AL MAJAL

Newsletter | August 2024

Our Updates

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Al Majal Human Resources has successfully achieved certifications for ISO 9001:2015 Quality Management, ISO 14001:2015 Environmental Management and ISO 45001:2018 Occupational Health Safety Management.

ISO accreditation requires the highest standards in how consistency, continuity and processes are embedded across all functions of the organization and a testament to our long-term commitment in providing the highest levels of service to achieve customer satisfaction, a safe working environment for our employees and mitigating the impact of our operations on the environment.

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AL MAJAL OIL & GAS ROUNDUP

IN COLLABORATION WITH QAMAR ENERGY

Latest in the Iraqi & Global Energy Markets

Oil Demand in the Middle East

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Oil Demand in the Middle East

- Iraq's July oil demand increased by **11 kb/d m-o-m from June 2024 to reach 970 kb/d**, and remained relatively in line with July 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 > 1.2 Mb/d**, with crude burn for power being another demand source in the summer (> 250 kb/d at times, but on average 60 kb/d in July, lower than in June due to stabler Iranian gas imports (Iran demand for gas reduces in the summer), 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 the Al-Rutbah region in Iraq 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, and the resumption of the 150 kb/d Baiji North Refinery are key contributors to increased domestic crude consumption. This is despite continued challenges which have kept them running at 80% capacity.

The finalisation of a US$ 8 B deal for the 300 kb/d Fao Refinery with China National Chemical Engineering Co. (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.

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.

