AL MAJAL

Newsletter | July 2024

Our Updates

New Premium Accommodation Block Opens at AMBP Burjesia

Al Majal Business Park – Burjesia recently introduced an additional premium residential block to cater for the growing demands of our clients.

Available for short and long-term leasing, the elegant and comfortable rooms offer guests modern amenities and are conveniently located just a short stroll away from the park's offices, workshops and warehouses. All guests have access to the full-service dining facility and can stay active at the fully equipped fitness and recreational facilities throughout their stay.

Learn more about Al Majal Business Parks' offerings at almajalenergy.com/ambp

AL MAJAL OIL & GAS ROUNDUP
IN COLLABORATION WITH QAMAR ENERGY
Latest in the 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 June oil demand increased by **53 kb/d m-o-m from May 2024 to reach 959 kb/d,** and remained relatively in line with June 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 > 1.1 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) in May 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 5.8% in June, 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.

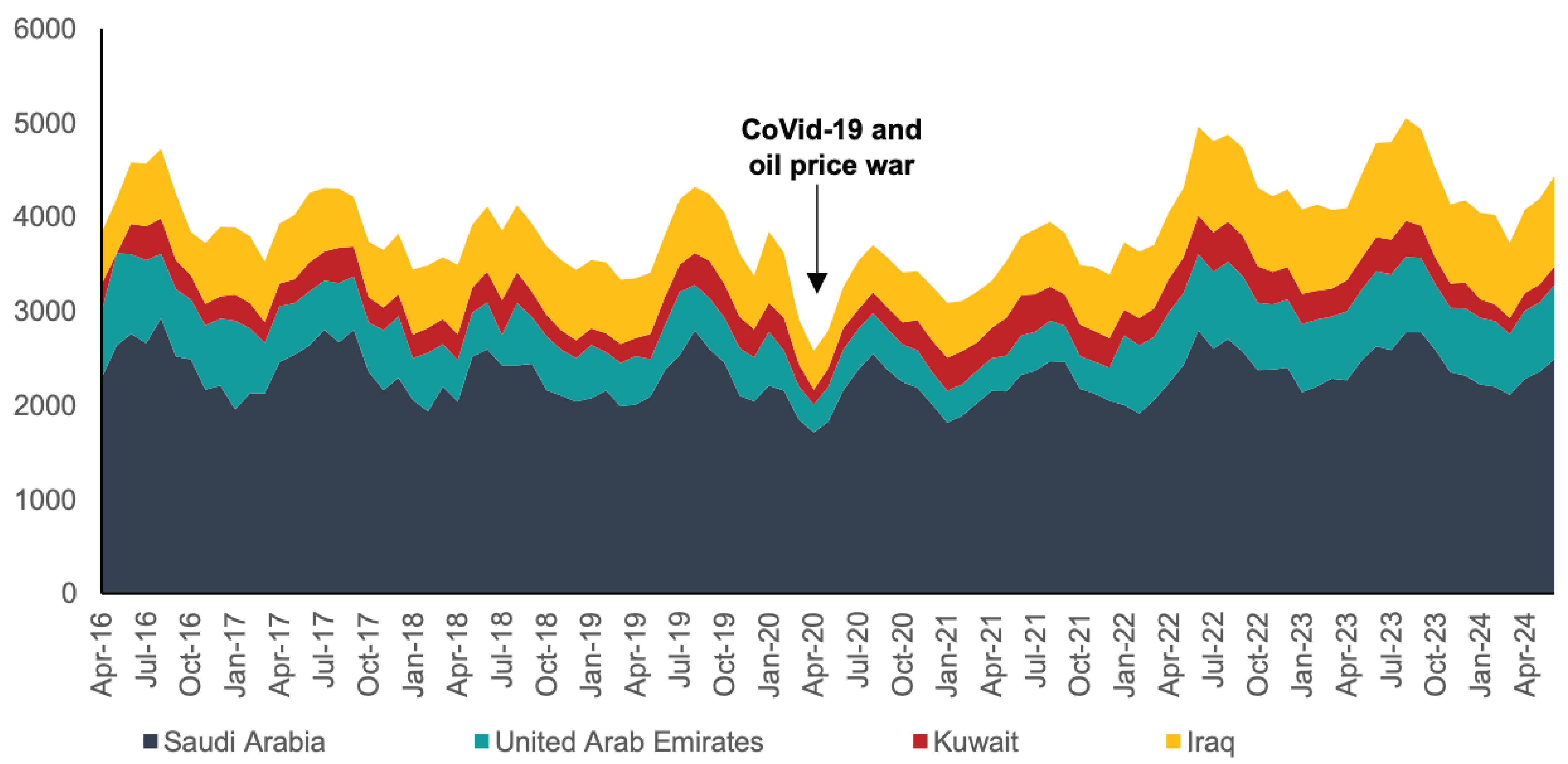

Figure 1 Oil Demand of Major Middle East Economies, kb/d

Iraq's Oil Production and Exports

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

Overall **exports in June, at 3.32 Mb/d, were down ~40 kb/d** from May's 3.36 Mb/d, mostly because of exports to Jordan (15 kb/d trucked) remaining offline for a second month straight, and from Al Qayyarah via Khor al Zubair (30 kb/d) also not confirmed to have restarted after being offline in May.

This has been the easier option to show stronger compliance with Iraq's OPEC+ quota of 3.997 Mb/d which will reduce to 3.907 – 3.927 Mb/d starting July, as Iraq compensates for pastoverproduction. However, Iraq has reportedly agreed to resume exports to Jordan 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.

