Iraqi Government Pursue Kurdistan Region Oil Export Via Ceyhan Port?

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Authors

Mahmood Baban

Summary : Two critical questions arise from this situation. First, are the international oil companies operating in the Kurdistan Region willing to hand over the total oil production at the newly increased cost? Second, how can Iraq export oil from the Kurdistan Region when it is required to reduce both its overall exports and production to comply with OPEC Plus agreements?

Overview

The Iraqi government's decision to increase the cost of producing and transporting oil from the Kurdistan Region—from $6 to $16 per barrel—marks a significant development in the ongoing oil dispute between Erbil and Baghdad. This move coincides with the federal government's push to consolidate control over oil exports from the Kurdistan Region by channeling all production through SOMO (State Oil Marketing Organization).

OPEC Plus is set to meet on January 1 to discuss oil production and supply strategies for **2025**. In a statement on **November 3**, the group announced that eight member countries, including **Iraq**, will continue their voluntary production cuts, totaling **2.2 million barrels per day**, until the end of the year.

Despite this, **Iraq** has consistently exceeded its allocated production target of 4 million barrels **per day**. In the first half of this year alone, Iraq produced **1.184 million barrels** above OPEC Plus limits. To align with the agreement, Iraq will need to reduce its daily output by 90,000 barrels starting this month and continue through early spring, ensuring compliance with its agreed production levels.

Two critical questions arise from this situation. First, are the international oil companies operating in the Kurdistan Region willing to hand over the total oil production at the newly increased cost? Second, how can Iraq export oil from the Kurdistan Region when it is required to reduce both its overall exports and production to comply with OPEC Plus agreements?

What is the current level of oil production in the Kurdistan Region?

On **November 7, 2024**, **DNO International**, which operates the **Tawke**, **Peshkabir**, and **Baeshiqa** oil fields in the Kurdistan Region, reported its third-quarter financial and production results. The company's daily production in the region reached 84,212 barrels, with a net share of **63,200 barrels of oil equivalent per day (boepd)**.

In addition to DNO, several other international companies, including **HKN**, **Gulf Keystone**, **Genel Energy**, **Dana Gas**, **Gazprom**, **ShaMaran**, and **Forza**, are actively producing oil in various parts of the Kurdistan Region, from **Zakho** to **Garmian**. **Kar Group** also operates in the **Khurmala oil field**.

Last month, the acting Minister of Natural Resources in the Kurdistan Region stated at an energy conference in **Istanbul**, "The Kurdistan Region has halved its oil production since **September 2, 2024**, and is now producing **140,000 barrels of oil per day**."

The **Deloitte auditing company** has not published a report on the Kurdistan Region's oil production, expenditures, and revenues since the **Paris decision**. However, by reviewing the third-quarter reports of companies responsible for approximately two-thirds of the region's oil production, we can gain insight into their production levels during this period.

According to DNO's third-quarter report, oil production in the Kurdistan Region increased during **July, August, and September 2024**, driven by the development of three new wells that contributed to the production boost. However, DNO highlighted the suspension of new investments and the drilling of additional wells in the region, despite the resumption of negotiations with the Kurdistan Regional Government regarding outstanding payments for **2022-2023**.

