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Oil fields controlled by federal Iraq through September averaged 4.045 million bpd, up 10,000 bpd over August data.

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Iraq resumes Khor al-Amaya loadings

Ten months after the terminal was shut for repairs, tanker loadings have restarted.

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Oil exports, revenue on track

Iraq is on pace to hit revised 2017 budget targets despite political uncertainty.

Federal Iraq’s oil export and revenue numbers through the third quarter of 2017 show the country is set to meet budget targets this year, though politicians may be tested on fiscal restraint for next year if oil prices rise.

Iraq’s oil sales make up more than 90 percent of state revenues. Iraq’s forward-looking budgets are predicated on crude export revenue projections. So too are calculations pertaining to international support from the International Monetary Fund (IMF), among others.

Iraq oil production up as key fields change hands

Nationwide oil production continued its month-on-month increase in September, and the Oil Ministry has plans for that to continue.

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The Alas oil field will help boost northern Iraq production now that the self-proclaimed Islamic State is defeated from the area. Here, Iraqi fire fighters put out a fire started by the IS group on Oct. 8, 2017. (STAFF/Iraq Oil Report)
Two tankers had loaded as of Oct. 19. The first, the Desh Rakshak, completed loading around 685,000 barrels on Oct. 7, at a rate of around 12,000 barrels per hour. A week later, the Desh Shanti completed loading more than 700,000 barrels at more than 14,000 barrels per hour.

In November 2016, KAAOT loaded only two tankers. Oil Ministry officials said it had become clear that KAAOT had become inefficient and uneconomical for Iraq and buyers, and was taken offline.

“The main reason behind that is the delay in loading, as the loading rate is not more that 2,000 to 3,000 barrels per hour, which is so small and is causing huge delays,” said a senior Oil Ministry official. “The delay is the reason [to take KAAOT offline in December] and the limited draft there as well.”

KAAOT is currently fed by a 42-inch diameter pipeline, which has long been in need of replacement. Another pipeline that will increase oil availability – an onshore, 48-inch pipeline from PS1 to the Fao terminal – was also commissioned in October. A Japanese-funded project to add another subsea pipeline has been delayed by contractor disputes.

“They are saying that there is a project of developing the land pipeline so to increase the pumping rate,” the senior Oil Ministry official said. “But still, the sea-line needs huge maintenance if not replacing it. Then the draft needs to be increased.”

In September, Iraq exported an average of 3.24 million barrels per day (bpd) from the Basra Gulf, with loadings split almost equally between the aging al-Basra Oil Terminal (ABOT) and the three relatively new single point mooring buoys (SPM).

ABOT is at current operational capacity, though there are plans to repair and replace pipelines and loading arms as well as other parts of the hulking infrastructure. There are plans to add two more SPMs as well, which at full capacity could load as much as 850,000 bpd each.

Operational capacity at KAAOT had been claimed at around 300,000 bpd, though U.S. officials who studied the southern export system said it appeared to not exceed a monthly average of around 100,000 bpd. It’s too soon to know the full capacity of KAAOT now. It was first constructed in the 1960s, was a frequent target in the Iran-Iraq war, and suffered a devastating accident in 2006 when a crude surge tank exploded.

Only two of its four berths had been operable, among other defects. Located on a still-disputed offshore border, it was a frequent target in the Iran-Iraq war in the 1980s, including changing hands multiple times.

Initially, the resumption of KAAOT operations won’t drastically boost loadings, according to a senior official at the Basra Oil Company (BOC), which operates the export facilities.

“The exportation through Amaya port will create flexibility between Basra port and the SPMs,” the official said. “The Iraqi ports and Basra Oil companies’ work on improving the depths of the ports continue, in addition to the main exportation pipe maintenance by the staff of BOC.”

KAAOT loads the least of the three outlets in the Basra Gulf, but remains part of the plan to increase overall southern export capacity.

“We are planning to expand and increase [capacity] upon the completion of the development operations,” said Karim Hattab, the deputy oil minister for upstream operations, during a June 11 visit to KAAOT. “That includes the installation of new pipes, new pumping stations, and storage depots to increase it to 600,000 barrels in the next phase, until we reach exportation capacity that is more than 1 million barrels per day in a few years.”

Iraqi Deputy Oil Minister Karim Hattab inspects the Khor al-Amaya Oil Terminal on June 11, 2017. (Source: Iraq Oil Ministry press office)
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Iraq oil production up as key fields change hands

CHANGE HANDS, cont’d from page 1

operated Rumaila and ExxonMobil-operated West Qurna 1. State-run fields in southern Iraq also continued their gradual recovery from lows earlier this year, when production was lowered due to maintenance that coincided with OPEC cuts.

Increased production was offset, however, by slight decreases at Lukoil-operated West Qurna 2, Kuwait Energy-operated Fayha, the Petronas-operated Gharraf field, and the state-run Tuba field.

Many of these are producing at a rate well below their recent peaks, and are believed to be able to increase relatively quickly pending a realignment of an OPEC curtailment and a moderate increase in field investment.

Fields controlled by the autonomous Kurdistan Regional Government (KRG) were stable at around 629,000 bpd.

By mid October, however, the Avana Dome of the Kirkuk field and the Bai Hassan oil field, which combined accounted for 280,000 bpd of KRG independence that Baghdad had condemned.

