Iraq Proposed Oil Overproduction Compensation, Raises Questions Await Answers

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OPEC Secretariat statement No. 9/2024 dated 24 July 2024 asserts recipient of plans to compensate for, "Cumulative overproduction Jan. 2024 to June 2024 (tbd)" from Iraq, Kazakhstan and Russia. For Iraq, overproduction during the period is 1,184 thousand barrels per day (tbd). Iraq submitted to OPEC Secretariat a pledge and a plan to compensate for this overproduction starting July 2024 until the end of September 2025, with monthly reductions in oil production ranging between 70 tbd and 90 tbd.
This matter has raised and raises many questions that I am trying to summarize and address in this intervention, and I believe the Ministry of Oil-MoO should respond with complete clarity, transparency and objectivity

First: MoO stated in more than once and on different occasions that Iraq agreed to "voluntary cuts" in oil production in line with "OPEC+" efforts in this regard.
This huge volume of overproduction during the first six months of this year prompted many serious questions. How is it possible for Iraq to agree on voluntary reductions while, at the same time overproduces? Is there an error by MoO or by OPEC secretariat, and if so, why the error has not been corrected up to date? If not, then were the volume and revenues of such overproduction have gone? And, among other questions, why the distribution of oil production among its end-user' subsectors do not add-up, indicating serious inconsistency in provided data under condition of almost complete lack of transparency? Moreover, the preparation of overproduction compensation plan, the ministry's statement to reduce exports to 3.3million barrel daily (mbd) and withholding data on oil export prices and revenues by SOMO, all have coincided with the removal of SOMO's Director General, Ammar Al-Anbaki, at the beginning of May, only a year after assuming his position, succeeded by Khadir Abbas. Was that sheer coincident or there is a link, somehow?

It is worth noting in this regard that Iraq has been, on average, among the "non-compliant" members with the production quotas set by "OPEC+" since its approval during the meeting of this group in November 2016.

Second: The Ministry began withholding publishing details of oil production data on its website three months after the appointment of Jabbar Luaibi as Minister of Oil. Despite all objections and appeals directed to the Ministry by Iraqi professionals, including myself, on the need for the Ministry to continue adhering to transparency standards and publish data that have been prevalent since mid-2008 on its website, the Ministry continued to systematically reduce transparency in the oil sector. The last publication of crude oil production data on the Ministry's website dates back to September 2021.
But the Ministry is obligated to provide oil production data to some international bodies, including OPEC/OPEC+, JODI (Joint Organization Data Initiative, coordinated by IEF-International Energy Forum) platform, and to the group of "secondary sources" that OPEC+

relies on to audit the production of member states and their compliance with the established quotas.
JODI stopped publishing oil production data in Iraq since April 2024, because the data have not been provided to date!! It is important to note in this regard that my review of the published data for the previous months of March and February indicates that oil production was less than the total crude oil allocation for power generation, refineries and export by 44tbd in February and 70tbd in March, while the Closing Stocks balance was zero. This is a clear and increasing discrepancy that the Ministry has not explained and may be the reason that prompted the Ministry to stop providing JODI platform with all data since April 2024 until now. The Ministry, though, provided data to the "Secondary Sources" indicating oil production in Iraq during June was 3.834mbd.[1]

Third: The dilemma of the ministry's misunderstanding of OPEC/OPEC+ decisions, in addition to lack of transparency, there seems to be a chronic problem within the Ministry, which is the failure to distinguish between "oil production" and "oil exports" in its dealings with Iraq's obligations to production quotas within OPEC+ group. This lack of proper understanding was manifested by the ministry's statement dated 18 March 2024, which states, "The Ministry of Oil has taken the initiative to reduce oil exports to an average of "3,300 thousand barrels per day" for the coming months to absorb the increase recorded in Iraq for the past two months of January and February."[2]
I have previously explained to the Ministry on more than one occasion that OPEC and the OPEC+ group decisions are concerned with determining quotas or levels of crude oil production only for member states, not oil export levels or even not natural gas liquids (NGL) production levels.[3] My interventions were in response to the then Minister of Oil, Jabbar Luaibi, who attended, for the first time, the OPEC/OPEC+ group meeting on November 30, 2016 and returned believing, mistakenly of course, that the decision was related to "oil export" quotas!!!!
Since that date, Iraq has been suffering from "**Jabbar Luaibi sin**"; accepting a low oil production quota that is not commensurate with its oil capabilities, nor with its commitments to develop production capacity according to the licensing rounds contracts, nor with its financial needs for development purposes, and was the reason for Iraq's repeated non-compliance with production quotas within the OPEC+ group and its recent compulsion to submit a plan to compensate for oil overproduction.
In addition, SOMO's data on Iraqi oil exports from January to end June of this year was higher than 3.3mbd, i.e., higher than the level mentioned by MoO!!
The ministry's statement was not specific, as it stated the reduction in export levels was "for the coming months" without specifying the number and names of those months.
It is worth noting also that oil exports reduction indicated by the ministry is 200tbd less than the level required by and approved in the state's general budget for 2024. Neither MoO nor the Ministry of Finance-MoF indicate how to address this deficit in oil export levels!

