, three very serious and financially costly direct disadvantages or burdens, particularly relating to Artawi/Ratawi oilfield, in addition to the indirect burdens and consequences.

The first burden is represented by adopting a base line production-BLP in the aforementioned field that is 27 thousand barrels per day-kbd less than its actual production capacity; resulting in "gross" export revenues loss by Iraq estimated at $817 million annually. The corresponding "net" export revenues losses are less than that, depending on the details of the contract for developing this field, which is still kept secret!!!

The second burden relates to TotalEnergies and Qatar Energy companies share in the profits generated from the field's current production capacity, without they investing a single dollar in this field's current production capacity.

The amount of what Iraq loses from this illegal and unjustifiable participation was estimated in six cases, the total of which ranges between $2.365 billion and $12.795 billion throughout the duration of the contract.

The third burden is represented by reducing Basra Oil Company's-BOC share, to 30%, less than it should be, which is 41.43%. This causes huge losses, including the net profits throughout the contract period starting from August 16, 2023, in addition to the lack of clarity about the fate of $1.8 billion worth of fixed assets in Artawi oilfield!!

These completely unjustified concessions, and the resulting huge financial losses they cause and inflict on Iraq, are absolutely contradict a basic principle in the Constitution, which is "achieving the highest benefit for the Iraqi people" (Article 112 - Second). Also, Public Companies Law No. 22 of 1997 does not

offer permissible alibi for BOC waiving any part of Artawi material/ physical assets on the field, nor BOC percentage of participation, nor the loss of future profits accruing to Iraq consequential of such waiver.
In light of this, it can be asked: Is it necessary and legitimate to initiate legal accountability proceeding regarding this transgression of the Constitution and failure to carry out the responsibility of preserving and achieving the highest benefit for the Iraqi people, as well as to do what is not stated in or permitted by the aforementioned Public Companies Law?????.
MoO did not publish any information that helps evaluating the economic feasibility of this agreement, nor about any of its four projects, nor the contractual terms that constitute the fiscal systems for each contract, nor the formal signed copy of any contract. This means that it is not possible to determine the shares of the French company and the Qatari company in the net returns or profits from these projects. However, the revenues from the export of Artawi oil can be estimated in light of the average oil export prices from the southern ports in Basra Governorate, and according to assumed percentages, what the two companies receive for free, without any investment or financing from them!!

In my previous intervention, I discussed the total financial burden that befalls Iraq as a result of adopting BLP in Artawi oilfield at about 27kbd, less than the actual available production capacity, which is 87kbd (2). I provided additional information as a follow-up to a comment made by a former Director General of the Petroleum Contracts and Licensing Department-PCLD at the Ministry of Oil (3) and in my intervention in English on the subject. (4)
As usual, I am questioning, whistleblowing, not accusing, and hope the Ministry proves, with accurate and complete material correct evidence, that what I stated in this intervention is incorrect.
In this intervention, I will first discuss the statements by TotalEnergies CEO and analyze their implications and consequences. Then I estimate the financial losses resulting from the illegal acquisition by both the French and Qatari companies of any percentage in the revenues from the current production capacity in the Artawi oil field. In the third section, I discuss the losses resulting from the unjustifiable unlawful reduction of BOC share, and I conclude the intervention with some remarks and legitimate questions awaiting answers.

First: Statements by TotalEnergies CEO

Among what the CEO of TotalEnergies was reportedly said are the following [5]:

1- The company received Artawi field as an operator, and the field has been generating cash flow since August 16, 2023.
2- We must increase oil production in this field to finance other projects in the agreement.
3- The field now produces 60 thousand barrels per day, which will be increased to 75 thousand barrels in the "short term", then doubled by the end of 2025 or (the beginning of) 2026, and then to the "target", or plateau production, of 210 thousand barrels per day in 2027.
4- Cash flows were more than expected, as the price of oil was $90 per barrel more than "was assumed when the agreement was negotiated."