Revenues dipped in June, however, at **US$ 7.92 B** reflecting Iraqi efforts to improve compliance with the OPEC+ agreement. This is despite **production ballooning in June to 4.8 Mb/d from 4.68 Mb/d in May,** due to gains in output at state-run fields, including Majnoon which raised output to 177 kb/d from 69 kb/d, and Kirkuk, where production has reached 360 kb/d (+10 kb/d). Increased output is being absorbed domestically in increased refining runs and power generation.

Output is 0.8 Mb/d higher than the OPEC quota, mainly due to KRI production recovering to 70% of its capacity, and passing the previous record >4.75 Mb/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 0.49 Mb/d in June (KRG outputted 0.31 Mb/d).

OPEC+ gives credence to "secondary source"1 assessments of member countries' output, according to which Iraq produced 4.2 Mb/d in June. Removing the KRG share would put federal Iraq's production at 3.89 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. 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 have remained steady around the 3.3 – 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.

1 Secondary source estimates typically utilise industry group data and publications to compile production estimates, which often do not rely on onground 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.

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.

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. There are some reports that Iran is utilising trucked Kurdish crude to process it into gasoline.

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.

June compliance was barely above 0%, at 0.3%, causing OPEC+ to pressure Iraq for a compensation plan which will see its nominal quota reduce to 3.907 – 3.927 Mb/d for the next three months. 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+, bcausing 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. **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. 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).

