The Latest Combined Licensing Round- Disappointment for Al-Sudani Government and a Huge Economic Burden Absolutely Unjustified

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For three consecutive days (May 11-13), the Ministry of Oil-MoO organized the "Fifth + and Sixth" licensing rounds, offering 29 oil and gas fields and exploration blocks. This intervention aims to evaluate this combined round and was based mainly on the official statements posted on the MoO website, on the daily reports issued by the Iraq Oil Report- IOR, on my database, and with information provided by Abdul Mahdy Al-Ameedi – former DG of PCLD at the MoO. Briefly, my assessment is as follows:*

First: The lack of absolute necessity for holding this combined round

Al-Sudani government and MoO did not provide any sectoral, technical, economic or financial justification supported by material evidence, sound analysis or documented data for holding this round at this time. The Ministry's efforts should, instead, have focused, intensified and prioritised addressing the serious problems that the oil sector suffers from, especially in the following areas:

1- Continue the development and production of fields in the first and second licensing rounds.
2- Resolve bottlenecks in and expanding export capacity of the southern outlets.
3- Compel Basra Gas Company to implement its obligations with the contractually agreed upon production capacity.
4- Seriously address the problem of associated gas flaring, which is becoming more severe with the increase in oil production, instead of resorting to contracting with companies that do not have the qualifications required to implement such projects (such as the Halfaya Gas Company). The same applies to the development of gas fields (such as the Akkas gas field, which was contracted to an unknown Ukrainian company and the Mansuria gas field to another unknown Chines company).
5- In the field of refinery, ensuring that the production of the Karbala refinery conforms to the technical specifications on the basis of which the project was contracted. Also, why is the MoO silent about the Missan Refinery, which was awarded to a financially bankrupt and technically unqualified company, i.e, the Swiss company Satarem!!
6- Finally, the very dangerous and absolutely wrong directives by offering "sovereign guarantees" to shallow companies, which will expose all Iraqi financial and assets to legal prosecution and will set a dangerous precedent that foreign companies will demand the same in the future. How was this done and why did the relevant financial and legal authorities not move against the provision of "sovereign guarantees"!!??

Isn't it more effective and worthy for the government and the Ministry to focus on addressing these dilemmas, instead of running forward by signing more and more contracts and, thus, wasting more time, financial resources and efforts; Ironically, they consider signing contracts as achievements!!!!

Second: The Results of the Round are Disappointing

(13) out of (29) projects were awarded, among these is the Al-Khalisiyah, gas prospectivity exploration block within the Ninewa and Anbar governorates on the Iraqi-Syrian border. Allan and Sasan project, in Ninewa governorate, are oil and gas fields. This means that the rest of the awarded fields and exploration block contain oil- a big disappointment for the current government.

This outcome of the latest bidding round, in my view and in the view of many of the opinions I have seen, is something to be expected in light of the experience regarding offered gas fields and exploration blocks during the previous five rounds, were they attracted limited offers from IOCs; known reasons, behind IOCs shy-away from gas fields and gas prospectivity exploration blocks, are, again and again, ignored by the MoO. But it seems that the MoO have not learned its lesson, and if it has learned, it has not explained the matter to the Prime Minister, who seems to believe that gas matters are similar to, and as easy as, oil!!

Hence, these results constitute a disappointment to Al-Sudani and his government, and I hope that these results have an impact on understanding the gas issue in a more accurate, realistic and reasonable manner, and to stop advocating populist wishful endeavours.

Fundamentally, as mentioned above, Iraq has a lot of oil and there is certainly no urgency at all to spend money, time and divert efforts in this direction.

To make matters worse, the Al-Khulaisiya block and Alan and Sasan project were awarded to the Iraqi KAR Company - this I will discuss later!!!

In this regard, I find it necessary and really urgent to point out the strange directives by the Prime Minister to have a permanent platform for importing (LNG) within the Grand Al-Faw Port Project; surprisingly ill thought project that should be abandoned!!!!!