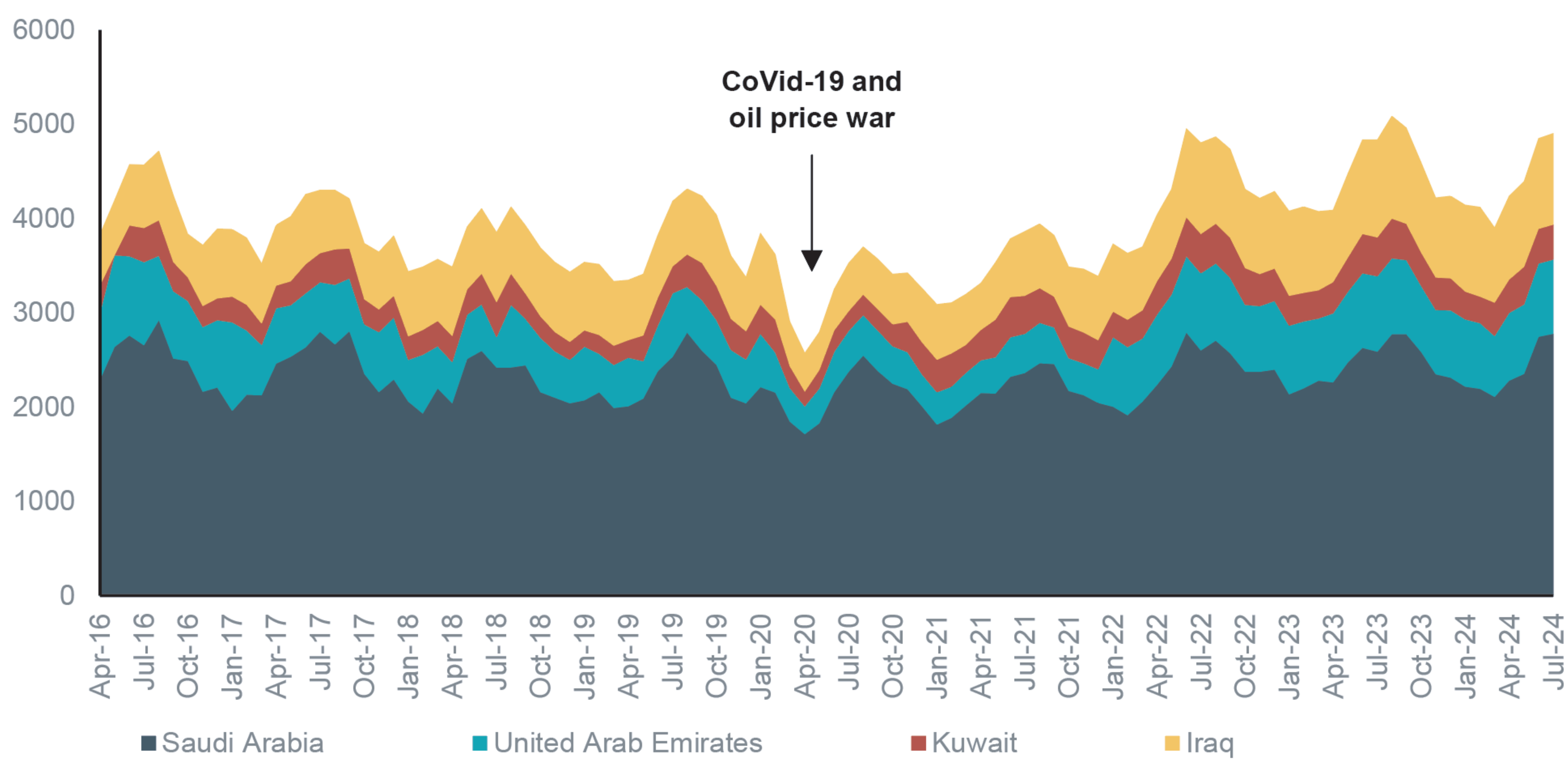


Figure 1 Oil Demand of Major Middle East Economies, kb/d

For the **other major Middle East economies**, oil demand ticked upwards **by 1.1% in July**, 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 **sixteenth month straight**, marking over a year since the landmark ICC ruling.

Overall **exports in July**, at 3.49 Mb/d, **were up ~80 kb/d** from June's 3.41 Mb/d, mostly because of an increase in exports from Al Qayyarah via Khor al Zubair (62 kb/d in July compared to a usual monthly average of 30 kb/d).

Exports to Jordan (15 kb/d trucked) remained offline for a third month straight, despite an agreement to resume exports at 15 kb/d till June 2025 at US$ 16/b less than the price of Brent, although when exports will restart has not been confirmed.

One sticking point appears to be political disagreements stemming from Kuwaiti Emir Sheikh Meshal's visit to Jordan last year, where both Kuwait and Jordan called on Iraq to adhere to a maritime deal that regulates navigation at the crucial Khor Abdallah waterway (the deal was annulled by the Iraqi Federal Supreme Court in September). This area, shared by Iraq and Kuwait, is also near where Kuwait discovered the Nokhetha-1 field in late-2022, also close to the undemarcated Kuwait-Iran maritime boundary.

The increase in exports comes despite rising pressure from OPEC+ for Iraq 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, for which it has now submitted an updated compensation plan to OPEC+, with cumulative overproduction for the first 7 months of this year amounting to 1.4 Mb/d.

As per its previous compensation plan, Iraq had a cumulative overproduction of 197 kb/d on average for the first 6 months of the year, under which it would reduce production below its nominal quota by between 70-90 kb/d starting July, which did not come to pass as Iraq overproduced.

The rise in exports equalled a rise in earned revenues, at **US$ 8.8 B** from US$ 8.2 B in June.

Production increased **in July by 100 kb/d to 4.9 Mb/d from 4.8 Mb/d in June,** due to gains in output at state-run fields, including Majnoon which raised output to 229 kb/d from 177 kb/d, and Kirkuk, where production has reached 360 kb/d (+10 kb/d), and is under works to increase by a further 40 kb/d for a total 50 kb/d increase to meet the needs of northern refineries, such as the Baiji Refinery Increased output was mainly exported in July as demand for crude burn reduced and refinery demand remained stable.

The launch of Phase-1 of the Central Processing Facility at the 100 kb/d Al Faihaa oilfield in end-July **should also contribute to increased state production capacity,** and marks the UEG-operated field's transition from early production to full-field operation.

The MoO is also planning to invest in capturing associated gas from the field by constructing a 125 MMscf/d gas processing plant by end-2024, likely to be used for local power generation needs, although further details have not been provided.

Output is 0.9 Mb/d higher than the OPEC quota (also due to KRI production recovering to 70% of its capacity) and passing 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. **Iraq breached its quota by 0.57 Mb/d in July** (KRG outputted 0.33 Mb/d).