This statement prompts the following:

1- Each of the two foreign companies receives a "percentage/share" of the cash flows of the oil produced by the field, as from 16 August 2023. This is illegal, unjustifiable and is contrary to what was the case in the contracts of the first licensing rounds for the producing oil fields, where service fees are paid to foreign companies for additional production of 10% above the BLP. Note that the percentage/share of what the two companies receive has not been disclosed to date.
2- This participation in the revenues of the Artawi oil field is illegal, starting from the first day of its role as operator of the field, and before they invest any amount of their money in developing the field's production in excess of the current actual achieved production capacity of 87kbd; That is, sharing in the revenues of 941 million barrels throughout the 30-year contract period. In addition, the CEO did not mention the issue of valuing the physical/capital assets of this current production capacity, which I estimate at around $3.125 billion. If this is true, how did MoO agree to such a huge financial loss, and if this is not true, then why does the Ministry remain silent!!!!
3- Since the revenues generated from the production of this field are used to finance the four agreement projects, this indicates what can be called "the scandal/deception of TotalEnergies' $27 billion investment" that was used to promote, approve and sign the agreement, and unfortunately by Iraqi officials as well, let alone foreign reporters and commentators!!
4- The added production capacity will be around 123 (210-87) kbd in 2027, and it is assumed that it will be financed with additional investments according to

the following percentages: TotalEnergies 45%, QatarEnergy 25%, and Basra Oil Company 30%. However, the (illegitimate) revenues obtained by the French company and the Qatari company as of August 16, 2023 will be used to finance this additional production capacity, in whole or in part, and this is known as "return' recycling" that was overlooked in the promotion of the "TotalEnergies investment scandal/deception $27 billion".

5- The French and Qatari companies will acquire part of the "rent" resulting from the increase in oil prices, unlike what was the case in the contracts for the licensing rounds, especially the first and second, where the entire "rent" returns to Iraq.

Analytically and logically and guided by the experience of Iraq and what is known in the international oil industry, the acquisition by both the French and Qatari companies of any percentage of the revenues from the current production capacity in the Artawi oilfield is, and should be, considered illegal and constitutes a financial loss borne by Iraq, and this is addressed below.

Second: Estimating financial losses resulting from the illegal acquisition by both the French and Qatari companies of any percentage of revenues from the current production capacity of Artawi oilfield.

Direct financial losses include: First, the value of the capital physical assets of the current available production capacity, amounting to 87kbd, in the event they are not evaluated and not incorporated in the capital cost structure for developing the field and to cover the BOC share. Secondly, losses of part of the revenues from exports of the current available production capacity.

Evaluation of capital physical assets for current available production capacity

All physical assets located in Artawi field (including all drilled wells, all surface facilities, installations, pipelines, etc.) were evaluated according to the following methodology:

1- The capital cost index-CCI for one barrel's production capacity- Capacity Cost. For this purpose, the highest value of the index at 2011 prices used by the International Energy Agency-IEA in its study on energy outlook in Iraq in 2012 [(6)].
2- An escalating factor of compound annual increase rate of 5% for a period of 12 years (2023-2011).
3- Consider 87kbd, as mentioned above, the current available production capacity.

The result of the valuation for all current capital assets of the Artawi oilfield was approximately $3.125billion.
The question here is whether or not these physical capital assets were considered in the economic feasibility calculations and in the profit-sharing contract. If they were taken into consideration, what is their financial value and how they were treated? But if they were ignored, this constitutes a financial loss that Iraq will bear and that the two foreign companies will benefit from completely illegally. MoO and BOC must answer this issue clearly.
The above evaluation results mean:
(1) The capital cost of one barrel's production capacity- Capacity Cost in e Artawi field at the beginning of 2024 price is $35917.
(2) The capital cost CAPEX of producing a barrel in Artawi field at the beginning of 2024 price is $3.278 (using full cycle methodology, i.e., throughout the contract period of 30 years).

Assuming that the two foreign companies do not bear any part of the capital cost of the available production capacity (worse case) as of August 16, 2023, they will bear part of the operating cost- OPEX proportional to each of them contribution in the contract.
This requires calculations and estimation of the operating cost of producing a barrel of oil in this field.
By adopting the same methodology mentioned above, it was concluded that the operating cost of producing a barrel of oil is approximately $4.131.

Estimating net share of companies from oil export profits under Artawi oilfield contract.
I repeatedly stated that the Ministry of Oil did not provide any basic information about the components, terms and conditions of this contract. However, based on available information, the calculations were made according to the following assumptions and methodology:
1- Use oil export prices from the southern export outlets according to SOMO monthly data.
2- Calculating total export revenues of Artawi oilfield based on the available production capacity, mentioned above.
3- Calculating the "remaining export revenues" after deducting total operating cost (OPEX only) from total export revenues of Artawi oilfield.