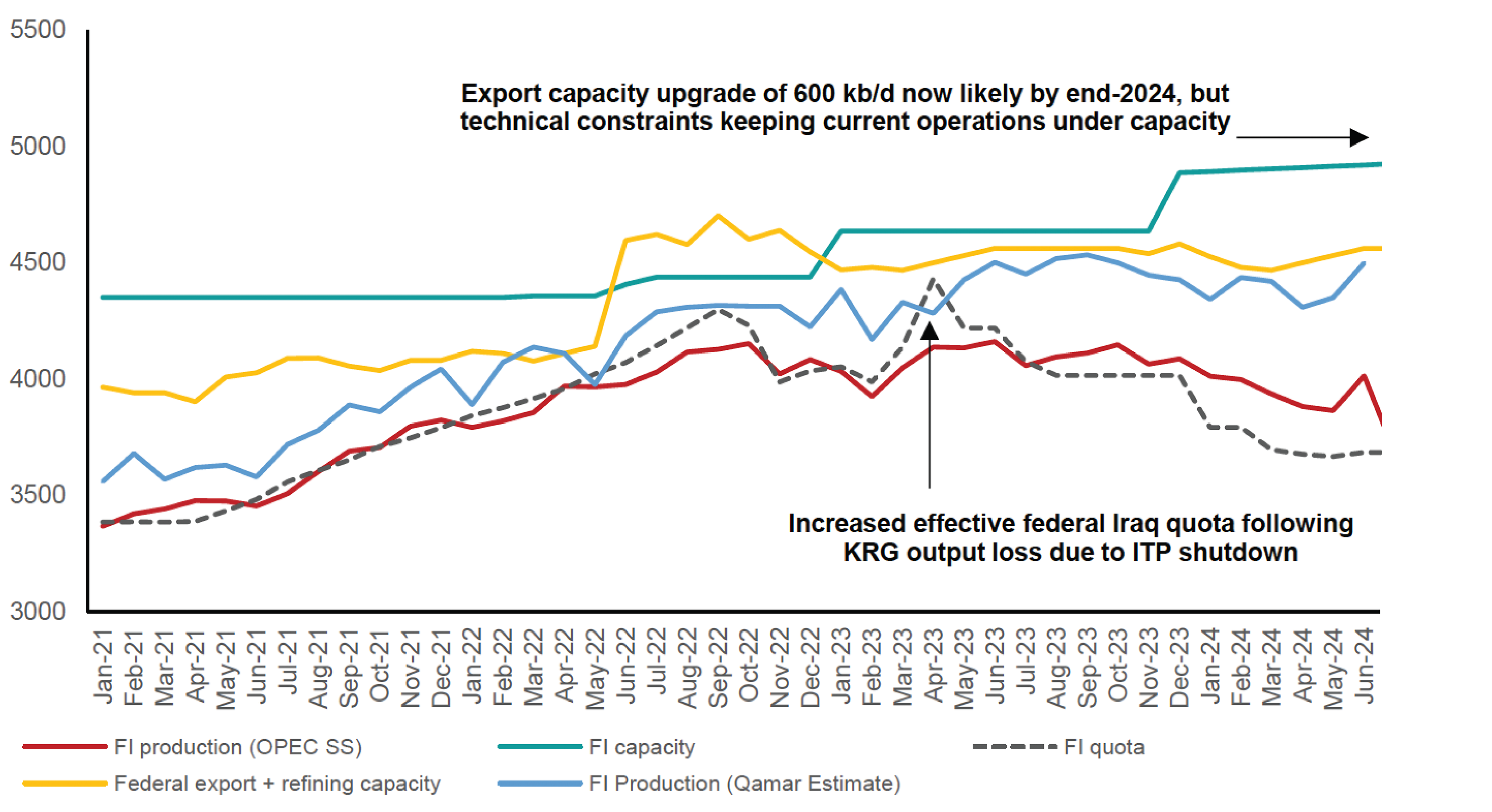

Figure 2 Federal Iraq production vs capacity, kb/d

Iraq Oil Revenues

Revenues from June exports clocked in at US$ 7.92 B, US$ 280 M lower than May earnings, due to a drop in exports despite relatively strong global prices (US$ 82/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$ 81/b, which should also be reflected in pricing for July-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.