Third: - Unqualified Companies, Particularly as Field Operators

With the exception of two or three, the rest of the Chinese companies and the Iraqi company-KAR, do not have the qualifications that were strictly applied by the MoO during the first four licensing rounds. It is also noted that there are no consortiums, which means that each of these companies will be the operator, which, in turn, requires further qualifications and conditions required by MoO.

It is also noted that there is a lack of competition in submitting bidds, except in two cases. There was competition on the Dimah oil field, with five offers submitted, and on Abu Khaimah field with two offers.

Contracting with unqualified and newly formed companies or those that do not have the financial, administrative and technical capacities, constitutes, in my humble view, a costly adventure with a very high probability of severely harming Iraqi interests, and this is absolutely unjustified. So, why MoO insists on this damaging and unworthy path????

Fourth: The Contracts and Their Economic Model are Still Secret!!

To date, the MoO has not published any of the two types of contracts approved for this round: the contract for discovered undeveloped green fields, and contract for exploratory blocks. The Ministry also did not publish basic information and data relating to the economic model and its financial indicators for those contracts.

It is often stated that the approved economic model is the same model for the fifth licensing rounds with amendments. But, again, without disclosing those amendments, their justifications, consequences, and financial burdens on Iraq!!

The economic-legal logic and facts indicate that when fields and exploration blocks are re-offered with modified economic model or changing the type of the contract, the result will inevitably be in favour of foreign oil companies at the expense of Iraq's economic interest.

The damned fifth licensing round, which took place under the direction and insistence of a former Oil Minister Jabbar Laibi, represents the most damaging of these examples; as it opened the door to unfair practices that are counter to the national interest and costly economically and financially:

1- He abandoned service contracts and replaced them with profit-sharing contracts (the monetary/financial side of production-sharing contracts).
2- He allowed small companies with no experience in upstream fields.
3- He bypassed the prevailed controls by allowing a black listed company and granting the company, in a suspicious manner, two fields that were not originally included in that round.
4- Reducing "national effort" in developing those fields, especially the border ones.

That accursed fifth round set a dangerous precedent whose disastrous effects began to appear gradually, especially after Al-Sudani government adopted and signed the contracts for that round. Followed by the "$27 billion scandal" to justify agreement with TotalEnergis, then the farce of the "Halfaya Gas Company" contract to invest gas from the Bin Omar oilfield, and the major catastrophe of contracting Akkas gas field to an unknown Ukrainian company, and finally awarding some fields and exploration blocks in this round for companies that have no experience in developing oil and gas fields, as mentioned above.

Fifth: High Profit for Oil Companies Against Iraq's Interests

Before discussing this topic, I would like to point out that all of the MoO's "urgent" press releases posted on the ministry's website during the days of the round did not mention any "profitability percentage", which is actually the only awarding threshold, of the submitted offers or the winning bids!!. This seems to be another example of anti-transparency in the oil sector that becomes a characteristic of Al-Sudani government and the Ministry of Oil.

Fortunately, media sources that covered bidding proceedings, including Iraq Oil Report-IOR, which I used for the purposes of this article, published the profitability percentages of the winning companies. In light of these percentages, I evaluate through comparative analysis with the remuneration fees of the service contracts awarded during the second licensing rounds (for green-discovered not-commercially producing fields) and the fourth (for exploration blocks).

1- For the purposes of comparison and analyzing the impact of profitability ratios, it must always be emphasized that any increase in oil export prices goes back to Iraq under service contracts, while oil companies get a portion of that increase in prices under the current profit-sharing contracts: the higher the profitability ratio, the higher the number of dollars, i.e. the net profit for the companies. It must be noted in advance that the comparative analysis depends on the service/remuneration fees "dollars/barrel" for the second and fourth licensing rounds, and the “profitability percentage/barrel” for this combined round, so please be careful and do not confuse the two.