4- Calculating “total net profits” on the basis of the “remaining export revenues” minus “all other deductions”, such as royalty, income tax on foreign oil companies, the effect of the “R” factor, the signature bonus/ payment, and others (all these deductions are unknown because the text of the contract or its basic variables were not published by the Ministry).
5- Due to the unavailability of contractual data on “all other deductions”, the “total net profit” was assumed as percentages (ranging between 5% and 20%) of the “remaining export revenues”.
6- Distributing total net profits among the three companies according to the percentage of each of them (Participation Interest-PI) in the contract.

Under the above assumptions and methodology, the following estimates were prepared covering oil production only from this oilfield.

Table No. (1)
Economics of Artawi Oilfield (16 August: 31 December 2023)

	Production kbd	Export Price $/b	Total Revenue $million	Production Cost $/B	Gross OPEX $/million	Profit $million
August	87	84.89	118.161	4.13	5.750	112.411
September	87	91.48	238.766	4.13	10.781	227.985
October	87	87.77	236.714	4.13	11.140	225.574
Novembre	87	82.52	215.378	4.13	10.781	204.598
December	87	77.03	201.052	4.13	11.140	189.912

From the table above it is clear that the total remaining export revenues (profit) during the period of four months and a half of the year 2023 amounted to 960,480,876 dollars. What is the net share (i.e., net illegal profits) that each of the two foreign companies obtained without contributing a single dollar to the capital cost of the facilities that produced these returns.? This is what the following table shows.

Table No. (2)
Net illegal profits obtained by TotalEnergies and QatarEnergy from the remaining revenues (“Profit”) from production and export of Artawi oilfield (for the period 16 August 16 to 31 December 2023) ($million and %)

% of "Profit"	5%	7.50%	10%	12.50%	15%	17.50%	20%
TotalEnergies (45%)	22	32	43	54	65	76	86

QaterEnergy (25%)	12	18	24	30	36	42	48
Total (70%)	34	50	67	84	101	118	134

The above table indicates that the two companies illegally obtained net profits ranging between $34 million and $134 million during the above period, depending on the assumed share of remaining export revenues. If so, what is the total amount they might receive during the contract period, of 30 years, from the current production capacity without investing a single dollar in the current production capacity of Artawi field?

Net, illicit, accumulated profits and their present value over the duration of the contract

The magnitude of net profits that TotalEnergies and QatarEnergy receive from the current capacity to produce and export oil from Artawi field was estimated by adopting the above methodology and for six possible cases or scenarios, each case is premised on both the % of the remaining revenues and oil export price ($75 and $100 per barrel).

Accumulated cash flow is first estimated, then the Net Present Value (NPV) is calculated at three discount rates (DR: 5%, 7.5%, 10%). The following table exhibits the results of the calculations.

Table No. (3)

Estimating illegal net profits of TotalEnergies and QatarEnergy from Artawi oilfield current production capacity and export (2024-2054) ($million)

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
% of Profit	5%	5%	15%	15%	20%	20%
Oil Price	$75	$100	$75	$100	$75	$100
Accumulated illegal net profits	**2365**	**3199**	**7094**	**9596**	**9458**	**12795**
NPV at 5% DR	1212	1639	3635	4917	4847	6556
NPV at 7.5% DR	931	1259	2793	3778	3724	5037
NPV at 10% DR	743	1005	2229	3015	2972	4021

It is expected that the higher the share of the two companies (i.e. their percentage in the remaining returns) and the higher the price of oil, the greater the volume of their illegal profits; this what the above estimates show, whether in the profits accumulated, which range between $2365 million and $12795 million during the contract period, or at their net present value (at the beginning of 2024) at the three discount rates.

As usual, both companies could use these illegal profits to finance their contributions, according to their Participation Interests-PI, in developing additional production capacity, which is 123kbd.

Using same methodology detailed above, the amount of capital investments needed to develop this added production capacity was estimated at $4.418 billion, distributed among the three parties as follows:

Table No. (4)

Estimation of capital cost for additional production capacity in Artawi field (at beginning 2024 prices)

	% (PI)	$billion
TotalEnergies	45	1.988
QatarEnergy	25	1.105
BOC	30	1.325
Total	100	4.418

It is clear from the table above that total amount both foreign companies will bear will be approximately $3.093 billion.

