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**Insider's View Bulletin:** Senior MoO officials discuss key issues

Oct. 25, 2016

**Key points:**

- CSSP project may be scaled back
- MoO describes federal Iraq production in excess of 4.2 million bpd
- Domestic consumption is nearly 700,000 bpd
- Seven fields offline due to IS related violence
- Minister levies more criticism at OPEC assessment of Iraq production

**IOC impact:** Iraq's announcement that it intends to open up 12 more fields to IOC investment – an announcement made two days before OPEC Sec Gen Barkindo is due in Baghdad – is a strong indicator of how the current MoO leadership views an imposed production cap, given OPEC's current assessment of Iraqi production and Iraq's implicit goals of nearly doubling output over the coming years.

**Executive summary:** In a series of exclusive and small group conversations, senior MoO officials discussed a number of critical issues facing Iraq's oil & gas sector. Topics covered included crude production and domestic consumption, the prospects for the North Oil Company in a post-IS era, and the MoO's view on relations with OPEC.

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**Details:** Deputy Minister of Oil Fayadh Nema provided a breakdown of oil production (avg bpd in Sept. 2016) disaggregated by affiliated state owned entity (including fields operated by IOCs with a token SoE minority consortium member).

- Twelve fields affiliated with the South Oil Company produce 3.234 million bpd
- Six fields affiliated with the Missan Oil Company produce 364,000 bpd
- Four fields affiliated with the Midland Oil Company produce 196,000 bpd
- Five fields affiliated (or formerly affiliated) with the North Oil Company (including Bai Hassan and Avana) produce 434,000 bpd
- Seven fields are offline due to IS/security concerns:
  - Hamrin
  - Ajil
  - Qayara
  - Sufaya
  - Ain Zalah (contradicting this, however, SOMO Director General Falah Alamri said the KRG is producing and retaining 10,000 bpd from Ain Zalah)
  - Batima
  - Balad

**Analysis:** *By the MoO count, 'Federal Iraq' produced 4.23 million bpd in Sept. 2016. Notably, this figure includes production from Bai Hassan and Avana, which are now operated by Kurdish consortium KAR Group and are under de facto KRG control. Nema's figure for KRG production in Sept. is 546,000 bpd. However, ministry officials were open about their lack of insight into KRG output, and this figure is likely a product of that obscured data, combined with conspiracy-level assumptions*

*about hidden production, and an overall willingness to leave the figures unchallenged because of the inherent benefit of higher output data for OPEC negotiations. It's very likely, however, that Bai Hassan and Avana are accounted for in the ministry's KRG and NOC data.*

**Domestic consumption:** Nema said domestic consumption in Sept. 2016 was 677,000 bpd. Of this, 194,000 bpd was burned in power plants and 24,000 bpd were sent to storage tanks. The remaining 459,000 bpd were refined, disaggregated by refinery as follows:

- Basra refinery: 187,000 bpd
- Dora refinery: 115,000 bpd
- Kirkuk refinery: 30,000 bpd
- Nasiriya refinery: 28,000 bpd
- Missan refinery: 27,000 bpd
- Najaf refinery: 27,000 bpd
- Samara refinery: 27,000 bpd
- Diwaniya refinery: 18,000 bpd

**Analysis:** *Nema also said the MoO assumes the KRG is consuming some 226,000 bpd domestically, between refining and power plant feedstock. This figure implies the MoO believes the KRG continues to divert significant crude to local market sales/topping plants, and is impossible to reconcile with KRG export volumes and assumed production levels (including the MoO's own estimate of 546,000 bpd of KRG production). It's also unclear why Dora refinery is operating so far below capacity, though it is most likely a persistent feedstock supply issue.*

**Disagreement with OPEC:** Minister of Oil Jabbar al-Luaibi couched Iraq's disagreement with OPEC as a misunderstanding over production and Iraq's qualification for exemption: the MoO's figure for all of Iraq production is 4.77 million bpd, but OPEC is insisting on using secondary sources pegged January, which is 4.16 million bpd. Typically, secondary sources are used only if OPEC members are late in supplying official data, which is not the case for Iraq. OPEC is using the latter figure as its benchmark for assigning Iraq a production cap, which the MoO rejects outright. Luaibi also said he wants to see OPEC weigh Iraq's reserves – not just its current production – when determining a production cap. Lastly and overriding the discussion, however, is that Iraq believes its current fight against the Islamic State group, requiring as much revenue as possible, following two decades of sanctions and wars, should qualify it from being exempt from the quota. Iran, Libya and Nigeria have all been exempted, according to the new draft quota proposal.

**Status of the Common Seawater Supply Project (CSSP):** When asked about the continually delayed project to provide a supply of water for injection into southern oil fields to boost reservoir pressure, Luaibi said: "We have found many options and alternatives and in 2017 we are going to start work on this project. ... Not the original level of outcomes but we have revised the figures and are heading to good work on this project."

**Analysis:** *It's unclear still if Luaibi intends to push forward with the proposed ExxonMobil- and CNPC-contracted South Iraq Infrastructure Project (SIIP), which includes the CSSP. It's also not clear if Luaibi still believes the SOC should retain more of a role in the CSSP than has been envisioned both under the SIIP proposal and a standalone CSSP project under IOC or foreign management. Furthermore, it's possible that Luaibi specifically wants to scale back the scope of the CSSP, regardless of the ultimate framework under which it is implemented, and instead increasingly utilize temporary and short-term, field-specific measures to provide that water.*

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