AL MAJAL

Newsletter | September 2024

# Our Updates

## Al Majal Business Park Celebrates Opening of Modern Dining Facility

Al Majal Business Park – Burjesia, recently celebrated the opening of its new state of the art 800 sqm premier dining facility.

Built to accommodate for the rapid growth of the business park and our commitment to providing the highest levels of service, the facility offers expanded serving stations and comfortable seating in an ambient atmosphere, providing a welcoming and enjoyable dining experience for the entire business park community.


# AL MAJAL OIL & GAS ROUNDUP
## IN COLLABORATION WITH QAMAR ENERGY

### LATEST IN IRAQI & GLOBAL ENERGY MARKETS

### Oil Demand in the Middle East

Read More



### Iraq’s Oil Production and Exports

Read More

### Iraq’s Oil & Gas Project Developments

Read More

### Top Energy Deals in the MENA Region

Read More

# Oil Demand in the Middle East

- Iraq's August oil demand **remained in line with July levels of 970 kb/d,** broadly aligned with August 2023 levels of ~1 Mb/d.
- **Demand has increased** in recent months **on the back of an improving economy,** requiring higher volumes of road fuels, primarily gasoline and diesel.
- Iraq's domestic market also offers an elastic source of demand for the country's **refining capacity of 1.3 Mb/d,** with crude burn for power being another demand source in the summer (> 250 kb/d at times, but now reducing due to stabler Iranian gas imports (Iran demand for gas reduces in the summer) and more gas from new processing plants).

- The inauguration of **a new power line in July connecting Turkey and Iraq to supply 300 MW of power** to northern Iraq, as well as the Jordan-Iraq electrical connection (which became operational in Q1 2024) that supplies Al-Rutbah with 40 MW could further reduce crude burn in coming weeks.
- The start-up of the 140 kb/d Karbala Refinery, the completion of a 70 kb/d expansion at the Shuaiba Refinery (which shall also receive an additional FCC by end-2024 to increase gasoline production), and the resumption of the 150 kb/d Baiji North Refinery are key contributors to increased domestic crude consumption.

  - **Improved refinery output has enabled Iraq to reduce costly fuel imports.** Iraq has not imported diesel at all this year, after averaging 24 kb/d in 2023, and gasoline imports have fallen from 80 kb/d to 54 kb/d in Q1 2024.
  - **The Karbala Refinery,** which is still in trial operations, **has begun producing high-octane gasoline which has reduced Iraq's fuel imports.**
  - **There is reportedly surplus production of kerosene and jet fuel from the Basrah Refinery, with plans to begin exporting it.**

- The finalisation of a US$ 8 B deal for the 300 kb/d Fao Refinery with CNCEC in May could provide some **upside to domestic crude use in the medium term,** with Phase-1 (150 kb/d) to be concluded in 2028, while talks between the Barham Group and the MoO for a direct-award contract to build a 70 kb/d expansion of the Diwaniya Refinery would take 5 years to implement.

  - **Upside in the near-term could come from an upgrade of the Kirkuk Refinery** to process about 12 kb/d of naphtha into high-octane gasoline, as soon as by the end of this year.
  - **The Samawah Refinery is also eyeing an expansion.** 10 storage tanks between 2000 – 5000 m3 have been added at the site in anticipation of the installation of a new processing unit, but a contract has not been signed yet.
  - **The Amara Refinery is also reportedly under plans to expand by 70 kb/d** in a project that would include hydrogenation and gasoline improvement units, but no companies have been announced for the deal.
  - **The MoO has also changed course on the 70 kb/d expansion of the Dora Refinery,** which will now involve relocating some of its existing equipment to a new location to construct a **new 140 kb/d refinery outside of Baghdad.**

- **Bids for seven other new refineries are unlikely to have any major impact in the short term,** given that Iraq launched the bids only last year.