The comparison shows the accumulated illegal profits that the two companies they gain from the current capacity (87kbd) to produce and export Artawi oil field (2024-2054) (Table No. (3)) and total capital cost they bear for the additional production capacity (123kbd), exceed, by far, the entire capital cost required from the two companies for the additional production capacity. This is demonstrated through six assumed cases in the following table:

Table No. (5)

Coverage percentage of the accumulated illegal profits from current capacity to the entire capital cost of additional production capacity that the two foreign companies will bear

	Case 1	Case 2	Case 3	Case 4	Case 5	Case 6
% of Profit	5%	5%	15%	15%	20%	20%

Oil Price	$75	$100	$75	$100	$75	$100
Coverage %	76.45	103.42	229.35	310.26	305.80	413.68

The above calculations indicate that, with the exception of the first case, what the two foreign companies gain from the illegal profits finance all their, supposedly, investments in developing additional production capacity, and whenever oil prices increase above $100 per barrel, the illegal profits increase, and thus the number of years, required to cover (or recover) the capital cost of the additional production capacity, decreases.

The matter remains the same, but, logically, in lower proportions when compared with the net present values.

These calculations certainly lead to, a logical conclusion, an extremely high value of the internal rate of return (IRR) for the two companies from developing oil production only in Artawi field during the contract period. This is another topic I might address in a future intervention, when more data are revealed.

Third: Losses resulting from the illegal reduction of BOC Participation Interest.

BOC 30% participation interest represents the third indicator of massive injustice done to the Iraqi national interest by this abhorrent agreement. The economic and legal evaluation and data from international and even Iraqi experiences all indicate the necessity of estimating, accurately, the value of the physical/capital assets of the oilfield when changing ownership structure, or merger & acquisition or management style and operatorship of its development. In our case, it is a change from a full national effort to a joint effort with international oil companies, and of them is the operator.

Hence, it is assumed, and it must be so, that the value of the entire Artawi field installations is what determines BOC share in this agreement, or at least in the distribution of contributions/PI related to this field. In this regard, it is only fair and right to consider the available production capacity in Artawi field (87kbd) before TotalEnergies takes over as operator of the field, and compare it to plateau production that the French company aims to achieve (210kbd), as a proxy for BOC participation interest.

This comparison, which is based on material evidence, indicates that BOC’s share should be approximately 41.43%, not 30%. This means that Iraq waives 11.43 percentage points of profits in favor of the two foreign companies throughout the period of the agreement, including profits generating from

developing the field for peak/ plateau production, through to end of contract period.
It is not possible to estimate the magnitude of profits Iraq loses in this regard unless the economic parameters, of completing the field development to peak production in 2027 and until the end of the contract period, are known and estimated. This is what I might address in an upcoming intervention, but in terms of the estimates mentioned in Table No. (3), their volume and cash flow could be much greater than those mentioned in said table.
Moreover, Artawi field assets valuation is estimated, as mentioned above, at around 3.125 billion dollars, while BOC contribution for developing the field to peak production (i.e., adding 123kbd) is around $1.325 billion; What is the fate of the remaining assets value, which is $1.8 billion?!!!
It is worth noting that the Iraqi negotiating delegation was demanding 40% share for the BOC, but the current Prime Minister, Al-Sudani, settled the case by accepting 30%. Why???????

These horrendous shameful concessions, and the resulting huge financial losses they cause and will inflict on Iraq, are absolutely contravening a basic principle in the Constitution, which is “achieving the highest benefit for the Iraqi people” (Article 112 - Second). Likewise, Public Companies Law No. 22 of 1997 does not provide a basis for BOC waiving the value of the physical assets in Artawi field, nor BOC percentage of participation, nor for the loss of future profits that accrue to Iraq resulting from such a waiver. Furthermore, BOC “does not own” the oilfield, thus it has no legal authority to make such concession!
In light of this, it is legitimate to question whether the consequence of waiving Iraq’s huge financial rights constitute premises to call for subjecting both the Prime Minister and the Minister of Oil to legal accountability for violating the Constitution due to their failure to preserve and achieve the highest benefit for the Iraqi people. The same applies for the Director General of BOC, for acting on what was not stated in the Public Companies Law No. 22 of 1997????.