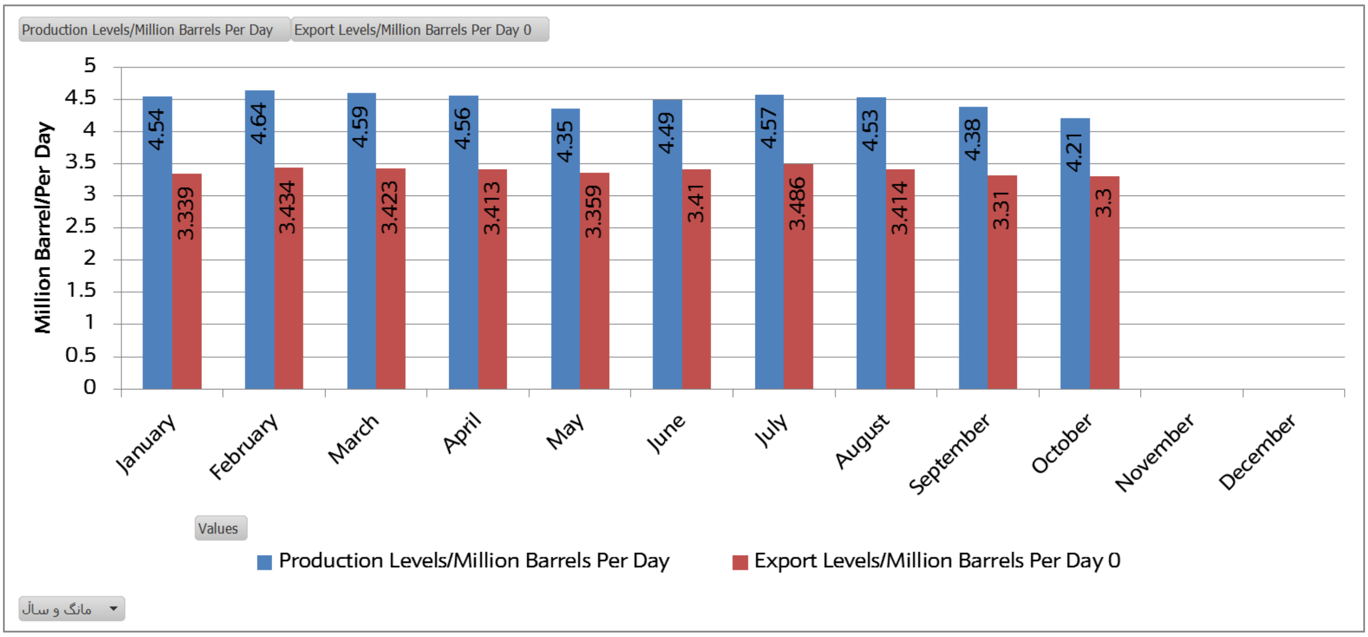
There has been no official announcement from international companies operating in the Kurdistan Region regarding reductions in oil production at their respective fields, suggesting they have continued operations at levels similar to those in the first half of the year. For instance, Gulf Keystone produced 39,252 barrels per day from the Shikhan field, ShaMaran and HKN produced 54,800 barrels per day from the Sarsang and Atrush fields, Dana Gas produced 5,273 barrels per day from the Kormor field, and Forza produced 6,500 barrels per day from the Erbil field. Meanwhile, Genel Energy has halted production in the Taq Taq and Karadagh fields, whereas Gazprom continues to produce 12,500 barrels per day from the Sarqala and Hasira fields. Additionally, around 80,000 barrels per day are being produced from the Khurmala field for domestic refining.

Iraq's Oil Production, Export Levels, and OPEC Compliance

Iraq has reduced its oil production and exports over the past two months to align with OPEC and OPEC Plus targets. However, production levels still fall short of the agreed target, and Iraq has yet to fully offset the excess production accumulated earlier this year, which requires monthly compensation.

According to data from the Ministry of Oil, Iraq has consistently failed over the past ten months to meet its production target of 4 million barrels per day. Despite a reduction of 340,000 barrels per day from the beginning of the year through the end of last month, Iraq remains among the OPEC and OPEC Plus countries that have exceeded their production quotas in 2024.

Graph 1: Iraq's Oil Production and Exports Over the Past 10 Months



Sources: Iraqi Ministry of Oil – SOMO, Iraq Oil Report, S&P Global

Note: Iraq's oil production figures include output from the Kurdistan Region.

Conclusion:

Iraq's initiative to establish a committee and set the cost of oil production and transportation at **$16 per barrel**, overseen by a professional internal technical committee to review oil production processes in the Kurdistan Region based on individual fields, remains pending. This is because the **Council of Ministers' request** requires **parliamentary approval**, and the **international companies operating in the Kurdistan Region** must also agree to the terms. So far, none of these companies have made any statements or shown any indication of their stance on the matter.

Fixing the cost of production, transportation, and delivery of a barrel of oil to **SOMO** at **$16** is only part of the equation. In its latest report, **DNO** highlights ongoing discussions about recovering outstanding payments from the **Kurdistan Regional Government (KRG)** for previously completed work. Similarly, the **Epicurean Association** has drawn attention to the **$1 billion debt** the KRG owes to oil companies, a significant hurdle that will not be easily resolved.

Baghdad's initiative may also be driven by the fact that the cost of producing a barrel of oil in the Kurdistan Region differs from the amount specified in the **three-year budget** and does not align with what the companies operating in the region are requesting.

Finally, the Kurdistan Region produces significantly less oil than the amount stipulated in Iraq's **three-year budget**, producing just over half of the required volume. If production and exports from the region were to reach the budgeted levels, Iraq would need to cut oil production in its central and southern regions, where production costs, according to the **Iraqi Ministry of Oil**, range between **$6 and $8 per barrel**. This raises a critical question: why should Iraq accept oil from the Kurdistan Region at a cost that is more than **two and a half times higher**? The issue is complex, as Iraq's considerations go beyond pure economic calculations. If the focus were solely on the numbers, the substantial economic damage sustained over the past **year and seven months** might have been avoided.