OPEC+ gives credence to "secondary source"[1] assessments of member countries' output, according to which Iraq produced 4.25 Mb/d in July. Removing the KRG share 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.

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.

Exports in July were slightly higher than the previous average of 3.3-3.4 Mb/d recorded over the past few months at 3.49 Mb/d as **demand for crude burn reduced and refinery demand remained stable.** Additionally, if KRG refineries have lessened intake of Syrian Kurdish and federal Iraqi crude, it would mean they are utilising all KRG output. KRG refining capacity is almost enough to process all crude output.

Kurdish refining capacity includes the 40 kb/d Bazian Refinery and the 25 kb/d Dukan Refinery in Sulaymaniyah; the 170 kb/d KAR Refinery and the 100 kb/d Lanaz Refinery in Erbil; and the 6 kb/d Duhok province refinery belonging to DNO. This means major refining capacity is 341 kb/d. In addition, there are many basic, often unlicensed refineries. Refineries in Kurdistan have reportedly been ordered by local authorities to adopt [unspecified] environmental protection requirements or risk facing closure, while dozens of unlicensed topping plants have been ordered to shutdown.

KRG output is being sold domestically at steeply discounted prices of US$ 35-40/b, in some cases even more. **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 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 the last two months.** 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 cannot therefore be counted as part of Iraq's overall exports.

Fuel truck operators crossing into Iran at the Basmakh border have taken to concealing their vehicles ahead of publicly announced Ministry of Finance investigations into the trade. Announcing the investigations well in advance of conducting them appears counterintuitive, as it allows traders to "hide" in nearby villages or in Iran, once again pointing to corruption and collusion with political and business elites.

1 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.

There are some reports that Iran is utilising trucked Kurdish crude to process it into gasoline. A recent fire at the Parvez Khan border crossing, meanwhile, engulfed 15 fuel tankers killing one and injuring others, further highlighting the trepidatious nature of the illegal trade practice, where safety rules are not followed.

Iraq will rely on KRG's official shut-in capacity (even if illegal cross-border trade continues) to meet its OPEC+ commitments. This is why it has begun insisting on excluding the KRG from the national total, as a lower quota will mean higher undercompliance.

Iraq has been pushing for increased output in the wake of global developments and a budget deficit requiring higher oil revenue.

Iraq's production levels have become a subject of greater diplomatic sensitivity within OPEC+, causing the Ministry of Oil to reduce or pause public data disclosures of output and revenues earned, instead preferring to announce finalised data a few weeks after the end of each month.

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. Note that PMF forces recently entered the disputed Garmian region near Sulaymaniyah, raising concerns about a potential conflict with Kurdish forces over undeveloped oil resources, but have since partially withdrawn following PUK contact with the ruling Coordination Framework in Baghdad.

Still, the general sentiment between Baghdad, the KRG and IOCs operating in the KRG 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.

While the KRG's MNR has reiterated that it "will not obstruct the amendment of oil contracts", IOCs represented by APIKUR have deemed Baghdad's proposed amendments as unsatisfactory, which puts a question mark on the MNR's capacity for any meaningful progress towards export resumption.

Turkey, meanwhile, has been purchasing oil independently from SOMO, with a tanker carrying 1 Mb/d of crude purchased by Tüpraş expected to be delivered in September, after being seized by Iran in Omani waters back in January.

Iraq's production target will return to 4.431 Mb/d in 2025, which seems to exclude the KRG capacity of 450 kb/d, meaning it might still take time to resume ITP exports (since absent KRG capacity equals higher compliance).

