AL MAJAL

Newsletter | June 2024

Our Updates

Al Majal Joint Venture Outlines Plans for New Training Center to Develop Iraq Energy Workforce

Al Majal, together with joint venture partner Wood, a global leader in consulting and engineering, is developing a new state of the art vocational training center in Basra, Iraq.

Expected to open in early 2025, the center will provide a wide range of Engineering Construction Industry Training Board accredited programs including operations and maintenance, construction management, health, safety and environment, professional leadership training and a range of other courses. A five-month pilot training program will begin this year ahead of the center officially opening.

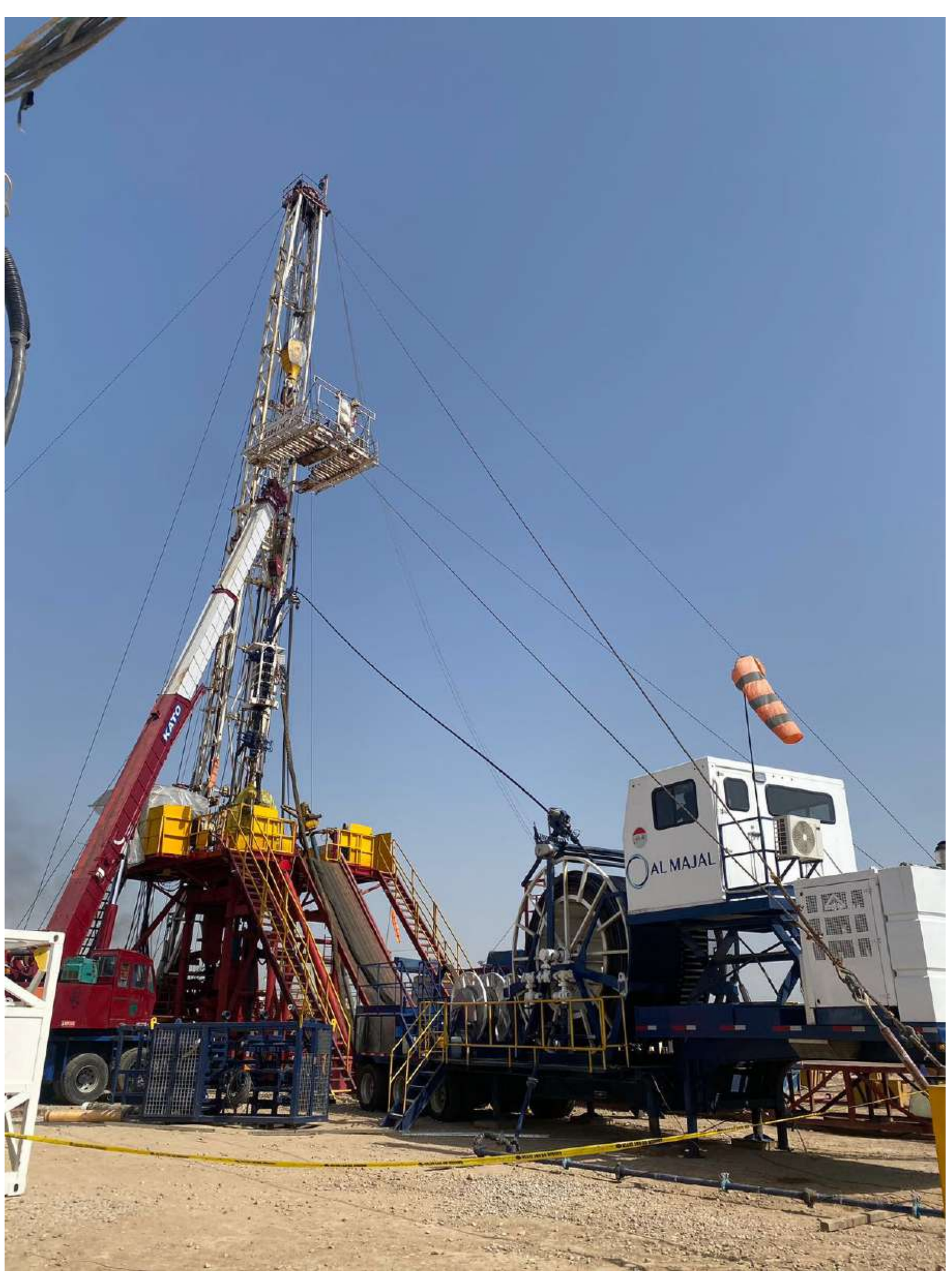
Supporting the development of the local energy workforce in Basra, the training center will also enable further upskilling across key technical roles, including project teams, construction engineers, supervisors and local contractors. On completion of training, Wood Al Majal will support delegates to secure future employment.