2- As a general observation, the profitability percentages were unjustified and uncharacteristically very high, which calls into question how the MoO and its PCLD could have accepted these and what were the amendments to the contract of the fifth licensing round that allowed this. This requires the MoO to provide financial calculations for these percentages expressed in dollar/barrel and their implications for the cost of producing a barrel, within two hypothetical export prices and implications on Iraq’ net revenues from these offered projects.

3- The profitability percentage for the fields offered in this latest round ranged between 6.2% for the Dimah field and 29.16% for the Al-Dhafriya field. Both are small, discovered oil fields, meaning there are no exploration risks, and both are located in neighbouring governorates: Maysan and Wasit, respectively. What is the explanation for this large discrepancy of 22.96 percentage points!! Then accepting a profitability rate of 29.16% for Al-Dhafriya field means that the profitability percentage calculated by the Ministry is higher than the accepted threshold. If this is the case, this means that the cost of producing a barrel from this field, by comparative analysis, will be high because the production cost includes capital costs + operational costs + the oil company’s share of profits; The more oil prices increase, the more expensive it is to produce oil from this field. What is the economic justification for production from this field at such high cost, which increases with increasing oil prices??????

On the other hand, the second licensing round included giant and large oil fields in which plateau production varied between 230 thousand barrels per day and 1.8 million barrels per day, and medium oil fields in which plateau production varied between 110 thousand barrels per day and 170 thousand barrels per day. Fixed remuneration fees for the first group vary between $1.15/barrel and $1.49/barrel, and for the second group, fixed service fees vary between $5 and $6/barrel.

In addition, due to the nature of service contracts, its fiscal system, and the size of the oil fields (economies of scale impact), the cost of producing a barrel decreases up to plateau production and beyond, and the size of the net return to Iraq increases with the increase in oil prices.

It follows that the economic justification necessitates the priority of paying attention to the contracts of the first and second licensing rounds and addressing the problems they face in order to ensure reaching the contracted plateau production at the modified times, instead of increasing the burden on the Ministry staff by signing many contracts for small and expensive projects.

The same applies to the exploration blocks that were awarded during this latest round. The profitability rate in these assigned blocks is higher than that of the fields, and this is expected. However, it remains very high, raising questions about the levels of production costs from these blocks if they are developed into productive fields. The consequences of this could be very high if the contract includes the known “take or pay” provision, and this is certain!

With the exception of the Sumer exploration block (in Al-Muthanna Governorate, with a profitability percentage of 17.85%), the profitability percentage for the rest of the assigned blocks ranged between 25.16% (for the Al-Faw block) and 32% (for the Al-Khulaisiya block). Here, I repeat the same question - where is the economic logic in developing exploration blocks at such high costs? Didn’t the Ministry learn from the experience of developing the costly Qayarah oilfield to avert applying the “take or pay” condition!!??

Fortunately for Iraq, no company submitted an offer for the offshore area in the northern Arabian Gulf, whether in the fifth licensing round in 2018 or in this latest round. I say this based on the Ministry of Oil's scanned list dated April 25, 2018, which indicate that the cost of producing a barrel in this block, including the company's profitability, amountes to $49.83!!

What is even puzzling and questionable is that the Jabal Sanam block (in Basra Governorate) was offered with a profit rate of 30.9%, while in the above-mentioned list, set the profit rate at 14% for this same block!!! How was this done, and what is the explanation for this huge discrepancy, in favour of the humble Chinese company – GeoJade? As usual, I am questioning and not accusing.

The Chinese company Sinopec submitted an offer for Addan block in Muthanna Governorate, but the offer was not accepted because it was higher than what the Ministry estimated. The company did not agree to reduce the profitability ratio, and the matter ended there. The company may reconsider its calculations and later agree to what the Ministry proposes, as actually happened more than once during the first licensing round.