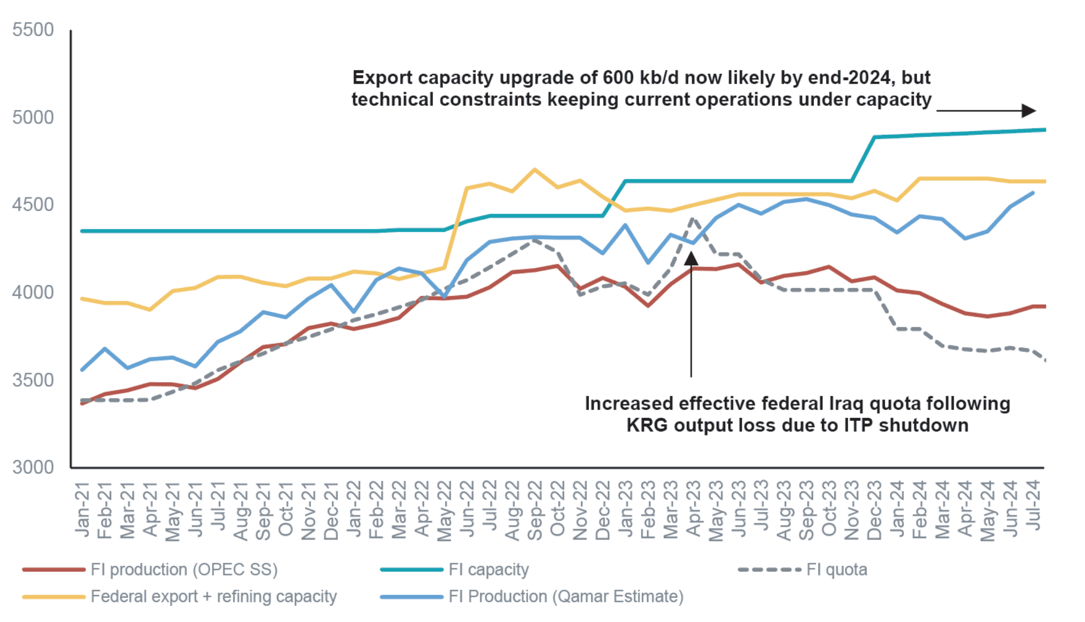


Figure 2 Federal Iraq production vs capacity, kb/d

Iraq Oil Revenues

Revenues from July exports clocked in at US$ 8.8 B, US$ 540 M higher than June earnings, due to the increase in exports and relatively strong global prices (US$ 81/b) that were also accompanied by higher Iraqi OSPs.

Federal Iraq prices its crude for export at a 3**-5% discount to Brent**. Current international oil prices are hovering around US$ 82/b, which should also be reflected in pricing for August-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.

Recently, the Greek-owned and flagged Sounion oil tanker carrying crude from Basrah was hit with a series of attacks in the Red Sea, further underscoring its unreliability.

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 administrative challenges.

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. The government of Shia Al Sudani seems keen to reduce Iraq's reliance on costly fuel product imports by increasing exports of domestically produced products such as gasoil (of which Iraq has become selfsufficient since January 2024) and gasoline (imports of which reduced by 50% by March 2024 compared to end-2023 levels), but political wrangling ahead of scheduled elections in 2025 (which by some accounts could be held earlier by anti-Sudani lobbyists to prevent him running for a second term) are likely to limit the pace of progress.

Meanwhile, Erbil and Baghdad's lack of success in reaching a consensus on resuming the ITP also casts a negative light on the future investment prospects, reflected in Bid Rounds 5+ and 6, which had a near-complete noshow from Western companies.

Out of 13 new projects awarded, 10 were to Chinese companies and 3 to local KAR Group. For the KRG, this means extremely lucrative assets (including natural gas) remain at risk of remaining undeveloped.

If Baghdad were to recognise the KRG oil sector as legitimate, then it would be under more pressure to make it comply with cuts.

