



IRAQ OIL REPORT

IRAQ OIL AND FINANCIAL DATASET ANALYSIS: MARCH 2016

INTRODUCTION

This edition of the IOFD monthly brief explains the significance of a new data point added to the spreadsheet: the 'Additional payment or loan to the KRG'. We also look at the impact of the protracted outage of the KRG's export pipeline and contemporaneous cessation of flows from North Oil Company (NOC) operated oil fields, and how the KRG has dealt with these shocks.

WHAT'S NEW IN THE IOFD IN MARCH

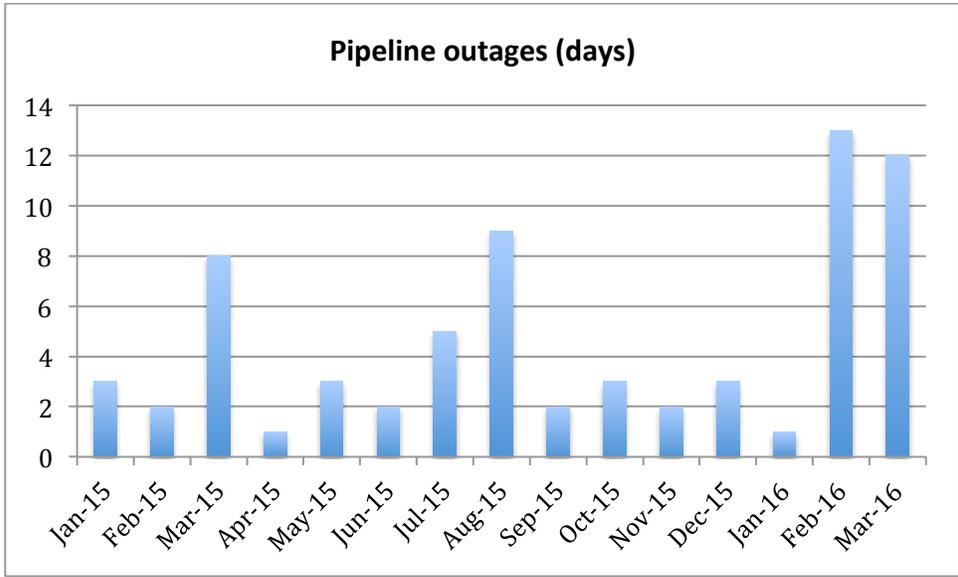
The only new data point we commenced tracking in March is cell 87A on our 2016 spreadsheet: 'Additional payment or loan to the KRG'. This reflects a \$150 million loan from Turkey to the KRG. This loan was widely reported in the press at the erroneous figure of \$200 million. In an interview with Iraq Oil Report, KRG Deputy Prime Minister Qubad Talabani confirmed the amount was \$150 million and characterized it as a "soft loan," though the precise terms are unknown. The KRG Ministry of Natural Resources also subsequently published this amount in its monthly exports report.

The Turkish loan was linked to the protracted outage of the KRG's export pipeline, which lasted from Feb. 17 through March 11. After payments to IOCs (see cells 93E, 94E and 95E) the KRG was left with \$521 million in cash from oil revenues, trader pre-payments and loans to support its budgetary requirements (not included in this figure are non-oil-related revenues from customs, electricity tariffs and other sources). The \$521 million figure is more than double the \$233 million figure from February, and is attributable to both the Turkish loans, and a sharp month on month uptick in oil prices, that served to partially mitigate March pipeline outages.

March revenues – even if we assume \$144 million in March non-hydrocarbon revenues, which would be in line with 2015 figures – are still below the amount the KRG requires to pay public-sector salaries and social welfare (in excess of \$800 million per month in 2015 according to KRG figures). As long as this shortfall continues, the KRG cannot contemplate repaying its debts, which an Iraq Oil Report analysis puts in excess of \$20 billion, let alone make significant investment spending. If and when the KRG's monthly revenues rise above current expenses, we will view it as a leading indicator of potential economic stabilization. For the time being, the Kurdistan region remains mired in financial crisis, with a further and sustained rise in oil prices the most likely way out, given the hurdles associated with meaningful financial reform and the depth of the crisis.

KRG PIPELINE OUTAGES AND REDUCED PIPELINE FLOWS

The Turkish loan was necessitated by the February and March pipeline outages. Notably, in the 15 months that IOFD data has been collected, Feb. 2016 (13 days) and March 2016 (12 days) were by far the worst two months for pipeline outages.



The March outages cost the KRG \$182.3 million in lost revenue from exports at Ceyhan (cell 70D on your IOFD-2016), with the total in lost revenue in Feb. and March combined in excess of \$365 million.

Exacerbating the fiscal pressure on the KRG from the pipeline outage was a decision by government of Iraq (GoI) to cease crude transfers from NOC operated fields to the KRG's export pipeline. Since mid-June 2015 the KRG retained virtually all revenues from approximately 150,000 bpd of crude from the NOC's Baba Dome, Jambur and Khabbaz fields. Notably, despite losing the approximately 150,000 bpd of NOC crude, KRG pipeline volumes when the pipeline is operating at full capacity only dropped by approximately 100,000 bpd. The KRG was able to make up the additional 50,000 bpd through a combination of reduced allocations to refineries resulting from lower diesel demand for power generation (which is partly seasonal) and for gasoline; production increases at KAR Group-operated fields; and to a lesser extent, increases from smaller producing fields including Sarsang and Demir Dagh.

Iraq Oil and Financial Dataset (IOFD)

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