Fourth: Exceeding Production Quota While Pledging Voluntarily Cuts!

1- As mentioned above, the volume of overproduction in Iraq was 1.184mbd during the first six months of this year. This is more than overproduction in Kazakhstan and Russia combined, by 84tbd!!
2- Iraq's excess production cumulated to 215,488,000 barrels.
3- The OPEC+ group adopted what is called then the voluntary cut in addition to the production quota agreed upon within the group. The first voluntary cut was announced in April 2023 and its validity extended several times; it is currently in effect until the end of 2025. Iraq's voluntary cut is 211tbd. The second voluntary cut was announced in November 2023 and is now in effect until the end of September 2024, then it will be gradually reduced, in equal quantities, during the period from October 2024 until the end of September 2025. Iraq's second voluntary cut is 220tbd.
The logical question is how can the Ministry of Oil pledge a voluntary cut of 431tbd during the first half of this year, while at the same time Iraq's production quota within the OPEC+ group was exceeded by 1.184 mbd!!??

Fifth: MoO' Overproduction Compensation Plan
MoO submitted to OPEC Secretariat a plan under which it pledges to compensate for the above-mentioned overproduction at varying monthly cuts during the period between the beginning of July 2024 and the end of September 2025. For comparison purposes, especially with regard to the State Budget 2024, I re-tabulate the overproduction compensation plan data for 2024 and 2025 separately. As shown in the following table, overproduction will be compensated by a total of 470tbd during the period from the beginning of July until the end of 2024, while the rest of overproduction, amounting to 714tbd, will be compensated from January 1 until the end of September 2025.

Table (1)
Ministry of Oil Compensation Plan for Overproduction

2024	Tbd	2025	Tbd
July	70	January	90
August	70	February	90
September	70	March	80
October	80	April	80
November	90	May	80
December	90	June	70
00	00	July	70
00	00	August	70
00	00	September	84

But again, the ministry's plan to compensate for excess production of 1.184mbd is 577tbd less than total monthly excess volume for the same period according to OPEC's "Monthly Oil Market Report MOMR" data[4]. How is this difference addressed? And if it is acknowledged, when and how will it be compensated!? The Ministry must state its position on this, yet another, major discrepancy.

Sixth: Consequences of Overproduction Compensation
The first direct effect of compensating overproduction is to reduce Iraq's quota within OPEC+ by an amount equivalent to that would be compensated. In addition to these monthly cuts for compensating overproduction mentioned above, we must determine the volume of voluntary cuts (the first was in April 2023 and the second was in November 2023, mentioned above) in light of their implementation. Then subtract these three reductions from Iraq's quota, which is 4.431mbd, as determined in June 2023 and remains valid until the end of 2025. The result of the calculation is shown in the following table.

Table No. (2)
Estimated Iraq's Allowable Production Quota- July 2024: September 2025
(million barrels daily)

2024	Mbd	2025	Mbd
July	3.930	January	3.983
August	3.930	February	4.002
September	3.930	March	4.030
October	3.938	April	4.048
November	3.947	May	4.067
December	3.965	June	4.095
00	00	July	4.113
00	00	August	4.132
00	00	September	4.136
00	00	October	4.220
00	00	November	4.220
00	00	December	4.220

The above estimates are usually subject to change, especially if OPEC+ decides to change the production quotas, in line with the requirements of the international oil market, which the group reviews on a regular basis and/or the voluntary cuts.
During the third quarter (July-September) of this year, the "allowable quota", i.e. what Iraq is allowed to produce, is estimated at 3.930mbd, and then begins to increase gradually. For practical considerations, I focus on the second half of this year as the subject is related to this year's State Budget.
As mentioned above, MoO indicated, in its correspondence with the "secondary sources", that oil production in June is 3.834mbd. The Ministry did not publish on its website the text, components, or clarification of that correspondence and the details of June production.
It is worth noting that the Ministry stopped publishing details of crude oil production (by the North Oil Company, the Middle Oil Company, and the South Oil Company/Basra currently) and crude oil allocations (for electricity generation and refineries) as of September 2015, and

that the only data published by the Ministry at the present time is the quantity of crude oil exports.
The Ministry also provided, indirectly, JODI with detailed data on crude oil production and uses. Consequently, JODI stopped publishing these details as of April 2024 due to not receiving the data from Iraq.