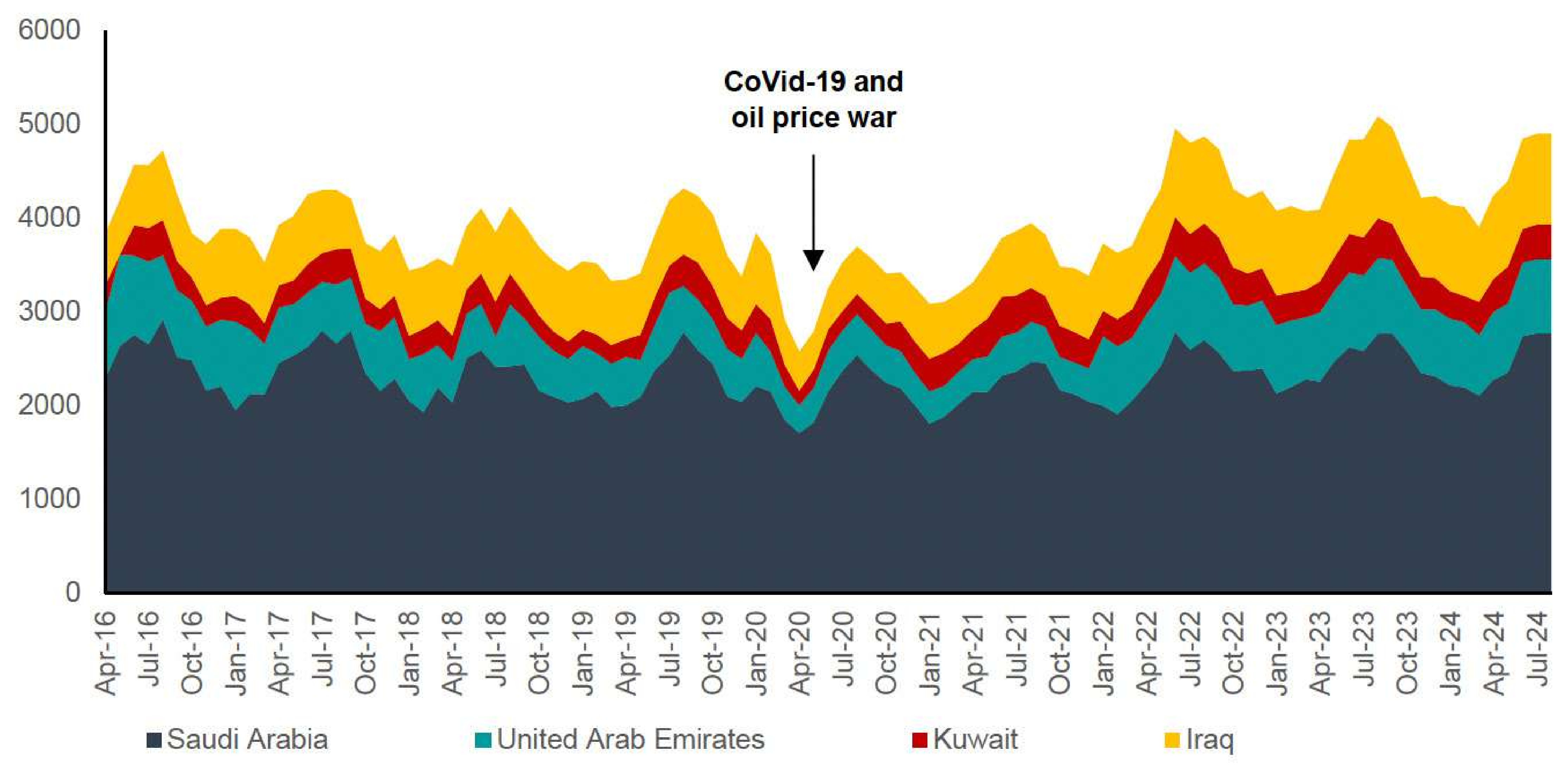


**Figure 1 Oil Demand of Major Middle East Economies, kb/d**

- For the **other major Middle East economies,** oil demand ticked upwards **by 0.5% in August,** mainly due to hotter weather driving up power demand for cooling needs.

  - The start-up of the Al Zour LNG Terminal in 2021 in Kuwait has cut the amount of crude oil the country uses to meet its peak summer demand, but still not eliminated it, although non-associated gas capacity has increased since February on the back of Jurassic Gas development projects.

- Positive economic activity, higher manufacturing and construction activity, strong composite PMIs (mainly in the UAE and Saudi Arabia), and more air travel will contribute to 2024 demand averaging 4.6 Mb/d, 4% higher than 2023 levels. Transportation fuels will also contribute to demand growth.

