



IRAQ OIL REPORT

IRAQ OIL AND FINANCIAL DATASET ANALYSIS: September 2016

INTRODUCTION

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

- Several new cells introduced to the spreadsheet covering KRG crude storage and trader debt
- An analysis of Q2 financial data the federal government's Ministry of Finance
- An update on KRG efforts to pay down trader debt

NEW IN THE IOFD IN SEPTEMBER

We added two new categories of information to the IOFD spreadsheet in September:

- Rows 73-74, which speak to crude in KRG storage tanks at Ceyhan.
- Rows 75-77, which details the volume of crude allocated to pay down trader debt, and the assumed monetary value of that crude.

Row 73 in your spreadsheet tabulates the volume of crude oil remaining in KRG storage tanks at Ceyhan at the end of each month. The data has been filled in retroactive to Jan. 2016 (cell 75:B on your IOFD spreadsheet) through Sept (75:J on your IOFD spreadsheet).

Row 74 (also filled in retroactively to Jan. 2016) details the volume of crude either added to or sold from storage in a given month.

Over the past four months the beginnings of a trend may be emerging, wherein the KRG sells crude from storage when oil prices/the KRG sales price is higher – ie, June (84:G on your IOFD spreadsheet) and Sept. (84:J on your IOFD spreadsheet) – and puts crude in storage when prices are lower – as was the case in July (84:H on your IOFD spreadsheet) and Aug. (84:I on your IOFD spreadsheet). However, it is too early to definitively link price to the KRG's behavior regarding crude in storage.

Rows 75 and 76 disaggregate crude allocated to pay down trader debt from gross export volumes by month and bpd respectively. IOFD subscribers can cross reference these rows with row 69 (which looks at pipeline throughput) and row 71 (sales volumes) to gain a precise understanding of what percentage of KRG crude exports are going to pay down trader debt. Row 77 assigns a monetary value to that crude, which IOFD subscribers can cross reference with row 108 to understand – on a month by month basis – what percentage of overall crude export values are going to pay down trader debt.

FEDERAL IRAQ FINANCES

In early October the federal Ministry of Finance (MOF) compiled the government's monthly expenditure data for the second quarter of 2016. This edition of the IOFD updates the "Federal

finances" section (rows 27 to 45). Many of the numbers help illuminate the ways in which Iraq's budget process remains broken.

- Iraq's budget bears little resemblance to actual spending. Half way into the year, Iraq had spent \$25.95 billion, according to the MoF data. If the reporting from MoF is comprehensive, and this rate of spending continues at year's end, the government's total expenditures will be \$51.9 billion - about 58 percent of the \$90 billion called for in the budget law.
- High military spending requirements and low oil prices have left only paltry amounts of money for investment spending. Current expenses account for four-fifths of the government's spending. About 38 percent of Iraq's current expenses support the day-to-day operations of the ministries of Interior and Defense.
- Iraq is doing little to diversify its economy beyond oil. Out of the \$5.29 billion spent on investment in the first half of 2016, \$4.61 billion - 87 percent - was spent by the Oil Ministry. Oil revenues accounted for about 88 percent of government revenue in the first half of the year.
- Iraq has not been able to access as much financing as the budget anticipated. While the Ministry of Finance does not release data on the government's accumulated debt, we have extrapolated deficit financing (Row 43) by taking the difference between monthly revenues and expenses. (We can make this simple calculation with confidence because we know that Iraq has negligible cash savings to draw on.) Whereas the 2016 budget law calls for \$20 billion in financing (which includes accessing foreign currency reserves), spending exceeded revenues by just \$6.79 billion in the first half of the year, suggesting the government was able to access about two-thirds of the financing it had hoped to secure.

The MOF data also includes a significant irregularity that we have not yet been able to explain or reconcile in follow-up reporting.

In a typical month, we see that the Oil Ministry reports more oil export revenue than the MOF receives. (This is because much of that revenue never reaches the MOF: it is taken directly by international oil companies in payment for their technical service contracts (TSC), in the form of tanker ships filled with oil. We have extrapolated the monthly value of these TSC liftings in Row 32 by taking the difference between the MOO and MOF revenues.) In May 2016, however, the numbers flipped: the MOF recorded more oil revenue - \$5.637 billion – than the \$3.745 billion reported by the Oil Ministry. It is not clear how this can be possible.