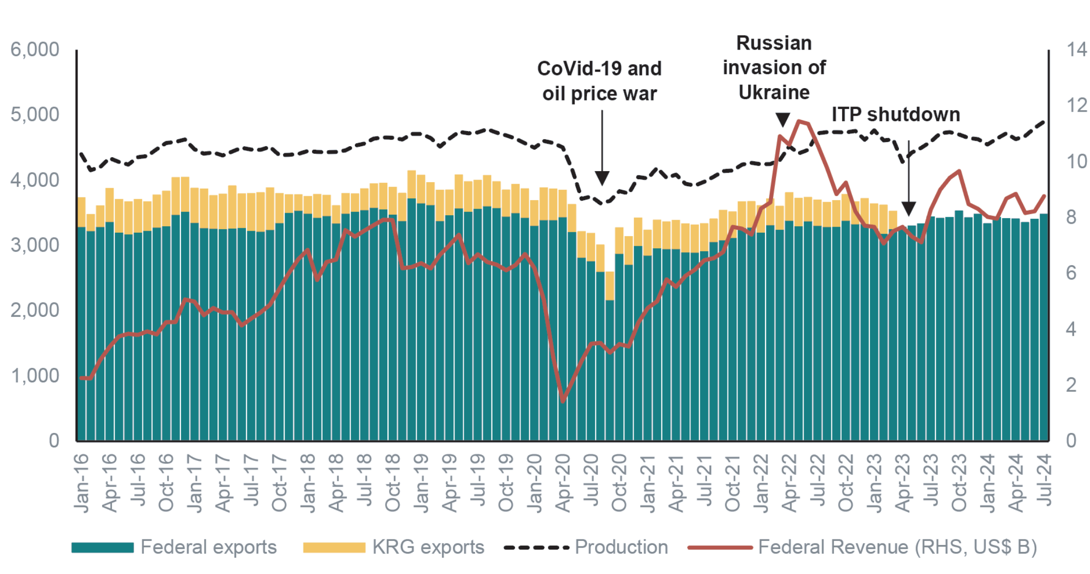


Figure 3 Iraq production vs exports, kb/d

Kirkuk Area Oil & Gas Fields Development Could Unlock Multiple Synergies for Iraq's Northern Oil Sector

BP has signed a non-binding, preliminary agreement with the MoO to lead the rehabilitation of four oil and gas fields in Kirkuk marking a new phase in its decade-long efforts to develop these fields. These include the Baba and Avana Dome structures of the Kirkuk field, Bai Hassan, Jambur, and Khabbaz.

BP previously led a consulting assignment back in 2013 to evaluate and plan for the future of Kirkuk-area fields, but this deal was frozen when the Islamic State took control over Iraq's northern territory.

The ousting of IS militants in 2017 resulted in an LoI with the MoO in 2018 reviving the assignment as a **comprehensive US$ 100 M reservoir study** covering the three formations of the Kirkuk field (Baba, Avana, and Khurmala), as well as Bai Hassan, Jambur, Khabbaz, Ismail, and Qara Chok.

Khurmala Dome has been under the authority of the KRG since 2008. The study was largely regarded as a potential prelude to a development contract but momentum faltered after December 2019 due to the oil price crash as a result of the pandemic, and no agreement having been reached on the fields' development / expansion plans. Of note is that BP's experience with the Kirkuk fields goes back 100 years with its predecessor, the Anglo-Persian Oil Company being the co-owner of the Turkish Petroleum Company when it drilled Kirkuk's Baba Gurgur well in 1927, Iraq's first commercially viable find and the world's largest at the time.

The agreement's non-binding nature at this stage is intended to set the table for impending negotiations, which will include, initially, presentations by BP on what it can add to the fields, as well as technology, expertise, and financing provisions.

If the agreement is made binding, it will help Iraq reverse the decades-long decline at the Kirkuk field which is currently producing 84 kb/d, way below what it can realise from nearly 9 Bbl remaining reserves. The Northern Oil Company currently produces 360 kb/d from the Kirkuk-area fields, and is undertaking expansion of other assets like the Nineveh fields to meet increasing refining demand in the area (such as the Baiji Refinery).

NOC's near-term plan is to add 50 kb/d to its portfolio from the Sassan, Allan, Qasab, and Jawan fields under development in Nineveh (active fields include Qayyarah, Najma, Ain Zala, Batma, and Saifa).

The increase in production from Nineveh should boost NOC's overall production to 500 kb/d, suggesting a production potential of 140-150 kb/d from Nineveh fields. Even a partial rehabilitation programme, such as for existing facilities, could 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.**

There may be an easier entry-point for BP if it capitalises on the shift in Erbil-Baghdad relations following the closure of the ITP. Since the KRG effectively has no earning capability of its own now, it is entirely dependent on Baghdad, financially and politically, which has granted Baghdad the ability to wield authority over disagreements or disputes with the KRG.