# Iraq’s Oil Production and Exports

- The Iraq-Turkey pipeline (ITP) remained offline for the **seventeenth month straight,** approaching nearly a year and a half since the landmark ICC ruling.
- Overall **exports in August**, at 3.41 Mb/d, **were down ~80 kb/d** from July’s 3.49 Mb/d, as Iraq directed state-run fields to curtail output in line with the compensatory cuts it has committed to make for exceeding its OPEC+ quota previously.
- Iraq is facing rising pressure from OPEC+ to adhere to its quota of 3.997 Mb/d which will reduce by 90-110 kb/d starting August to September 2025, as Iraq compensates for past overproduction. In August, quota reduced by 90 kb/d to reach 3.91 Mb/d of effective production quota.
- Oil revenues also tracked lower, at **US$ 9.1 B in July** to US$ 8.5 B in August.
- Production decreased **in August by ~100 kb/d to 4.8 Mb/d from 4.9 Mb/d in July**[1], despite the MoO ordering production cuts of roughly 200 kb/d at the end of August. State-operated fields in Basrah have reduced production by a combined 100 kb/d (including Majnoon, Nahr bin Omar, Luhais, and Tuba) although they were already producing well below their capacity
  - The MoO also appears to be making efforts to accelerate maintenance operations at other fields in order to reduce output in the short-term, including at Rumaila, where production dropped in mid-September by about 120 kb/d for at least a week
  - The Abu Ghirab field has also undergone maintenance operations, taking production of about 75 kb/d offline
- Output is 0.9 Mb/d higher than the updated OPEC quota (also due to KRI production recovering to 70% of its capacity) almost equal to the previous record 4.8 Mb/d recorded in June 2024
  - Iraq maintains it is complying with its quota despite independent on-ground estimates differing
  - This is partly because Federal Iraq insists that KRG oil is beyond its authority and should not count as part of the national total
  - Even by this logic, Iraq breached its quota by 0.62 Mb/d in August (KRG outputted 0.31 Mb/d)
- OPEC+ gives credence to “secondary source”2 assessments of member countries’ output, according to which Iraq produced 4.23 Mb/d in August, but this figure likely under-characterises domestic consumption, which, according to the Parliament Oil and Gas Committee is as high as 1 Mb/d, corresponding to higher production. Removing the KRG share from the secondary source figures would put federal Iraq’s production at 3.92 M/d, overachieving on compliance with its quota
  - This seems unlikely given the very limited capacity left among state-run oilfields to accommodate further cuts plus the submission of an updated compensation plan on August 22, suggesting that Iraq is well aware it breached its quota
  - Iraq’s quota will rise in October as OPEC+ cuts are expected to unwind, but its compensation schedule means its quota will not rise as much as previously anticipated
- **Iraqi oil leaders have called on the KRI to help with OPEC+ compliance and cut output to about 50 kb/d, but so far the KRI’s production does not appear to be falling, with operating IOCs also planning expansions of operations as an active domestic market provides some respite from the continuing closure of the ITP.**
- Exports in August were still in line with the average of 3.3-3.4 Mb/d recorded over the past few months at 3.41 Mb/d as **demand for crude burn reduced and refinery demand remained stable.**
- **Iraq will rely on KRG's official shut-in capacity (even if illicit cross-border trade continues) to under-characterise domestic consumption there as reflective of reduced production.** Because the KRI is dependent on Baghdad for budget transfers, Baghdad could use this as leverage in getting the KRI to reduce output, but IOCs operating there will first want Baghdad to agree to their contractual terms.
- For the KRG, a lower OPEC+ quota will make resolving issues keeping the ITP offline more challenging, since the quota would reduce Baghdad’s sense of urgency to reinstate pipeline flows to Turkey.
- Still, the general sentiment between Baghdad, the KRG and IOCs operating in the KRG is positive, and seems to suggest progress toward export resumption.
  - One possible reason for the push is Baghdad having to incur substantial penalties to Turkey for not shipping committed volumes of oil through the ITP, in the range of US$ 800k per day.
- **Iraq’s production target will return to 4.431 Mb/d in 2025.** If KRG capacity remains absent due to slower progress on the ITP, Federal Iraq will assume the entirety of the 4.431 Mb/d production figure, and count on absent KRG capacity for higher compliance.
- **Demonstrations in end-August against the Cabinet Resolution 24600** that allowed for a shift in the funding model of state-owned energy companies from self-financing to a centralised system so as to increase the state’s share of revenues **have so far not impacted production activities.**
  - This is despite demonstrators temporarily closing oil sites, including North and South Rumaila, Burjesia, and the Makina site.
  - In response, **the government has clarified that there are no plans to convert self-financing companies to a central funding model, stressing that any such change will require new legislation from the Parliament,** and that any increase in the state’s share of company profits will apply only after all company expenses, salaries, allowances, and incentives are covered

---

**2 Secondary source estimates typically utilise industry group data and publications to compile production estimates, which often do not rely on on-ground officials or workers at each producing field and/or asset. This can result in production estimates differing widely, even against official Ministry data, which typically underreports production.**