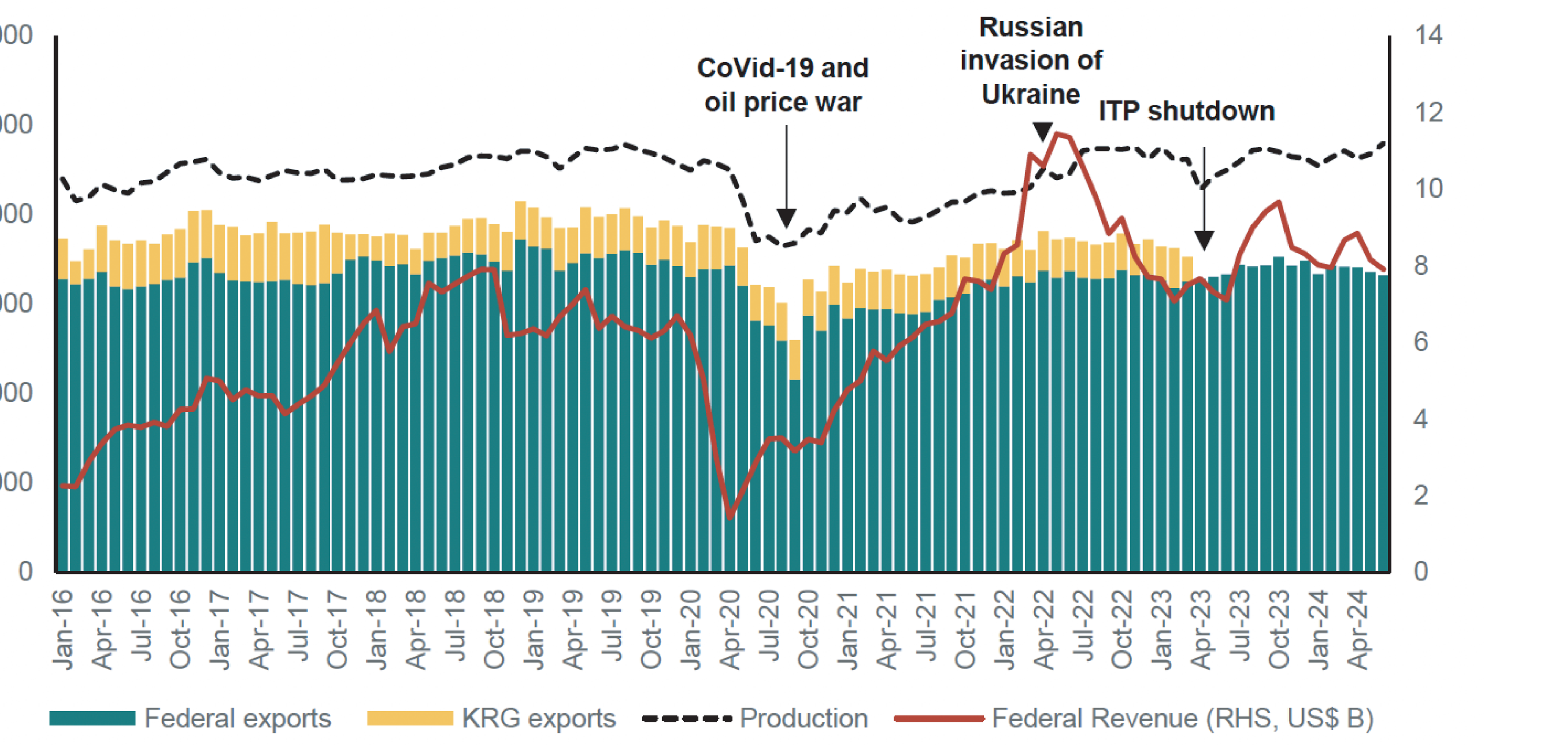

Figure 3 Iraq production vs exports, kb/d

Progress on Iraqi Electricity Grid Reduces Power Outages during High-Demand Summer Months, with Several Projects Planned for Future Self-Sufficiency

Iraq’s electricity grid has started improving levels of service to southern provinces this summer, despite a drop in power imports from Iran.

Currently, 2 out of 3 power lines from Iran to Iraq are halted – these include both lines to Basrah (including the Khorram Shahr line to Shatt al-Arab) – due to shortages on the Iranian side, and the growing capacity of generation stations and the transmission network in Basrah to provide more power to Iraqi citizens.