“The new training center reaffirms our commitment towards investing in the development of the Iraqi workforce by offering state of the art facilities and best in class accreditation programs to a wide range of talent, ensuring a robust future for the industry” Ali Agha Jaffar, CEO of Al Majal.

A new Wood Al Majal fabrication facility will be established at the same complex. Specializing in engineered fabrication to meet international standards, the facility will offer design, engineering, inspection, painting and fabrication delivery services and is due to be completed in 2025. The joint venture, which integrates expertise from both Wood and Al Majal, provides commissioning, maintenance and brownfield modifications solutions across Iraq.

Al Majal Oilfield Services Expands Coiled Tubing Operations

AMOS continues to solidify its operational footprint upon the conclusion of two coiled tubing jobs in Iraq’s southern oil fields. Led by our team of technical specialists over the course of two weeks, the operations fulfilled the client’s requirements towards optimizing well performance, enhancing reservoir access and boosting oil production.



AL MAJAL OIL & GAS ROUNDUP

IN COLLABORATION WITH QAMAR ENERGY

Latest in the Iraqi & Global Energy Markets

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Oil Demand in the Middle East

Iraq's May oil demand increased by **21 kb/d m-o-m from April 2024 to reach 907 kb/d,** and remained relatively in line with May 2023 levels of ~900 kb/d demand.

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 > 1.1 Mb/d,** with crude burn for power being another demand source in the summer (> 250 kb/d at times).

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 North Refinery in the Baiji Complex are major contributors to increased demand. This is despite continued "technical" challenges at Karbala which have kept the refinery running below design capacity.

The finalisation of a US$ 8 B deal for the 300 kb/d Fao Refinery with China National Chemical Engineering Co. (CNCEC) last month could provide some **upside to domestic crude demand 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.

For the **other major Middle East economies**, oil demand grew by **2.5% in May,** 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.

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.