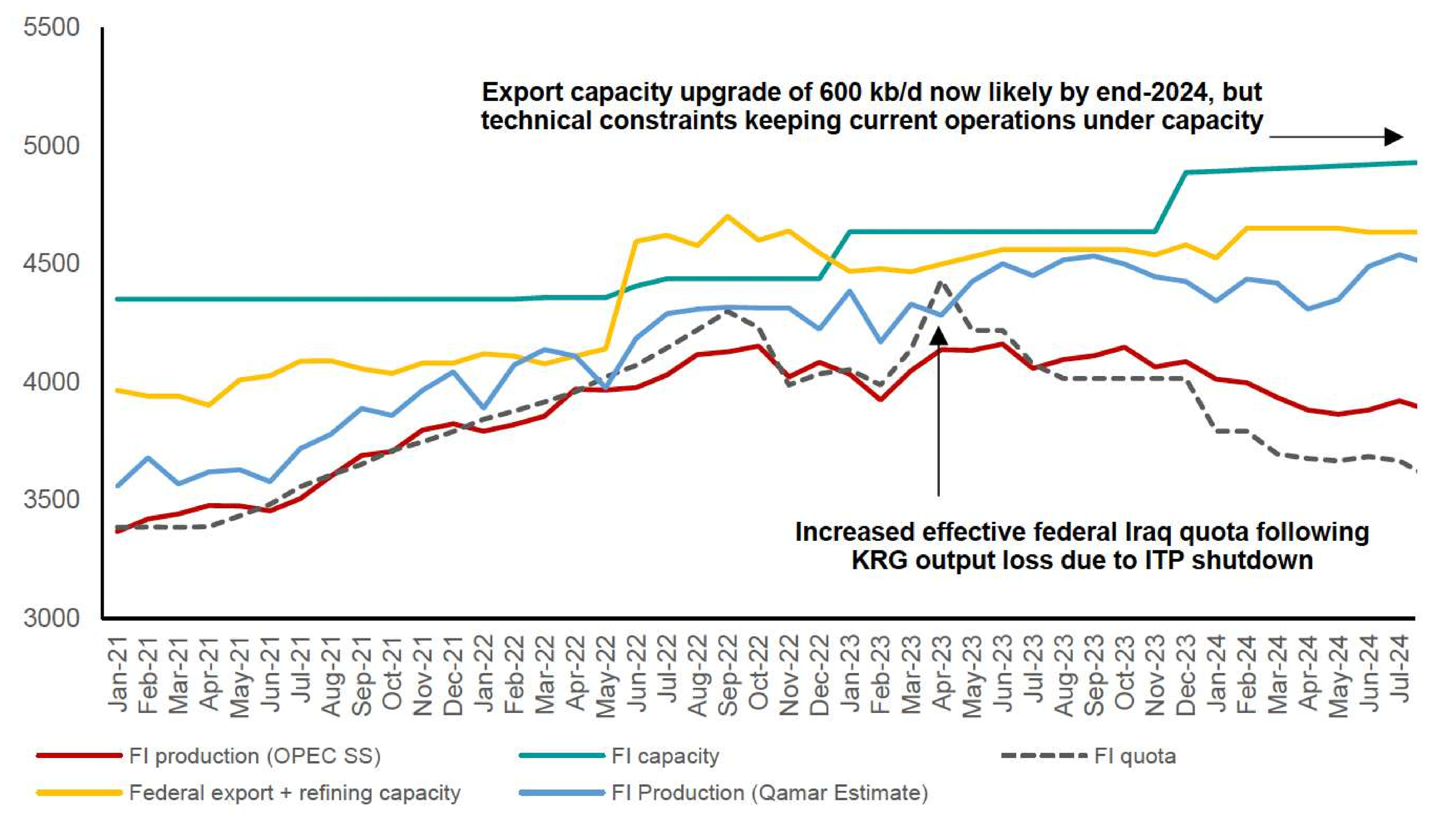


**Figure 2 Federal Iraq production vs capacity, kb/d**

## Iraq Oil Revenues

- **Revenues from August exports clocked in at US$ 8.5 B,** US$ 600 M lower than July earnings, due to the decrease in exports and softer global prices (US$ 80 /b) that were also accompanied by lower Iraqi OSPs.
- Federal Iraq prices its crude for export at a **3-5% discount to Brent.** Current international oil prices are hovering around US$ 75/b, which should also be reflected in pricing for September-loading cargoes
- Exports are expected to continue flowing solely from the **Basra Gulf** for the next 3 months, till a definitive decision on the resumption of the ITP is reached.
- This raises concerns over **Iraq’s ability to maintain its southern export infrastructure’s maximum sustainable capacity** or risk bottlenecks that could shrink valuable export flows.
- It also continues Iraq’s complete dependence on the insecure Red Sea or the longer route around the Cape of Good Hope for its shipments to Europe.

- **Plans for a new 2 Mb/d, US$ 416 M offshore pipeline by 2025 under contract with Dutch company Boskalis are yet to be finalised,** with financial negotiations expected to be the main sticking point
  - Still, it is highly unlikely that the project can commit to a 1-year timeline given Iraqi bureaucracy
- The May deal for a 300 kb/d export refinery at Fao with CNCEC should **reinforce the urgency of revamping export infrastructure** but with Phase-1 still 4 years out, might not progress as quickly
- Delays in reaching a consensus on the resumption of the ITP mean extremely lucrative natural gas assets in the KRI remain at risk of remaining underdeveloped