One possibility is that the Iraqi government has started making forward sales of oil, akin to the Kurdistan Regional Government (KRG).

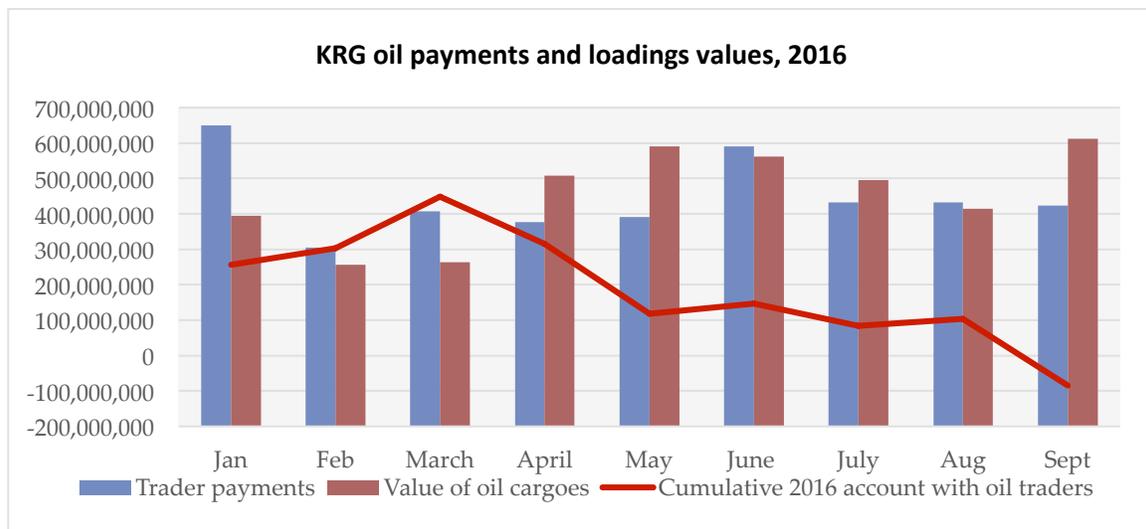
Another possibility is that the Iraqi government has concluded a foreign investment deal in one or more large projects. This theory gains some support from other MOF data. In May, Iraq's investment spending - which had not exceeded \$122 million in any of the first four months of the year - jumped to \$3.42 billion. Almost all of this was on the Oil Ministry's balance sheet. So, it seems possible that the Oil Ministry concluded a deal in which a foreign investor committed more than \$3 billion, and the MOF recorded this as both "oil revenue" and "investment spending."

An accounting error also cannot be ruled out as an explanation, at present time.

Iraq Oil Report will continue investigating this topic, and explore further in next month's IOFD analysis.

KRG TRADER DEBT

The KRG took a step in reducing its trader debt in Sept. We track the KRG's year-to-date debt to traders by looking at rows 103 (value of KRG exports), 104 (payments from oil traders), 105 (implied debt to oil traders), 106 (accumulated year-to-date debt to oil traders) and 101 (additional payment or loan to KRG, which typically takes the form of new forward payments from oil traders).



For the first time in 2016, the KRG's year-to-date account with oil traders is in the black. After trader debt remained relatively static May – Aug (111:f-I on your IOFD spreadsheet), the KRG allocated nearly \$190 million worth of crude to traders in Sept. The upshot is the KRG has through three quarters provided traders with approximately \$85 million worth of crude above monies paid by traders to the KRG in 2016.

However, a recent World Bank assessment put the KRG's debt to traders dating back to 2014 at around \$2 billion, meaning that while the KRG is in the black for 2016, it is still facing a total debt pile to traders equivalent to roughly three months of crude exports using Sept. sales volumes (71:J on your IOFD spreadsheet) and gross value of crude sold (108:J on your IOFD spreadsheet) as benchmarks.

Iraq Oil and Financial Dataset (IOFD)

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