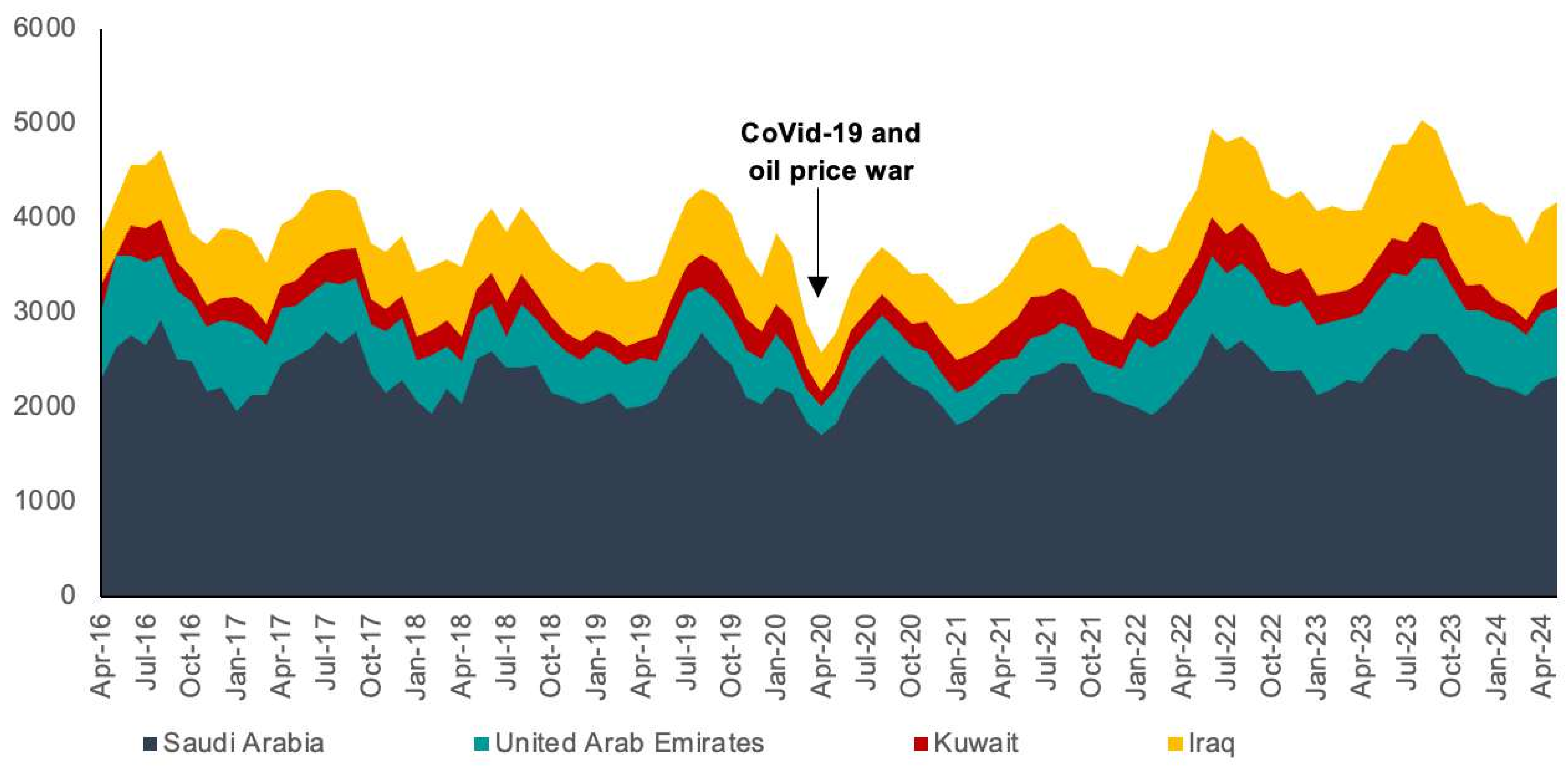


Figure 1 Oil Demand of Major Middle East Economies, kb/d

Iraq's Oil Production and Exports

The Iraq-Turkey pipeline (ITP) remained offline for the **fourteenth month straight,** marking over a year since the landmark ICC ruling.

Overall **exports in May,** at 3.36 Mb/d, **were down ~50 kb/d** from April's 3.41 Mb/d, mostly because of exports to Jordan (15 kb/d trucked) and from Al Qayyarah via Khor al Zubair (30 kb/d) being taken offline. This has been the easier option to show stronger compliance with Iraq's OPEC+ quota of 3.997 Mb/d which has been extended through September.

Revenues dipped in May, however, at **US$ 8.2 B** due to a slight softening in global prices. This is despite **production increasing slightly in May to 4.68 Mb/d from 4.63 Mb/d in April,** due to incremental gains in output at Zubair and the state-operated Luhais oil field in Basrah. Output is 0.68 Mb/d higher than the OPEC quota, mainly due to KRI production recovering to >70% of its capacity, but still lower than the record >4.75Mb/d recorded in January 2023.

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 0.35 Mb/d in May** (KRG outputted 0.33 Mb/d).

OPEC+ gives credence to "secondary source" assessments of member countries' output, according to which Iraq produced 4.2 Mb/d in April. Removing the KRG share would put federal Iraq's production at 3.87 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.

Exports have remained steady around the 3.4 Mb/d mark for a few months now, meaning **extra output is being absorbed in higher refining runs and more direct crude burn.**

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.

A recent fire at a refinery in Erbil has not seemed to impact refining capacity, as it broke out at an asphalt storage facility due to an electrical fault.

KRG output is being sold domestically at discounts of up to US$ 35/b, with traders trucking some small volumes across the Iranian border for export sales via Iranian ports.

Iraq will rely on KRG's shut-in capacity 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.

May compliance was only 19%, despite a commitment to make up for past transgressions. Iraq is pushing for increased output in the wake of global developments and a budget deficit requiring higher oil revenue.

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, a recent meeting with 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.

However, **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).