Separately, Iran is also running into gas shortages impacting gas exports to Iraq, for which it has signed a contract with Turkmenistan for the delivery of 10 BCM/y of Turkmen gas to Iran, that Iran will then ship on to Iraq. The only functional power line from Iran is the one to Karkeh in the Missan province, which receives 100 to 200 MW per day.

Basrah is now receiving up to 4.8 GW of power daily, meaning up to 20 hours of power a day, and for some areas up to 22 hours (out of a summer peak demand of nearly 5.1 GW);

Other southern provinces are also receiving increased power supply, although still lower than what they need, with Dhi Qar receiving 1.9 GW (with plans to reach 2 GW soon), Missan receiving 1.2 – 1.3 GW, and Muthanna receiving only 90 MW. This increased supply comes on the back of projects undertaken by the Southern Electricity Distribution Company since 2018, when outages started becoming severe due to shortages on the Iranian side.

These projects include:

- **Expanded generation capacity** at power stations, including the establishment of new 400 kV and 132 KV stations.
- **Establishment of new 400 kV and 132 kV power lines,** which the Ministry of Electricity relies on for the continuity of electricity grid into other regions.

The increased supply has fully mitigated southern provinces’, especially Basrah’s, “voltage collapse” problem, due to the construction of brand-new 400 kV lines and increased production capacities of power stations that are also benefiting from new associated gas from Halfaya and Nassiriya.

The Southern Electricity Distribution Company is **currently sponsoring various interconnection projects** to connect from the south of the country to the central and middle Euphrates regions, as well as to the Gulf Cooperation Council Interconnection Authority’s (GCCIA) connection points at the Kuwaiti and Saudi borders.

These include:

- The establishment of new 400 kV lines from **Khor al-Zubair to Wasit, and from Al-Rumaila to Al-Diwaniyah.** Both lines are currently under works, with plans to be completed by end-2024 from a past target of mid-2024 which got delayed due to typical bureaucratic hurdles.
- The establishment of new power lines (voltage not known) from **Al-Rumaila to South Nassiriya, from South Nassiriya to Dhi Qar, from Samawah to Diwaniyah, and a double-circuit, 2 GW capacity 400 kV line from Dhi Qar to Muthanna.**
- The conclusion of new power lines in the east of Basrah, including from Al-Hartha to Qurna, with onward connectivity to Missan.
- The construction of new power lines (voltage not known) to Amarah, as well as from **Amarah to Missan, and from Missan to Kut,** to connect to the midland region of Iraq (Midland Oil Company is planning for a gas boost from its producing assets which can result in higher feedstock for power plants).
- The conclusion of a 400 kV, 110 km-long interconnection line from **Shatt al-Basrah to Al-Fao**, which was completed through a contract with GE.

These projects have resulted in improved stability and increased supply in the southern provinces, and by extension have also improved the performance of the overall Iraqi grid through the various interconnection projects, although not all have yet been concluded, and timelines appear unclear.

Al-Fao and Shatt al-Basrah are to be the main connection points for the ongoing interconnection with the GCCIA, with a “large” part of the work on the Kuwaiti border reportedly complete (construction of power towers and warehouses) although other civil works are still ongoing. Another interconnection point to the GCCIA will be on the Saudi border through the Yusufiyah power station in the midland region of Iraq with an initial capacity of 1 GW, but no work on this has commenced.

The General Company for Energy Transportation for the Southern Region will supervise the transportation and discharge of TotalEnergies planned 1 GW solar project (which was officially licenced by Iraq’s National Investment Commission on June 30) once ready, with the Southern Electricity Distribution Company distributing all produced power.

These developments seem to suggest that the Southern Electricity Distribution Company has been operating under a certain degree of independence from the Ministry of Electricity, since it took it upon itself to sponsor the planned interconnection projects mentioned above with the central and middle Euphrates regions of Iraq.