Sixth: Remarks on the Iraqi/Kurdish KAR Company

I find it necessary to make the following remarks about this company and what was awarded to it:

1- From a technical standpoint and practical experience, Al-Ameedi does not believe that this company is qualified, so how did this happen? I agree with him in this regard.

2- This company produces from the Khurmala Dome in the Kirkuk field, which was unlawfully seized by the Barzani family, and the federal government did not acknowledge this illegal seizure; How can the Ministry of Oil ignore this fact or does it not know!!

3- The fields awarded to this company (Sasan and Allan) and the Al-Khulaisiya block are located in Ninewa Governorate. This is a reason for security caution and the strategic danger associated with what is being promoted as the "Nineveh Plain" project in the Zionist entity. In this regard, suspicions were raised of a relationship between this company and the Mossad, and events that actually occurred during Al-Kadhimi government. I suggest the need for the Ministry of Oil to verify this matter with the relevant security authorities before signing these contracts with KAR.

4- Since this company is Iraqi, I find it very necessary to delete international arbitration articles from the contracts if they will be signed with this company. Because arbitration between the Iraqi parties must, legally, takes place before the concerned Iraqi authorities and courts. If KAR rejects this, the awarding of the Dimah, Sasan/Allan and Al-Khulaisiya to this company must be cancelled.

Seventh: Dwarfing National Effort and Reducing Iraq's Flexibility in Dealing with "OPEC+" Requirements.

All contracts for the fifth licensing rounds, this latest round, the TotalEnergies agreement, and the Halfaya Gas Company contract inevitably lead, in practice, to reducing and stunting the national effort in developing oil fields. This results in three strategic economic risks: the first - increasing dependence on foreign oil companies in oil production, the second - the extremely high cost when applying the "take or pay" condition for all profit-sharing contracts, the third - reducing Iraq's flexibility in dealing with "OPEC+" requirements, to reduce production.

These are highly probable strategically devastating risks with dire consequences on the Iraqi economy. They should be taken seriously by Al-Sudani government and all other high authorities in the country.

Eighth: Opening and Closing Statements of this Licencing Round

The opening and closing statements by both the Prime Minister and the Minister of Oil were full of desires, promises, and populism that there is no space to discuss here and now. But what the Minister said at the conclusion of the event and his promise to re-offer the fields and exploration blocks in a new upcoming round and, also, add other new fields and blocks; as Iraqi proverb goes, "the rope is on the pullman الحبل عالجرار", meaning: similar unworthy actions continue unabated!!

With new concessions and additional amendments to the economic model and an increase in the profitability ratio, all of which are in favour of the oil companies at the heavy expense of the Iraqi interests... Not only has the Ministry of Oil not learned the lesson, but also a strange insistence on costly and disastrous wrong practices that have no justification at all. Why??????

In conclusion, there is no doubt that the intentions of PM Al-Sudani and his government are sincere, patriotic and purposeful, but intentions are one thing, while practice and reality are different. High number of signed contracts, most of which are with weak companies, does not constitute an achievement at all. The increasing lack of transparency and the entrenchment of abhorrent secrecy in the oil sector raise many legitimate doubts and alarming concerns.

From the above, I see that all the contracts of the accursed fifth licensing rounds, this latest round, the TotalEnergies agreement, the Halfaya Gas Company contract, and the Akkas gas field contract with the Ukrainian company, constitute heavy burden, fiscally, administratively and strategically, on the Iraqi economy and absolutely without any justification at all.

As an alternative, I believe the current government should focus on properly implementing the contracts for the first four licensing rounds, effectively and quickly addressing the development of oil export capacity in the southern ports, seriously addressing associated gas flaring chronic malpractice and gradually enhancing National Efforts in petroleum upstream activities. These are the priorities that must be focused on during the term of this government. No more concessions to foreign companies and no more licencing rounds.

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*The Arabic version of this article circulated widely within my contacts network and reposted on many websites, accessible through:

http://www.tellskuf.com/index.php/mq/114623-iy181.html

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