



# IRAQ OIL REPORT

## IRAQ OIL AND FINANCIAL DATASET ANALYSIS: APRIL 2016

### INTRODUCTION

This edition of the IOFD monthly brief covers the following topics:

- A new oil field has begun regularly contributing significant production in Kurdistan.
- Power production is trending slightly upward in federal Iraq.
- Data suggest that oil traders are collecting on debts owed by the KRG.

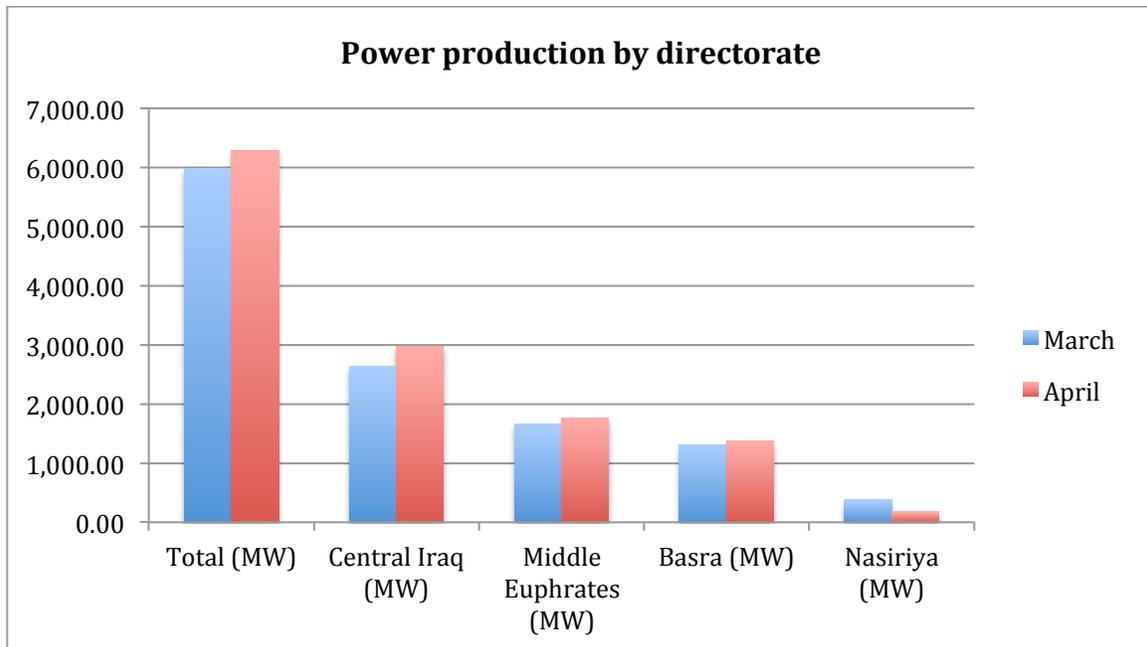
### WHAT'S NEW IN THE IOFD IN MARCH

The only new data point we started tracking in April is cell 112A on our 2016 spreadsheet, labeled "Khalakan." This reflects the commencement of consistent production at the Khalakan block, operated by Gas Plus Khalakan. Production is currently at 4,000 bpd, which we assess is likely being used for domestic refining.

### FEDERAL IRAQ ELECTRICITY PRODUCTION

We now have two months of "apples to apples" data on power generation in federal Iraq. As noted in the data sheet's footnotes, IOR has tracked power output on a daily basis since March, and the IOFD figures in March and April reflect the average output over the course of the month. (In contrast, our February figure simply reflects power output on the last day of the month.)

Improved power provision will be critical for Prime Minister Abadi as he seeks to minimize civil unrest. Fortunately for Abadi, overall power provision increased month-on-month. Notably, power production saw incremental increases at the Central Iraq (cell E:41), Middle Euphrates (cell E:42) and Basra (cell E:43) Production Directorates, more than compensating for the Nasiriyah Production Directorate (cell E:44), where output declined due to maintenance operations at Dhi Qar province's only major power plant.