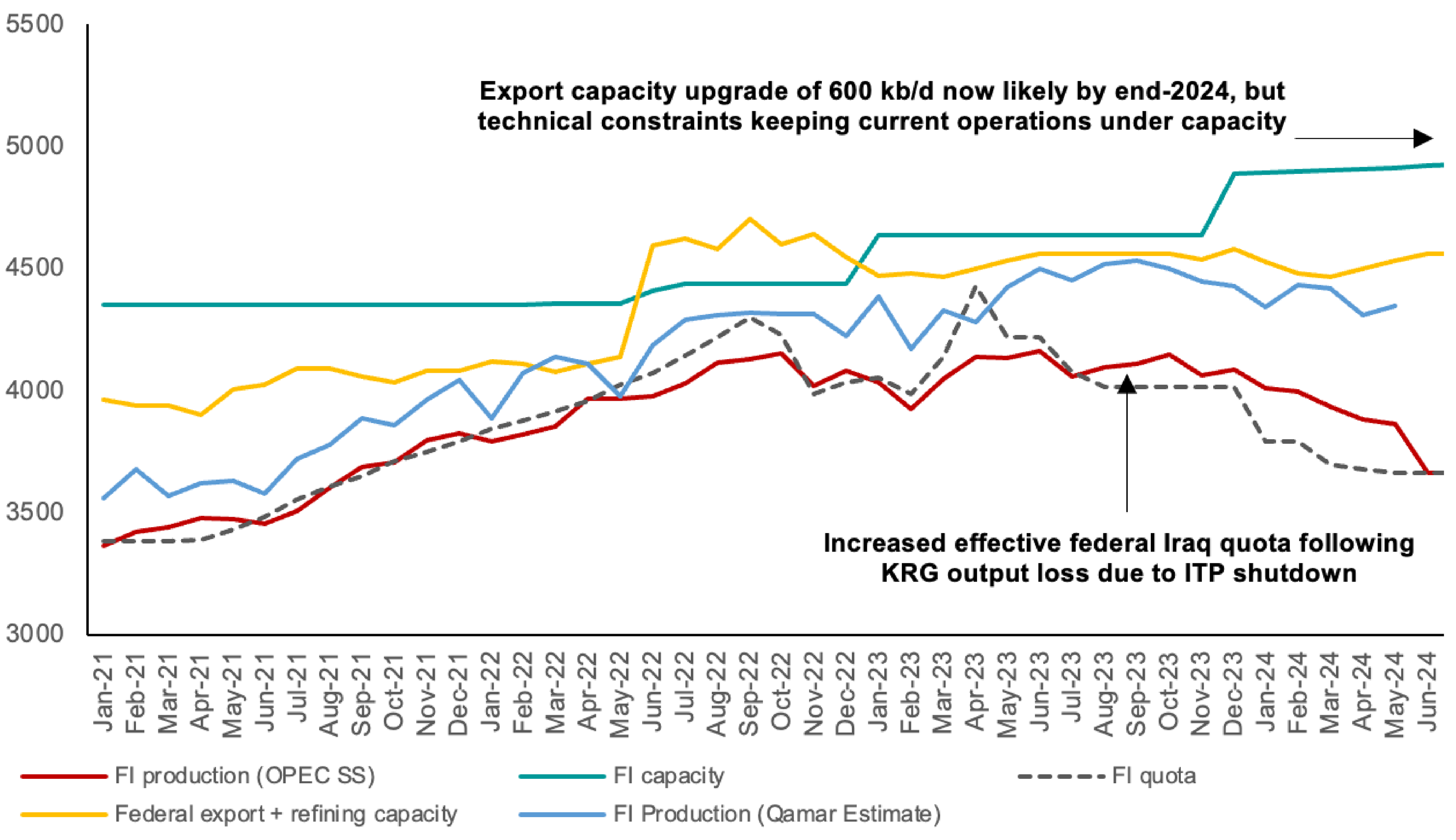


Figure 2 Federal Iraq production vs capacity, kb/d

Iraq Oil Revenues

Revenues from May exports clocked in at US$ 8.2 B, US$ 600 M lower than April earnings, due to a drop in exports and softening 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$ 87/b, which should also be reflected in pricing for June-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.