In light of the Ministry's refusal to publish the detailed data, I estimated Iraq's production in June by the following manner:
1- Adopting SOMO data for crude oil exports, which is 3.396mbd.
2- Adopting JODI data (first quarter 2024 average) for direct use (mainly generating electricity) which is 178tbd.
3- Adopting JODI data (first quarter 2024 average) for refinery intake at 407tbd.

The calculation indicates June production was 3.981mbd, which is 147tbd more than the Ministry had declared. What does this mean, and how could it be?
Since my estimates were based on the volume of oil exports announced by the Ministry itself, then the difference between my estimates and the Ministry's statement can be attributed solely to the quantities of crude oil supplied to power plants and to refineries. Using ratio and proportion method, oil production in June announced by the Ministry cannot be correct unless the quantities of crude oil supplied to generate electricity are 133tbd and the quantities of crude oil supplied to refineries are 305tbd, or any increase for one party is at the expense of the other party.[5]
Both figures are very low and contradict the logic of things indicated by statistics from mid-2008 until the end of March 2024, especially the quantities of crude oil supplied to refineries in the background of formal statements. Accordingly, the Ministry should provide a breakdown of crude oil production for the month of June, and until the end of the first half of this year, allocated to the three components: exports, refinery intake, and electricity generation.

What about oil production in Kurdistan Region?
It is known that Iraq's quota within OPEC+ includes oil production in Kurdistan Region-KR, and this is another dilemma that complicates determining Iraq's quota and the compliance with it. As is also known, despite the suspension of oil exports from the region through Turkey since March 2023 as a result of the decision taken by the International Chamber of Commerce's Court of Arbitration in Paris, oil companies operating in the KR, with the approval of KR government, sell oil in the region's markets, and then, as information indicates, smuggle, through trucking, part of that oil to Turkey and Iran.

In light of the above information, Iraq's "available/allowable quota" in June is 4mbd. Since Iraq's production (excluding KR) in the same month amounted to 3.834mbd, according to the statement of the Ministry, KR oil production must be at most 166tbd, for Iraq to remain compliant with its production quota. But IOR information indicates that KR production in June was 311tbd (and was 330tbd in May), which means Iraq exceeded its quota by 145tbd.

The Ministry should address this matter more seriously with the OPEC+ group and with "secondary sources", because the continuation of this situation means Iraq continues to exceed its production quota, which results in compensating overproduction again, and so on, and the Iraqi economy continues to bear the costs of the excess and its financial consequences due to the behaviour of Kurdistan government.

The Financial Consequences of the Compensation Plan

In a previous article[5] I estimated that actual oil export revenues during the first five months were less than what the State Budget tables for this year were based on; because both quantities of oil exported and export prices were less than what the budget envisaged. In order to compensate for this deficit in export revenues and achieve oil revenue breakeven, the average price of Iraqi oil exports during the months of June until the end of the year must be more than $90 a barrel with export of no less than 3.5mbd. Is this possible!? I doubt very much.

The other direct effect of the Ministry's plan is the financial cost of this compensation, which is measured by the size of the resulting loss in oil export revenues. For estimating such fiscal burden I will be limited to the second half of this year due to its direct implication for 2024 State Budget using the following procedure: 1- The monthly net effect of "overproduction compensation" is determined after deducting the monthly cut according to the "second voluntary cut". 2- The composition of oil exports between Basra Medium and Basra Heavy (according to the latest SOMO data dating back to the first half of 2023), and assuming it remains so during the second half of 2024. 3- Using the "weighted average" in July prices of Basra Medium and Basra Heavy, and assuming that it remains so during the second half of 2024.[7]

The following table shows the revenues that Iraq loses due to the compensation plan.

Table (3)

Cost of Compensation for Overproduction During the Second Half of 2024 ($Million)

July	173.6
August	173.6
September	168.0
October	152.9
November	172.0
December	177.7

It is worth noting that the higher the weighted average price of crude oil exported from the southern outlets is above $80.01 a barrel, the higher is the cost of compensating for overproduction, and the lower the price is below $80 a barrel, the higher is the fiscal deficit in oil export revenues for 2024 State Budget, with export volume is less than 3.5mbd.

Reducing National Effort in Developing Oilfields Marginalises National Flexibility

I have previously warned that transferring producing oilfields to foreign companies means reducing the number of fields managed by national effort (i.e., state-owned public oil companies affiliated with and linked to the Ministry of Oil) and thus reducing Iraq's flexibility in complying with production quota requirements within OPEC+ group. In my opinion, this is a costly strategic mistake and error of judgment with prolonged duration and accumulated negative effects on Iraq.

This could be even wors when the transfer is on unfair terms favouring foreign companies (such as the agreement with TotalEnergies) or with newly formed companies without experience and credible technical capacity (such as Halfaya Gas Company).

Iraq production quota together with the first and second voluntary cuts led to lower production in national effort oilfields, and the plan to compensate overproduction reduces further oil production from these oilfields.