On Oct. 18, Luiebi announced he was inviting BP back to Kirkuk to proceed with a reservoir assessment. At the time of the IS invasion, BP and Iraq were negotiating a long-term deal for unitizing and developing the entirety of the Kirkuk and nearby oil fields.

A month prior, news reports circulated that the KRG was negotiating a similar deal with Russian state-influenced Rosneft.

Regardless of IOC investment, Luiebi said he’s planning to expand northern Iraq output to 1 million bpd – which would double production at federally controlled northern Iraqi fields – and rebuild the Iraq-Turkey Pipeline that was destroyed by the IS group.

In southern Iraq, the Khor al-Amaya Oil Terminal has been brought back online after nearly a year of work, and a pipeline from PS1 to Fao has been replaced.

* A NOTE ON METHODOLOGY: Iraq Oil Report compiles its monthly production estimates by gathering data from field level sources at each of the country’s producing oil fields. Our estimate is simply a sum of production at all Iraqi fields.

In order to ensure the independence of our estimate, we do not rely on official figures. We do rely on human sources, which also entails a potential for error. To help protect against errors, we double-source each number whenever possible. We also corroborate our estimates by analyzing other available data, including the Oil Ministry’s official production, crude export, and domestic consumption figures. If we see significant conflicts, we seek to explain or resolve them by gathering additional information and sourcing.

As more data points become available, we are continually re-checking our estimates and refreshing inputs from our network of sources. Occasionally, this results in a revision to our initial estimate. Revisions are always noted.

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Oil exports, revenue on track

Through September, federal Iraq averaged oil exports of 3.258 million barrels per day (bpd), earning $41.532 billion.

Extrapolated for the rest of the year, Iraq could expect a minimum of $10.383 billion by the end of 2017, bringing total revenues to nearly $52 billion. This does not include revenue from crude marketed by the Kurdistan Regional Government (KRG).

Iraq sold its crude for an average of $50.225 per barrel in September, according to the Oil Ministry. That's the highest price of the year, and if it holds steady or climbs, oil revenue in the fourth quarter could increase by at least an additional $5 billion beyond year to date average projections.

Iraq's 2017 budget, as of an August revision, forecasts Iraq to average 3.75 million bpd of oil exports selling for an average of $44.40 per barrel. Through September, Iraq averaged 3.258 million bpd at $46.76 per barrel.

Higher than expected oil prices alone don't make up for below-projected oil exports, however. Instead, it's necessary to factor in the budget agreement and expectations that account for exports and revenue sharing between the federal and Kurdistan governments.

According to the budget, the Kurdistan Regional Government (KRG), which still controls the sole export route to the Turkish ports, was to facilitate an average of 550,000 bpd – 250,000 bpd of which is to come from fields under its control, the rest from the North Oil Company's output – for sale by the federal government at the port of Ceyhan.

In exchange, the federal government was to allocate 17 percent of national spending – after deducting centralized "sovereign" expenditures – to the KRG.

In reality, the highest monthly average the KRG transferred to the State Oil Marketing Organization (SOMO) was 49,000 bpd in March, and transfers have been at zero since June. The federal government never transferred the 17 percent either, with the only financial allocations for the Kurdistan region coming in the form of payments to farmers for agricultural crops, and potentially some support in the health sector. Taken together, for the purpose of realigning to federal budgetary realities, the amount of oil necessary to export to meet budget obligations proportionally decreases given the absence of transfers.

An additional uncertainty came in mid October, when federal security forces retook two oil fields that the KRG had been utilizing for independent oil exports, potentially increasing oil available for federal exports.

The KRG appropriated the Bai Hassan oil field and the Avana Dome of the Kirkuk oil field in June 2014, as the self-proclaimed Islamic State (IS) took territory in northern Iraq, the Iraqi army retreated, and the Peshmerga filled the security gap.

In the wake of the IS group's defeat and loss of territory around Kirkuk, and enraged by the KRG's Sept. 25 independence referendum, the federal government sent security forces to reclaim territory it had held before 2014.

While Bai Hassan and Avana had been producing a combined 280,000 bpd, in order for the federal government to add it to its export tally, it will have to strike a deal with the KRG in order to utilize its pipeline to Turkey, which will likely entail a split of oil or revenues.

With 2018 looming, Iraqi politicians must grapple with the next year's budget. Discussion will likely be dominated by both export and pricing projections and the whether and how to approach an agreement between the federal and Kurdistan governments can be reached.

The IMF, which influences Iraqi budget making vis a vis multi-billion dollar fiscal support, is focused more on Iraq's ability to curtail the temptation to spend.

"Higher revenue does not create opportunity for more spending," said Christian Josz, the IMF's Mission Chief for Iraq. "We think they need to adjust the budget to a permanently low level of oil prices. Even if prices have risen by a couple dollars over the last couple of weeks, they're still much lower than two to three years ago."
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At that time, OPEC's secondary sources estimated production of 4.402 million bpd. The Oil Ministry reported production of 4.480 million bpd.

Weeks later, the Oil Ministry revised its own number, to 4.568 million bpd – within 0.4% of our original estimate.

Are you curious to learn what Iraq has produced in April and May? Don't look for answers in the OPEC Monthly Oil Market Report.

Contact Director of Custom Research Jared Levy at jaredlevy@iraqoilreport.com for more information on the IOFD.
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