The Southern Electricity Distribution Company **has not received any official allocations from the Ministry of Electricity for these projects,** but instead took them from the General Company for Energy Transportation for the Southern Region, since these projects are in the interest of the Ministry. **This points to the very real problem of improper projects and planning channels within the Ministry and its various subsidiaries,** who are often better equipped to meet power challenges of their respective areas, but unable to unlock the full benefit of cooperating with other subsidiaries and the Ministry to contribute to alleviating Iraq’s power problems on the national scale.

It also highlights the challenges with securing financing for much-needed projects that can improve the stability and reliability of the Iraqi power system. For instance, due to lack of the proper channels with the Ministry, the Southern Electricity Distribution Company receives a far lower level of funding allocation than it needs, despite sponsoring interconnection projects on its own for the benefit of the Ministry.
This means that investment allocation for the electricity sector in the national budget is also far lower than required.

Approval can also become a hassle for such projects, since they are required from multiple state departments, who may withhold approval in the absence of a formal endorsement and/or allocation by the Ministry.

TOP ENERGY DEALS IN THE MENA REGION

Project 01

East Baghdad Oilfield Expansion

Client / Buyer

Iraq State Company for Oil Projects

Contractor /Seller

Sinopec Oilfield Services

Implications

- Sinopec Oilfield Services has entered into a strategic contract worth US$ 137 M to build additional facilities at the East Baghdad oilfield as part of its expansion programme, including new crude oil and natural gas processing facilities
- The project is expected to take 29 months, with mechanical completion expected by end-September 2026
- East Baghdad is already the site for the Ministry of Oil's planned carbon credits project which will see carbon credits derived from captured associated gas produced as a by-product of the produced heavy oil traded domestically and internationally, although not confirmed
- The field's expansion is led by EBS Petroleum, a subsidiary of China Zhenhua Oil, who may utilise the credits to offset its own emissions

Project 02

Qayyarah Field Seismic Survey

Client / Buyer

Sonangol

Contractor /Seller

Iraq Oil Exploration Company

Implications

- Angola's Sonangol has signed a contract with Iraq Oil Exploration Company to carry out a 3D seismic survey of its Qayyarah oilfield in a move that could encourage other international operators in the country to contract local companies in their oil projects
- Several of the new blocks and fields awarded in the recently-concluded licensing rounds 5+ and 6 require exploration, but it remains to be seen whether the awardees contract local partners or international ones
- In another example of an international company contracting IOEC, China's Geo-Jade Petroleum has also signed a contract with the firm for a 2D and 3D seismic survey of the Naft Khana block it won in Bid Round 5 in 2018
- Iraq does not clearly specify any economic benefits / tax incentives for international operators contracting local companies, although the requirement to create local jobs is heavily underlined in all major deals / agreements
- The contract with IOEC comes on the back of Sonangol's plans to expand production at the field from its current 33 kb/d

Project 03

Iraq-Lebanon Fuel Supply Deal

Client / Buyer

Government of Lebanon

Contractor /Seller

SOMO

Implications

- Iraq has greenlit the supply of Iraqi fuel to Lebanon in a show of solidarity to prevent the country from plunging into "blackout" after SOMO blocked a recent cargo since Lebanon has not transferred the amounts due to Iraq "for several months"
- Under a 2021 deal with Iraq, Lebanon receives fuel oil that is unusable by the only two functional powerplants in Lebanon, which it then exchanges through a tender mechanism for other types of compatible fuel
- In return, Lebanon's Finance Ministry deposits 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 5 months behind schedule in paying SOMO, and requires Parliament approval to transfer the outstanding US$ 174 M

Iraq Oil Market Highlights

Crude Oil Prices
As of August 8th, 2024

WTI: USD 75.42
Brent: USD 78.41

Iraq Rig Count

July 2024: 59
June 2024: 59

Iraq Oil Exports

July 2024: 3.48 Mbpd
June 2024: 3.41 Mbpd

Oil Exports Revenue

July 2024: 8.77 USD Billion
June 2024: 8.23 USD Billion