Erbil and Baghdad's failure to reach consensus on resuming the ITP also casts a negative light on future investment prospects, reflected in Bid Rounds 5+ and 6, which had a near-complete no-show 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.

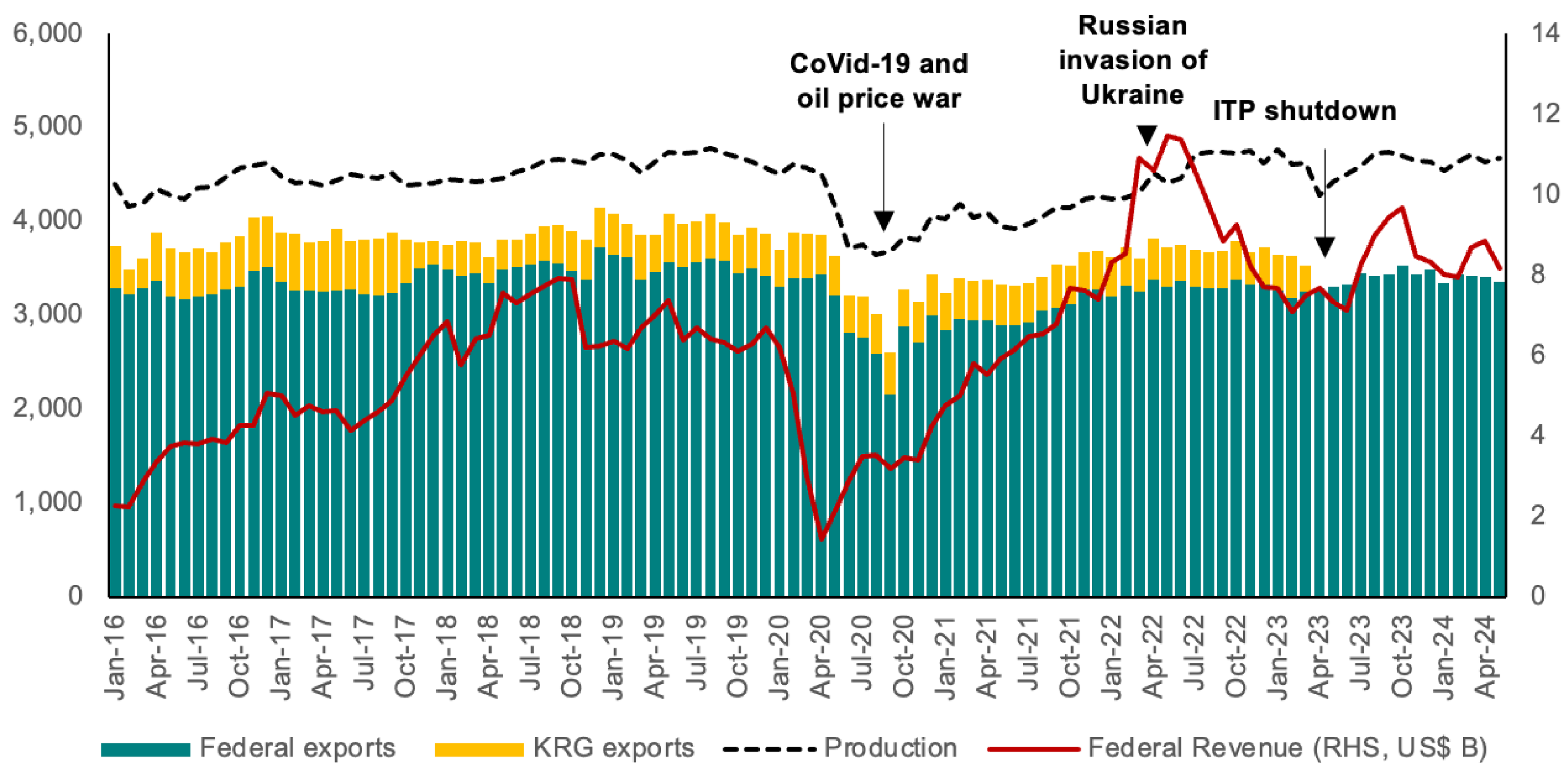


Figure 3 Iraq production vs exports, kb/d

Iraq’s Oil & Gas Developments

Progress on the Iraq-Jordan Export Pipeline (IJEP) could provide a New Strategic Outlet for Iraqi Oil