This can provide reassurance to BP that it could, at the very least, reach a deal to develop Bai Hassan and Avana (two assets that were under KRG control and adopted into its oil portfolio from 2014 and 2017, but since then fell to Federal Iraq following a failed referendum), and other assets that the KRG can no longer stake a claim to.

There is no indication that the current agreement includes any KRG assets (such as Khurmala and Ismail).

There may be a planning challenge for BP, given that it has always wanted to develop all fields under a unified master development plan (MDP) **to take advantage of subsurface connections and other synergies,** but reaching this stage will take a lot of careful political navigation and relationship-building with both outgoing and incoming members of the current Sudani government, as well as the new one after elections.

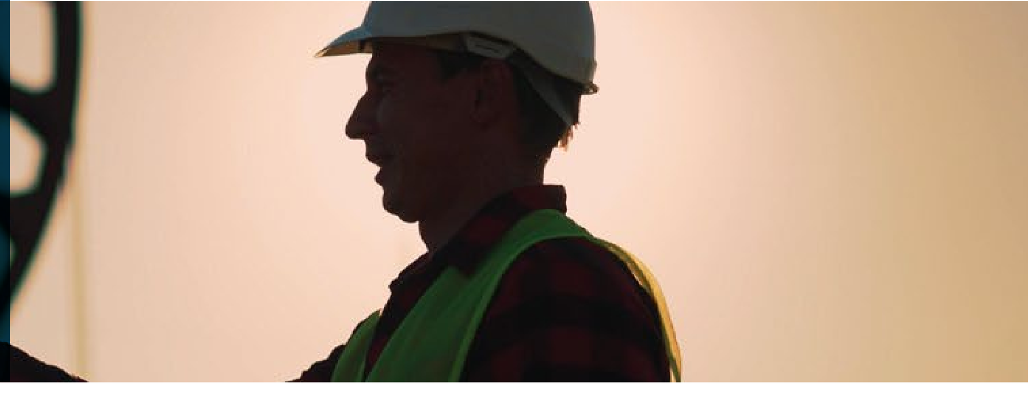
One possible synergy that could be realised as part of a unified MDP would **be the development of a northern associated gas gathering system** that would process the associated gas captured from all the fields under the plan, thereby saving costs. If priced at market levels, this could result in adequate gas sales revenues to cover the cost of delivering what is typically expensive-to-treat gas to the processing hub in a safe and environmentally sound manner.

Captured volumes from such an enterprise could provide supply for in-field use; for EOR; and/or for power generation at the fields, or exported to power plants in the surrounding areas for generation.

A statement by Sudani's media office on August 04 has **directed Iraq's oil sector to expand production to be able to increase associated gas output,** "either through national efforts, or by completing production rates agreed upon with companies (from licensing rounds)", hinting at the increased focus on developing gas-to-power capabilities.

A recent example is the CNPC-operated Ahdab oilfield in Wasit, that has processed >5 BCM of dry gas to date to power the oilfield and export gas to the 2.54 GW Wasit Thermal Power Plant, Iraq's largest.

At East Baghdad, operated by ZhenHua Oil, existing gas compressors (some as old as 15 years) have been rehabilitated to reduce gas flaring / eliminate gas burning with captured gas now being directed to the pipeline network towards power plants to generate electricity.



TOP ENERGY DEALS IN THE MENA REGION

Project 01

Baiji 2 Power Plant Rebuild

Client / Buyer

Iraq Ministry of Electricity

Contractor /Seller

Siemens, China State Construction Engineering Corporation (CSCEC)

Implications

- Iraq has signed an agreement with Siemens and CSCEC to rehabilitate the Baiji-2 gas-fired power plant which was damaged by IS militants in 2014
- As the main contractor, CSCEC will be responsible for financing the project, supplying and installing the auxiliary equipment such as the fuel system, fire suppression systems, treatment, compressors along with pipes and valves, as well as civil works
- For finance, CSCEC will explore the option of securing export credit support from China
- Chinese firms have rapidly gained a large foothold in Iraq's energy sector, from upstream developments to refineries and utilities projects, hinting at the shift in the investor landscape from West to East, and the risk-taking appetite of Asian companies
- Such a shift can encourage improvements in deal terms and infrastructure capabilities, resulting in opportunities for more M&A activity and future growth in Iraq's strategic sectors without being held down by legacy Western firms that are lesser willing to compromise
- Meanwhile, Siemens will be responsible for supplying the main equipment, such as gas turbines and transformers
- It will also supervise the execution of the project