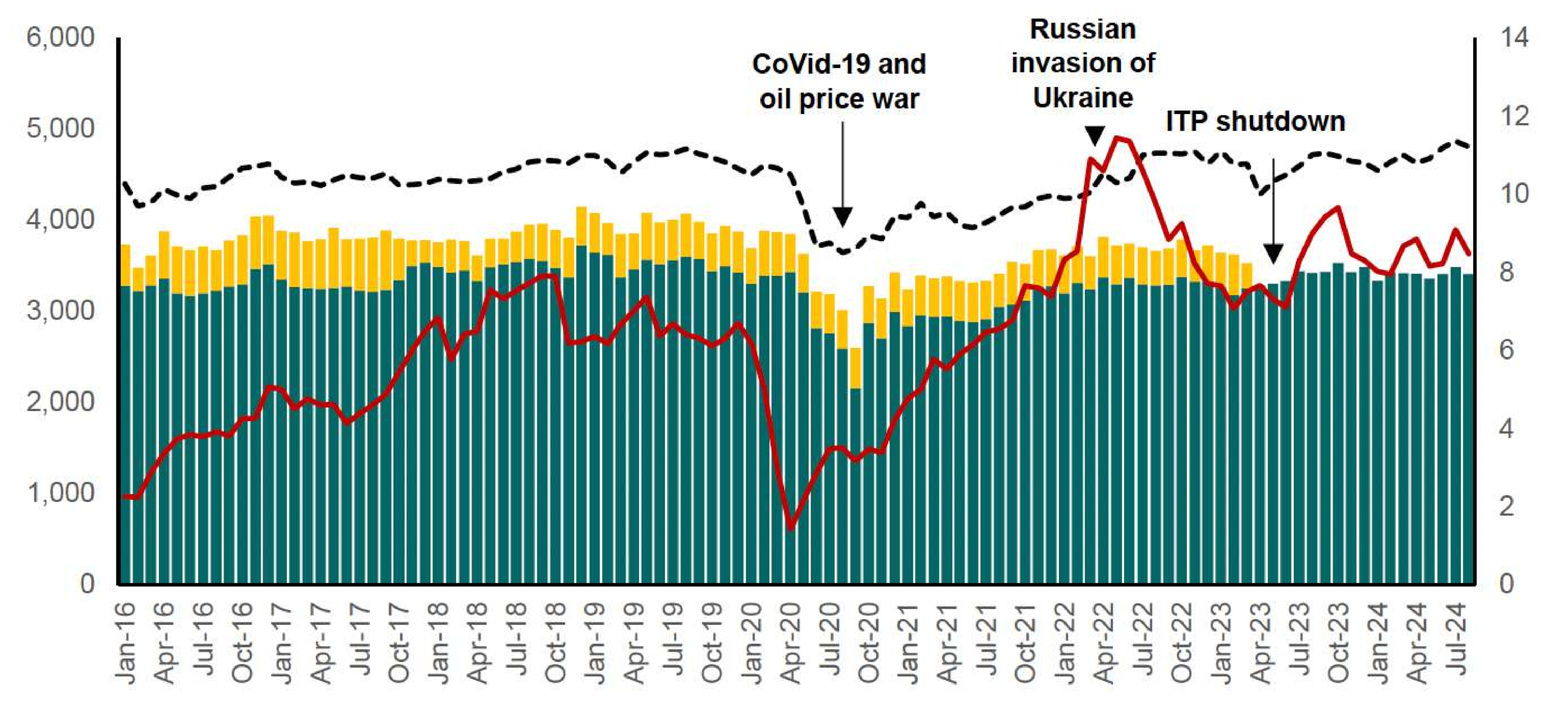


**Figure 3 Iraq production vs exports, kb/d**

# Iraq's Oil & Gas Project Developments

## Iraq Targeting 2030 to become Self-Sufficient in Gas and Kick-start a Low-Carbon Hydrogen Value Chain

- Iraq has made dedicated progress towards increasing its domestic gas supplies over the last 5 years, and has now set a target of achieving self-sufficiency in the next five years, with **daily gas production reaching 3.1 Bcf/d by end-H1 2024,** compared to 2.9 Bcf/d in 2022, **and associated gas utilisation increasing to 65% from 51% in 2022 and 61% in 2023,** expected to reach 70% by end-2024.
  - Associated gas utilisation rate should also logically reach 100% as Iraq works towards its target of ending flaring completely by end-2028.
- **Production is expected to increase to 4.5 Bcf/d by 2030** on the back of ongoing investment into developing new 1.25 Bcf/d of gas from projects in Nasiriyah, Nahr bin Omar, Halfaya, and Ratawi, in addition to 300 MMscf/d from the flagship project in Mansuriyah, now under development with a consortium between Iraq's Midland Oil Company, Petro Iraq, and Chinese company Jera.
- **Iraq's domestic demand is expected to reach 6 Bcf/d in Federal Iraq alone by 2030,** narrowing the supply gap to ~1.5 Bcf/d (if current investments come to fruition) from ~2 Bcf/d currently (against a demand of nearly 5 Bcf/d3), meaning that **self-sufficiency will require the development of additional new gas, and/or concluding supply agreements with the KRI for surplus gas from developments there.**
  - A recent visit by Oil Minister Hayan Abdel-Ghani to the US included the offering of 10 gas exploration blocks to US companies that were left unclaimed following past licensing rounds, which will be presented in a new bidding process.
  - **The push to offer the blocks to US companies is also a strategic consideration,** as the US continues to encourage Iraq to wean off reliance on Iran for gas and power supplies to drum up investment interest from the West.
    - A key factor influencing potential US interest in the gas blocks will be progress on the reopening of the ITP pipeline. The pipeline's continued closure could raise concerns among prospective investors about the business climate in the country. However, committed US interest could further support Baghdad's ongoing efforts to reopen the pipeline and foster a more positive outlook for investment opportunities.
- **The other logical reason for pursuing Western / US investment is to even out the playing field in Iraq with more diverse players that can bring in a wealth of experience and expertise to keep the sector competitive.**
    - Also, with the KRI's Khor Mor gas development currently embroiled in arbitration over the delay of its KM250 expansion programme, **Federal Iraq will prefer to develop its own resources as soon as possible to allow the KRI time to get its sector back on track,** which anyway suffered a setback with the termination of Genel's PSCs to develop the large Miran and Bina Bawi fields (identified as one of the major assets that could supply additional gas to Federal Iraq after meeting KRI demand).
- Current investment projects that are expected to increase Iraq's gas supply to 4.5 Bcf/d by 2030 include the two-phased **600 MMscf/d Ratawi Gas Hub project with TotalEnergies, the 200 MMscf/d capture project at Nasiriyah, the 150 MMscf/d Nahr bin Omar project with local contractors, the 300 MMscf/d Halfaya Gas Project with CNPC (which launched in June), the 125 MMscf/d gas project at the Al-Faihaa oilfield (as part of the oilfield's development, whose completion rates have reached 88%) and the 300 MMscf/d non-associated gas project in Mansuriyah.**
  - Another development that is expected to contribute to increased gas supply is the **CNPC-led West Qurna-1 project that will raise its production from the current 550 kb/d to 800 kb/d by 2028,** resulting in more associated gas, for which project engineering and studies are currently underway.