MoO subsidiary SCOP (State Company for Oil Projects) has been assigned the first leg of the long-stalled US$ 10.9 B, 1,657 km long **Basrah-Aqaba oil export pipeline,** with US$ 4.9 B authorised in financing. The first leg will involve the construction of nearly 700 km of pipeline from Basrah to Haditha, 265 km northwest of Baghdad, with a capacity of 2.25 Mb/d, 5 Mbbl storage capacity, and 5 pumping stations. **It is planned to be completed by 2028.** Iraq is planning to increase production capacity to 8 Mb/d by then, so a new 2.25 Mb/d export outlet could help carry the additional crude produced, although past ambitions for capacity upgrades have fallen short of being realised by planned timelines.

The pipeline can achieve multiple economic and strategic objectives for Iraq:

Expanding and diversifying Iraq’s oil export routes by adding a third sizeable export route and giving Iraq access to Aqaba’s position in global shipping routes. It can also ease the burden on existing Basra export infrastructure that is operating near-capacity and could provide a safety net in case other export outlets are offline. Basra export infrastructure is also strategically vulnerable due to the use of the Strait of Hormuz which has been a geopolitical pressure point recently.

Enabling oil from southern Iraq to be pumped into Turkey by forking northward to connect with Iraq’s section of the ITP, which has allegedly been made “export-ready” in recent weeks, but can carry only 80 kb/d currently due to limited storage and pumping capacity. This depends on internal Iraqi politics and reaching diplomacy with Ankara.

Feed domestic refineries along the route to Haditha and onward to Jordan, or upwards to Turkey to operate at capacity to strengthen Iraqi self-sufficiency.

Provide feedstock for power plants (if needed), but more importantly to industrial factories and future petrochemical projects.

Give SOMO more options for maximising sales by selling to a larger and more diverse group of customers and markets (such as Europe).

SCOP has reportedly been asked to also build a natural gas pipeline along the same route as the Basra-Haditha pipeline to expand the use of associated gas produced in the south.

Such a pipeline could:

Expand existing Iraq gas infrastructure to connect more cohesively with the Western provinces, such as Anbar, which holds the Akkas gas field being developed by Ukrzemresource.

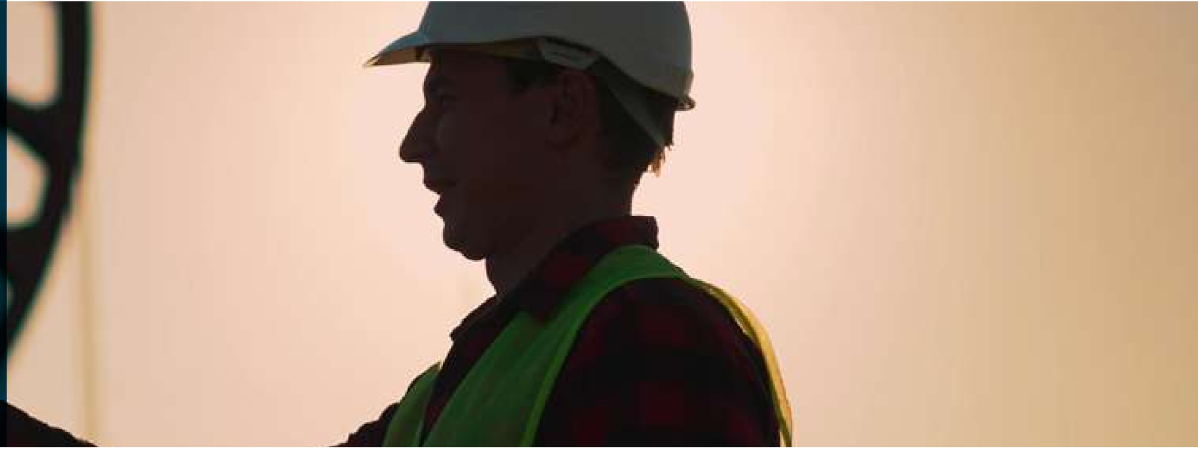
Meet domestic demand in underserved areas and mitigate power shortages.