Project 02

Khor Mor Gas Expansion Project (KM250)

Client / Buyer

Dana Gas

Contractor /Seller

Enerflex

Implications

- Dana Gas has formally issued a notice of termination to Canadian EPC contractor Enerflex for the US$ 600 M KM250 expansion project that would boost Khor Mor's capacity to 750 MMScf/d after "numerous performance issues" during the execution period of the contract
- The performance issues have "materially affected Enerflex's ability to meet its contractual obligations, leading to unacceptable delays and hindering the progress and timely completion of the Khor Mor gas expansion project", causing Pearl Petroleum to now take direct control of the expansion project to ensure it is brought on track and completed in the "timeliest" manner
- Dana Gas had stated earlier in April that the construction of KM250 was expected to be completed in H2 2024, a timeline the company intends to stick to even with Enerflex no longer in the picture

Project 03

Iraq-Turkey Power Line

Client / Buyer

Iraq Ministry of Electricity

Contractor /Seller

Government of Turkey

Implications

- Baghdad inaugurated a new 115 km-long power transmission line connecting Turkey and Iraq on July 21 to receive 300 MW of power from Turkey to supply northern Iraq, including the regions of Nineveh, Kirkuk, and Salahuddin
- In an effort to increase its energy security and diversify energy sources, Iraq is integrating the new power line into a broader strategy to join the regional energy grid, with future potential connection to the GCCIA with the GCC countries, and the Jordan-Iraq power line
- This will significantly reduce Iraq's reliance on Iran for its energy needs as well as reshape its geopolitical alliances. This strategic shift, combining new energy links Turkey, is expected to lessen Iran's influence in Iraq
- The new connection is a crucial part of the larger Development Road Project, a Turkish effort aimed at strengthening commercial and infrastructure ties, as well as of the Dry Canal Corridor, a UAE and Qatar-backed Iraqi initiative to link the GCC countries to Turkey via Iraq

Project 04

Iraq-Lebanon Fuel Supply Deal

Client / Buyer

Government of Lebanon

Contractor /Seller

SOMO

Implications

- Iraq has reversed its previous approval for the supply of Iraqi fuel to Lebanon to prevent the country from plunging into "blackout" after the Central Bank of Lebanon refused to approve a new US$ 700 M credit line required to fulfil Lebanon's obligations under the agreement
- Under a 2021 deal with Iraq, Lebanon would receive fuel oil that is unusable by the only two functional powerplants in Lebanon, which it then exchanged through a tender mechanism for other types of compatible fuel
- In return, Lebanon's Finance Ministry would deposit an amount equivalent to the supplied quantities into an account in Lebanon's Central Bank, which Iraq can use exclusively in Lebanon in exchange for services – although these are not specified
- Lebanon is allegedly 6 months behind schedule in paying SOMO, and a visit by Lebanese PM Najib Mikati to Baghdad has proven unsuccessful in getting Baghdad to waive Lebanon's US$ 700 M debt from the original deal
- Iraq PM Sudani has reportedly agreed to renew the agreement for an additional US$ 700 M under the same conditions as before, without waiving the previous debt, which effectively doubles Lebanon's financial obligations to Iraq
- The Central Bank of Lebanon has rejected the government's request to open another US$ 700 M account to cover the services owed to Iraq in exchange for the fuel, as these costs would impose an undue financial burden on the bank, violating Lebanon's monetary laws and its decision to cease extending further loans to the state

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Iraq Oil Market Highlights

Crude Oil Prices
As of September 4th, 2024

WTI: USD 70.19
Brent: USD 73.15

Iraq Rig Count

August 2024: 59
July 2024: 59

Iraq Oil Exports

August 2024: 3.39 Mbpd
July 2024: 3.48 Mbpd

Oil Exports Revenue

August 2024: USD 8.42 Billion
July 2024: USD 9.08 Billion