In this case, the Ministry faces difficult and costly choices: either reduce the development of the remaining national effort fields, with direct consequences on associated gas investment projects relating to them, or reduce production from the fields developed by foreign companies and pay the contractual cost of any reduction in production according to the "take or pay" and “production curtailment” conditions.

In this regard, it is vital for the Ministry (and the government) to declare and follow a clear, integrated and consistent strategy instead of adopting the "sign, sign" approach and considering signing contracts as an achievement; empty rhetoric!!!

Final Remarks and Questions

1- Lack of transparency is deplorable, it must end.

The Ministry’ path on lack of transparency approach by withholding information and data related to the prices and revenues of oil exports and details of oil production and its uses locally and for export is absolutely unjustified, contradicts the Ministry's commitments to international entities and organizations and to what was stated in the current government's program, according to which it received the approval of the House of Representatives to form the government. Actually, what the Ministry concealing can be obtained from many internal and external sources, and the Ministry knows that!

In light of the Ministry's insistence on concealing data and contracts related to the oil sector from the Iraqi people, it becomes fully justified and within its prerogatives for the parliament (or any of its members) to file a lawsuit before the Federal High Court aiming at forcing the Ministry to fully adhere to the standards of transparency and publish complete, timely and accurate data, "in the belief that the people have the right to know..." as the Ministry's statements repeat every month but without material evidence supporting such a claim.

2- In the short term, it is impossible to mitigates "Jabbar Luaibi's sin"

In light of the available data, mentioned above and the short term perspectives, related to Iraqi oil export prices and production and export levels, it is difficult for the Iraqi economy to avoid the negative ramifications of "Jabbar Luaibi's sin", as the Ministry of Oil and the current government will face difficult choices in distributing the produced oil between the needs of generating electricity, the requirements of the refining sector and for export to meet State Budget requirements, which appears to be facing a large deficit in oil export revenues this year.

3- KR oil issue should be resolved

The federal government must seriously address the dilemma of Kurdistan regional oil in light of federal and international legal decisions as far as determining Iraq's quota within the OPEC+ group.

4- New opportunity, have it been taken seriously

OPEC Secretariat had assigned three independent specialized consulting firms (IHS, Wood Mackenzie, and Rystad Energy) with the task of determining the production capacities of all OPEC and non-OPEC members participating in the Declaration of Cooperation (i.e., OPEC+), which will be a source for determining production levels in 2025.

I hope the Ministry of Oil has benefited and is benefiting from this new and important opportunity to remove injustice by correcting Iraq's quota commensurate with the production capacity of the fields of the first four licensing rounds, the Ahdab, Artawi and the national effort oilfields, and the Kurdistan Region fields.

This is very important opportunity, but the Ministry has been muted about it. Why, did the Ministry miss this opportunity and thus have committed a new "sin" against Iraq's rights and interests!?

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Endnotes*

1 Iraq Oil Report-IOR, 24 July 24.

2 https://www.oil.gov.iq/?article=1995

3 **Latest statement by the Minister of Oil causes concerns,** http://www.iraq-businessnews.com/2017/03/15/latest-statement-by-oil-minister-causes-concerns/

Oil Export, OPEC Cut Effects and Budget Implications, http://www.iraq-businessnews.com/2017/02/27/oil-export-opec-cut-effects-and-budget-implications/

OPEC Cut Impact on Iraq: A Bleak Prospect, http://www.iraq-businessnews.com/2017/01/11/opec-cut-impact-on-iraq-a-bleak-prospect/

Budget Law 2017 and OPEC Production Cut Impact, http://www.iraq-businessnews.com/2016/12/15/budget-law-2017-and-opec-production-cut-impact/

4 OPEC Monthly Oil Market Reports, January to June 202.

5 ARGUS media reports, "Data provided by Iraq's oil ministry indicate the country burned an average of 120,000 b/d of crude in its power plants in the first half of this year" **https://www.argusmedia.com.** In this case, oil supplied to all refineries was 318kbd.

6 Serious Discrepancies in Estimating Oil Export Prices and Revenues https://www.iraq-businessnews.com/2024/07/16/jiyad-serious-discrepancies-in-estimating-oil-export-prices-and-revenues

7 Data for 17 days from OilPrice.com.

* The Arabic version of this article was widely circulated within my network of contacts and posted on many websites, including the followings:

التزام وزارة النفط بتعويض تجاوز حصة الإنتاج ضمن مجموعة "أوبك+"

https://www.mushtarek.org/groups/6135da07aac957001377773e/posts/post/66af7ec349ebffc4839a31dd

https://www.sahat-altahreer.com/author/62/

http://www.albilad.net/
http://www.tellskuf.com/index.php/mq/115611-sg05.html
http://www.culture.al-nnas.com/ARTICLE/AMJyad/5l.pdf