  - Work at the **Ratawi Gas Hub is also progressing swiftly,** with land acquisitions for pipelines connecting to the conveyor network in the process of receiving approvals, including for condensate transport. Earlier in September the MoO had inaugurated the second terminal for LPG and condensate export at the Umm Qasr Port, which could also be utilised for exporting condensate produced at Ratawi.
- The development of gas initiatives is progressing alongside developments in the power sector which will be the primary offtakers for all new gas produced, with three new power projects announced in Baghdad, Diyala, and Anbar to add 614 MW **to the national grid and help reduce reliance on costly Iranian gas and power.**
  - Shanghai Electric will add 364 MW via combined cycle units at the Mansuriyah power plant in Diyala.
  - Dongfang Electric will add 125 MW to the South Baghdad plant.
  - Iraqi Sada al-Najoom will add 125 MW to the Akkas gas-fired power plant in Anbar.
- Meanwhile, **a special licence that could kick-start Iraq's very own low-carbon hydrogen value chain is in the works to establish a blue ammonia production plant in Basrah,** with the resultant low-carbon fuel to be used in industrial, power generation, and other applications, while captured CO2 will also be converted into commercial viable products, if not stored. **Exports of low-carbon ammonia can also be** a feasible new opportunity for it to diversify its energy export line, particularly with progress on the Dry Canal Corridor (Development Road Project) linking Iraq to Europe through Turkey.
  - **Gas for the project will be provided by the MoO, perhaps from the East Baghdad cluster of oil fields, which the Ministry has been considering for the establishment of a pilot carbon credits project,** which will see carbon credits derived from captured gas at these fields traded to raise finance for further gas capture projects at other prolific fields that continue flaring.

## Iraq Prepares to Hand Over Kirkuk Oilfields to BP for Development

- The North Oil Company (NOC) has begun preparing wells at the Kirkuk oilfields of Kirkuk (Baba and Avana Dome), Bai Hassan, Jambur, and Khabbaz to ramp up production ahead of handing them over to BP for enhanced development as part of an agreement between BP and the MoO for their rehabilitation.
- The NOC's Field Division is currently **executing a drilling and rehabilitation plan of its own**, which is expected to last throughout this year, alongside well-activation activities that do not involve rigs.
  - Each prepared site is expected to take 3 weeks to complete, in addition to laying pipelines and completing the connections for wells Bai Hassan 198 and 199 that will take a month.
  - Five well valves are currently being connected in Khabbaz, while damaged pipelines at the Shoraw station in Baba Dome are being repaired as part of efforts to stabilise production levels in northwest Avana
- **The plan should boost NOC's own overall production capacity that currently stands at 360 kb/d** (with >400 MMscf/d of raw gas), with plans for an additional 50 kb/d from the Sassan, Allan, Qasab, and Jawan fields under development in Nineveh (active fields include Qayyarah, Najma, Ain Zala, Batma, and Saifa).
  - BP's rehabilitation programme shall boost Kirkuk-area fields' productivity, **reducing the burden on the NOC to develop lesser-active and smaller assets elsewhere on its own** to meet demand.
  - The construction of new facilities, including gas expansion projects, associated gas capture projects, and drilling programmes could actively stabilise current production levels and reverse declines, while at the same time **generating new sources of revenue (by selling captured gas for power use) and creating credits for a future carbon market.**
- However, with the agreement still being non-binding in nature at this stage, impending negotiations will decide the extent of BP's involvement, particularly in the areas of technological and geological expertise.
- Moreover, **security issues are posing a new challenge in Kirkuk,** which could potentially delay final sign-off on the agreement. An improvised explosive device (IED) targeted an Iraqi Army patrol on September 16, injuring one, while the PMF said that four such devices were found in the south of Kirkuk earlier this month.