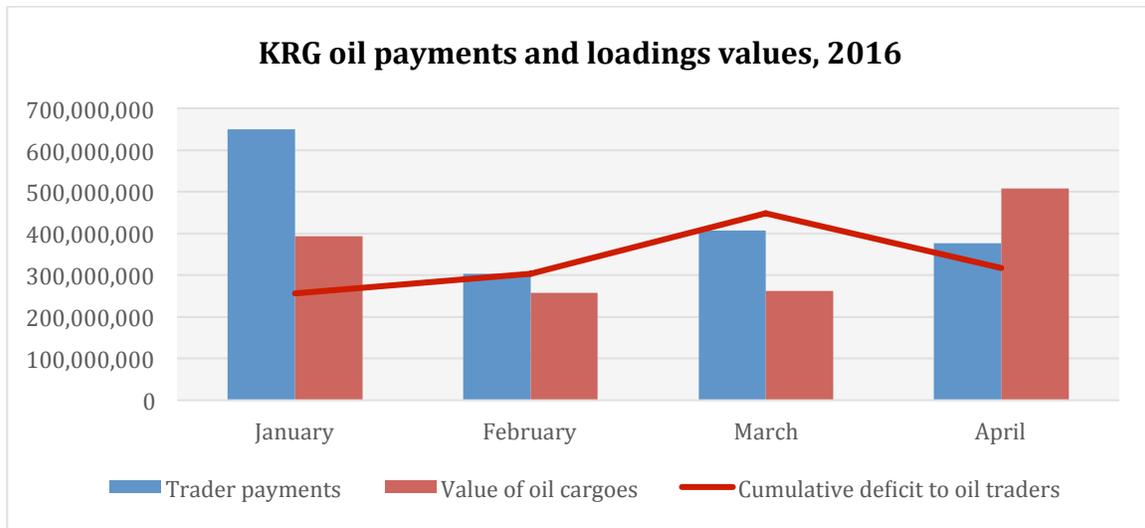


That said, given the overheated political atmosphere throughout Iraq, protests against government waste and incompetence are likely to continue, with electricity grievances one prominent theme. Despite recent improvements, supply is still falling far short of demand, and those shortfalls will continue with summertime spikes in demand. Indeed, in southern Iraq, May has already seen an uptick in civil unrest, which has been driven partly by complaints over electricity, as emergency maintenance work has led to frequent power outages.

The government's ability to conclude that maintenance quickly – and bring other electricity production online – is one important factor that could mitigate further civil unrest over the summer. Most notably, Iraq has arranged for power barges to add capacity to Basra's distribution network. The government is also attempting to restart electricity imports from Iran, which depends on settling a dispute over payments for that supply.

#### IN A CHANGE, KRG EXPORT VALUES EXCEED REVENUES

In January, February and March we saw the value of payments from oil traders significantly outpace our estimated value of KRG exports. (Note: we estimate the value of the KRG's exports by assuming they are sold at a \$10 discount to the monthly average of the Brent benchmark.) This gap reflected ongoing forward sales in which the KRG was accumulating debt. We estimated the accumulated debt to traders (cells B-E:95) by calculating the difference between the MNR's reported revenue (cells B-E:57) and the estimated value of the KRG's exports (cells B-E:89). By the end of March, we estimated the KRG had accumulated about \$448 million in debt to traders (cell D:95).



In April, the situation reversed, with trader payments falling about \$131 million short of the estimated value of KRG crude (cell E:94). This appears to reflect a demand on the part of traders that the KRG use a portion of its exports to pay down debts. Notably, the MNR acknowledged in its April report that a tanker carrying 1.026 million barrels was used to pay down 2015 trader debts. However, the value of that crude was approximately \$34 million, which does not account for the full gap between export values and trader payments. Thus, it seems likely that the KRG partially settled other debts with oil traders in April, presumably using some means other than a straightforward, in-kind payment.

IOR reporting suggests that, by the end of 2015, the KRG still had about \$1.7 billion in unpaid debts accumulated to traders in 2014 and 2015. Thus, the "accumulated debt" that we are tracking in the IOFD represents only a fraction of the government's total dues to oil traders. If the KRG is now forced to start repaying those debts, it suggests that, even if KRG exports and international oil prices begin to rise, the government itself could continue falling short of the revenue needed to cover its monthly expenses. Although the KRG appears to be committed to paying IOCs according to their PSCs on a monthly basis – a payment was made in April, despite the dip in revenue – the government's chronic deficits and debt burdens are likely to severely constrain investment spending in the medium term.

Iraq Oil and Financial Dataset (IOFD)

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