Connect into Jordan to provide Iraqi gas for export to international markets via Aqaba as with the oil export pipeline.

Help establish Iraq as an upcoming gas player in the region, and a more established one in the future if KRG resources are developed and connected to the federal network. It is not clear however that this gas pipeline will be part of SCOP’s IJEP-related work or a separate project. Moreover, there are no further details or an indicative timeline announced for its development.

The IJEP pipeline will source materials from state companies in Iraq, bolstering the Ministry of Industry and Minerals’ standing, and providing jobs to local workers. **It can also act as a rebuttal to nationalists who oppose the project for political reasons,** saying that PM Sudani is authorising the project to appease the US and that Jordan will ultimately begin selling Iraqi crude through the pipeline to Israel.

TOP ENERGY DEALS IN THE MENA REGION



Project 01

500 MW Solar Power Plant

Client / Buyer

Iraq Ministry of Electricity

Contractor /Seller

AMEA Power

Implications

The Iraqi Council of Ministers has authorised the Ministry of Electricity to extend an invitation to Dubai-based developer, owner, and operator of renewable projects, AMEA Power, to present its proposal to build a 500 MW solar plant with the option to add batteries in Iraq

The directive suggests that AMEA could be sped through lengthy internal pre-qualification and contracting procedures, easing filing for an "investment opportunity" licence for the project from the National Investment Commission

Iraq is a MENA laggard in terms of renewables but has approved several solar projects, the most advanced of which is TotalEnergies' planned 1 GW Basra facility which is due to begin supplying the grid in 2025

If approved, AMEA's project would take Iraq's utility-scale renewable project pipeline to 5.25 GW

Project 02

Gas Growth Integrated Project (GGIP)

Client / Buyer

TotalEnergies, Ministry of Oil

Contractor /Seller

Wood plc

Implications

Wood plc has been awarded a US $46M, 3-year contract to provide FEED, detailed design, procurement support, and construction and commissioning assistance for Phase-1 of the Associated Gas Upstream Project, part of TotalEnergies Gas Growth Integrated Project (GGIP) in southern Iraq

The GGIP includes the recovery of gas currently flared in the Basra region to supply power generation plants, along with the construction of a seawater treatment unit and a 1GW solar power plant

The project will contribute to improved environmental sustainability in Iraq through emissions reduction efforts, a growing focus for the country as it works towards eliminating gas flaring completely by 2028

PM Sudani inaugurated the 300 MMscf/dHalfaya Gas Processing Project a few days prior to the award, which will process associated gas in the Maysan province to generate 1.2 GW of electricity

Project 03

"Dry Canal" Corridor

Client / Buyer

Government of Iraq

Contractor /Seller

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Implications

Iraq is undertaking a new study to assess the feasibility of developing a US$ 17 B corridor from Al Fao to Turkey to export oil and gas, in partnership with Qatar and the UAE, and as part of a quadrilateral cooperation agreement signed in April between the three countries and Turkey to advance the new route

The corridor, also called the "Dry Canal" (as it goes by land) will include fibre optic cable lines, oil and gas pipelines, and electricity and renewable energy transmission grids to stimulate economic growth and enhance regional and international cooperation

The broader scheme will include a highway and rail line, directly connecting the Gulf states to Turkey. This will allow for faster deliveries than that of ships passing through the Suez Canal, and would avoid security problems in the southern Red Sea

If constructed as planned, the scheme could challenge the dominance of the Suez Canal, through which about 12% of global trade passes, but the Dry Canal will be unable to handle the thousands of containers that the ultra-large vessels transport through the Suez Canal

The project is anticipated to be completed in 2029 if work starts early in 2024, an ambitious timeline, and dependent on regional politics and diplomacy

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Iraq Oil Market Highlights

Crude Oil Prices
As of July 8th, 2024

WTI: USD 82.70
Brent: USD 86.19

Iraq Rig Count

June 2024: 59
May 2024: 59

Iraq Oil Exports

June 2024: 3.32 Mbpd
May 2024: 3.35 Mbpd

Oil Exports Revenue

June 2024: 7.92 USD Billion
May 2024: 8.14 USD Billion