## KRI IOCs Plan Expansions as Active Domestic Market Offers some Respite to Perpetual Export Pipeline Closure

- **KRI production has reached 310 kb/d as of August, with financial filings from five public IOCs showing their collective crude production reaching 173 kb/d in Q2 compared to 170 kb/d in Q1.**
  - That compares with just over 2 kb/d in the quarter immediately after the ITP was shuttered-in, and 182 kb/d in the quarter preceding its closure.
- **Norway's DNO has announced an expansion of its KRI operations for the first time since early-2023**, with plans to mobilise a rig to drill a new well on its Tawke licence. Overall production at DNO's fields is now up 9% compared to Q1, with pumped crude totalling 79.8 kb/d in Q2.
- **Canada's Shamaran Petroleum, which acquired stakes in the Atrush and Sarsang blocks, which are operated by HKN, is also expecting to increase production, while Gulf Keystone has begun round-the-clock trucking operations as domestic demand picks up.**
  - Gulf Keystone has noted a "successful return to profitability and free cash flow generation" in its H1 2024 financial results, "following a challenging 2023".
- Still, sales prices to local traders are far below the typical OSPs Kurdish crude was priced at (11-13% discount to international prices) before the ITP closure, with crude currently trading for as low as US$ 28/b to up to US$ 41/b.
  - **The sales price for oil produced by operator HKN in June 2024 was reportedly US$ 40.52/b, while Gulf Keystone reported a sales price of US$ 28/b for the heavy oil from its Shaikan field for the same month. Genel reported selling oil produced from Tawke at US$ 34/b for the first half of the year, which has improved slightly to US$ 37/b for July and August.**
- **Collective refining capacity in the KRI is 341 kb/d**, sufficient to take in all produced crude, in addition to hundreds of illegal topping plants and small refineries that also process a small amount of crude. The Kurdish government has shut 138 illegal topping plants in Erbil so far, and has ordered dozens of unlicenced refineries to implement environmental protection requirements – which are unspecified – or face closure.
  - **Federal Iraq also relies on the KRI's refining capacity. Under commercial deals that have transcended the political disagreements between Baghdad and Erbil, the NOC has been sending about 40 kb/d of the crude it previously used to export via the ITP to the Bazian Refinery, and about 50 kb/d to the Kalak Refinery.**
  - **If the Lanaz Refinery, which is the KRI's second-largest, has reduced feedstock from the Kurdish-controlled administration in northern Syria, that will also allow operators to send their production directly to it.**
- IOC operators are typically selling to local refiners, who then go on to truck purchased volumes across the Iranian border for export sales via Iranian ports.
  - On-ground reports seem to suggest traded volumes are as large as 200 kb/d and bring in US$ 200 M monthly, although this information has not been independently verified, and there is no record of such revenues in the KRG.
  - If true, this would suggest political elites with vested business interests are behind this trade and benefiting from it, directly influencing the urgency of resuming official exports via the ITP, a decision on which is still pending.
  - **This trade has been cited previously by Iraqi officials as the reason behind Baghdad's inability to stick to its OPEC+ quota, although this appears to be a counterfactual argument, since the trade is not done through official routes and OPEC+ quotas are based on production levels, and not exports.**