Fourth: Concluding remarks and legitimate questions awaiting answers
1- The above estimates, as is the case in all estimates and economic feasibility studies, are based on several **assumptions**, **variables**, **values** and **methodology**. The logical consequence is that any change in these basics leads, necessarily and inevitably, to different results and estimates, especially when the texts of the agreement and its four contracts are revealed. (7)

2- The Ministry of Oil's insistence on not disclosing the basic components of the agreement with TotalEnergies, nor the contract for the development of the Artawi field, blatantly contradicts the directives of the Ministry itself signed by the Minister himself comprised in the official directive No. 1094 of 12/11/2023, which obligates all companies associated with the Ministry, and Petroleum Contracts and Licensing Department (PCLD) at the Ministry's HQ, "Publishes contracts related to the exploration, development, production, transportation, transformation, export, distribution, and consumption of oil, gas, and products."
3- The legitimate question revolves around the "scandal/deception of $27 billion foreign investment" that was propagated to promote and justify the agreement with TotalEnergies staring from Al-Kadhimi government and was adopted by the current Al-Sudani government!!

Considering the above, I find it necessary to reaffirm what I mentioned in my previous interventions on the topic and update them:
1- The moral, official and patriotic duty and obligations require both the Prime Minister and the Minister of Oil to state the position regarding the justifications, truth, and amount of the three costly concessions given by Iraq through this abhorrent agreement with the French company.
2- I call upon the Federal Board of Supreme Audit (FBSA), the Federal Independent Integrity Commission, and the Oil Committee in the House of Representatives to investigate or take the necessary measures to protect the rights and interests of Iraq resulting from the Ministry of Oil's abandonment of capital assets and huge financial returns to the benefit of the two foreign companies without any justification at all, and because this conflicts with a basic principle in the Iraqi Constitution, as well as what is not authorized in the Public Companies Law No. 22 of 1997.
3- The Ministry of Oil's commitment to the standards and requirements of transparency in the oil industry (i.e., EITI) should be **real, effective and demonstrable, not symbolic and superficial**; by immediately publishing the texts of the agreement with TotalEnergies, including the texts of the contracts of the four projects included in the said agreement, the detailed reports of the joint committee meetings and the progress, if any, in the three oil related projects, as stated in the Ministry's letter. No. 1094 on 12/11/2023.

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Endnotes

(1) This article is based on my article in Arabic, "كيف يمكن لشركتي توتال انرجيز وقطر للطاقة المشاركة في عوائد 87 ألف برميل يوميا دون ان تستثمران دولارا واحدا!؟", dated 16 January 2024, circulated widely and accessible through the following links:
http://www.tellskuf.com/index.php/mq/112983-ry181.html
https://www.mushtarek.org/groups/6135da07aac957001377773e/posts/post/65a6df3e08cc99e92a4c0d37
https://www.sahat-altahreer.com/author/62/

(2) My article in Arabic, " هل فرطت وزارة النفط بإنتاج 27 الف برميل يوميا لصالح شركة توتال انرجيز الفرنسية!؟", posted on the following websites:
https://www.mushtarek.org/groups/6135da07aac957001377773e/posts/post/658204f7483f4baf26b55c2e
http://www.tellskuf.com/index.php/mq/112586-kla200.html
https://www.bahzani.net/?p=130019
https://www.sahat-altahreer.com
https://alsaalek.de/wp-content/uploads/2024/01/SALIK-Nr.68-01.01.2024.pdf

(3) Email from former DG of PCLD at MoO Abdul Mahdy Al-Ameedi dated 24 December 2023 commenting on my article mentioned in (2) endnote above, and my response to him dated 27 December 2023.

(4) TotalEnergies Agreement Smells Filthy
https://www.iraq-businessnews.com/2023/12/24/jiyad-totalenergies-agreement-smells-filthy/?swcfpc=1

(5) IOR, 18 October 2023

(6) IEA; Iraq Energy Outlook- World Energy Outlook Special Report. October 2012.

(7) MS Excel was used for all calculations in this article, and the use of mathematical formulas was avoided and replaced by text and explanation for convenience and simplicity.