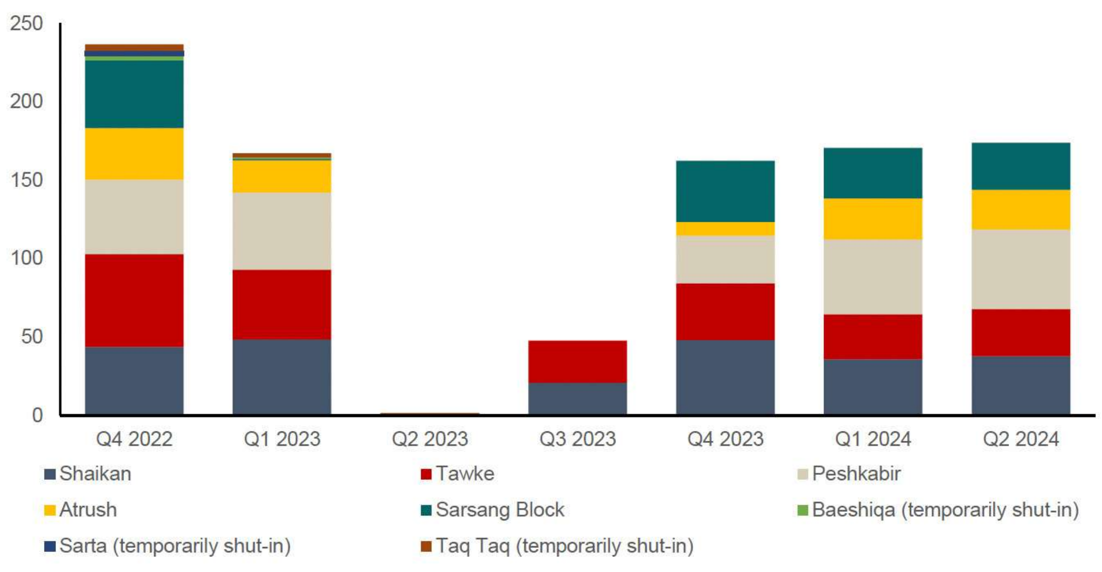


**Figure 4 IOC production in KRI as of Q2 2024, kb/d**

# TOP ENERGY DEALS IN THE MENA REGION

## Project 01

### Electrical Equipment Export

**Client / Buyer:** Government of Iraq

**Contractor /Seller:** Sonelgaz

**Implications**

- Algeria's Sonelgaz has started exporting electrical equipment to Iraq in a bid to revitalise local and international commercial partnerships
- The operation involves the export of a gas turbine generator of types "H53" and "H50" with a power output of 300 megawatts, along with associated accessories to a local Iraqi Company

## Project 02

### Silopi-Ceyhan Pipeline

**Client / Buyer:** Government of Iraq

**Contractor /Seller:** Government of Turkey

**Implications**

- The Development Road Project or Dry Canal Corridor between Iraq and Turkey will advance the Silopi-Ceyhan pipeline as an alternative to the Basrah export terminal
- With a capacity of 1.5 Mb/d, the pipeline offers a potential solution to geopolitical risks or political uncertainties that could affect oil exports from Basra.
- Once fully operational, the pipeline would facilitate the transportation of oil via Türkiye to countries in the Mediterranean Basin, including Spain, France, Italy, Portugal, Greece, and Egypt. This could create a potential annual business volume of US$ 50 B between the two countries.

## Project 03

### Iraq Block 8

**Client / Buyer:** MoO

**Contractor /Seller:** Pakistan Petroleum Limited

**Implications**

- The Iraq Council of Ministers has approved a settlement terminating Pakistan Petroleum Limited's (PPL) contract for exploration of Block 8
- The recommendation to terminate came from the Ministerial Council for Energy, and involved the state-controlled PPL and the Ministry of Oil's Middle Oil Company.
- The settlement agreement includes closing all mutual obligations by paying US$ 6 M from Midland Oil Company to PPL, with payment made from the financial allocations of the licencing round dues
- Block 8 lies within the east central part of Iraq, about 40 kilometres east of Baquba and about 110 kilometres east of Baghdad and covers an area of around 6,000 km2
- The contract with PPL was granted in the Fourth Licensing Round (2012), at a remuneration of US$ 5.38/b

## Project 04

### 500 kbbl Qayyarah Sour Crude Sale

**Client / Buyer:** Valero Energy

**Contractor /Seller:** SOMO

**Implications**

- Iraq's SOMO has sold 500 kbbl of Qayyarah crude to US refiner Valero Energy out of the 2 Mbbl it offered via tender on the S&P Platts Market platform on September 19
- SOMO's offer of prompt-loading Qayyarah crude comes at a time when Asian buyers have already completed their purchases for October loading, and after China stepped up imports of similar quality heavy and high-sulphur oil from Canada (following the expansion of the Trans Mountain pipeline, shortening the distance for shipments between North Asia and Canada)
- The cargo will load on October 8-10, and was sold at a discount of US$ 28.3/b to the average of Platts Oman and Dubai quotes on a FOB basis. An official reason for the deep discount has not been provided, but could highlight a currently well-supplied market and the impact of the ongoing crisis in the region which has allowed buyers to negotiate higher discounts
- SOMO still has 1.5 Mbbl of Qayyarah crude remaining offered on tender, and could snap up additional buyers in the coming weeks at similar prices

## Iraq Oil Market Highlights

**Crude Oil Prices**
As of October 8th, 2024

WTI: USD 75.68
Brent: USD 79.47

**Iraq Rig Count**

September 2024: 59
August 2024: 59

**Iraq Oil Exports**

September 2024: 3.31 Mbpd
August 2024: 3.39 Mbpd

**Oil Exports Revenue**

September 2024: USD 7.11 Billion
August 2024: USD 8.42 Billion