
Kurdistan Region's Oil Production and Revenues in 2023

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Authors

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Summary : Last year, based on IOC reports and gathered data, oil production in the Kurdistan Region fell short of 100 million barrels, marking a significant decline from the 158 million barrels produced across all fields in 2022. This represented a staggering 42 percent decrease in oil production and a corresponding 67 percent reduction in revenues compared to the previous year.

Overview

About a year ago, the Kurdistan Region of Iraq (KRI) oil and gas industry was shaken by a pivotal decision from the International Chamber of Commerce (Paris Court of Arbitration) .This ruling drastically impacted the region's oil revenue, which in 2023 plummeted to only a third of its 2022 level. Adding to the turmoil, this decision coincided with lingering legal uncertainties stemming from the Iraqi Federal Supreme Court's actions in 2022, posing significant long-term threats to the Kurdistan Region's oil and gas sector.

International oil companies (IOCs) found themselves grappling with a new landscape. The reverberations of the Paris court ruling, compounded by Turkey's pipeline closure, led to a widespread halt in oil production across most fields.

Last year, based on IOC reports and gathered data, oil production in the Kurdistan Region fell short of 100 million barrels, marking a significant decline from the 158 million barrels produced across all fields in 2022. This represented a staggering 42 percent decrease in oil production and a corresponding 67 percent reduction in revenues compared to the previous year.

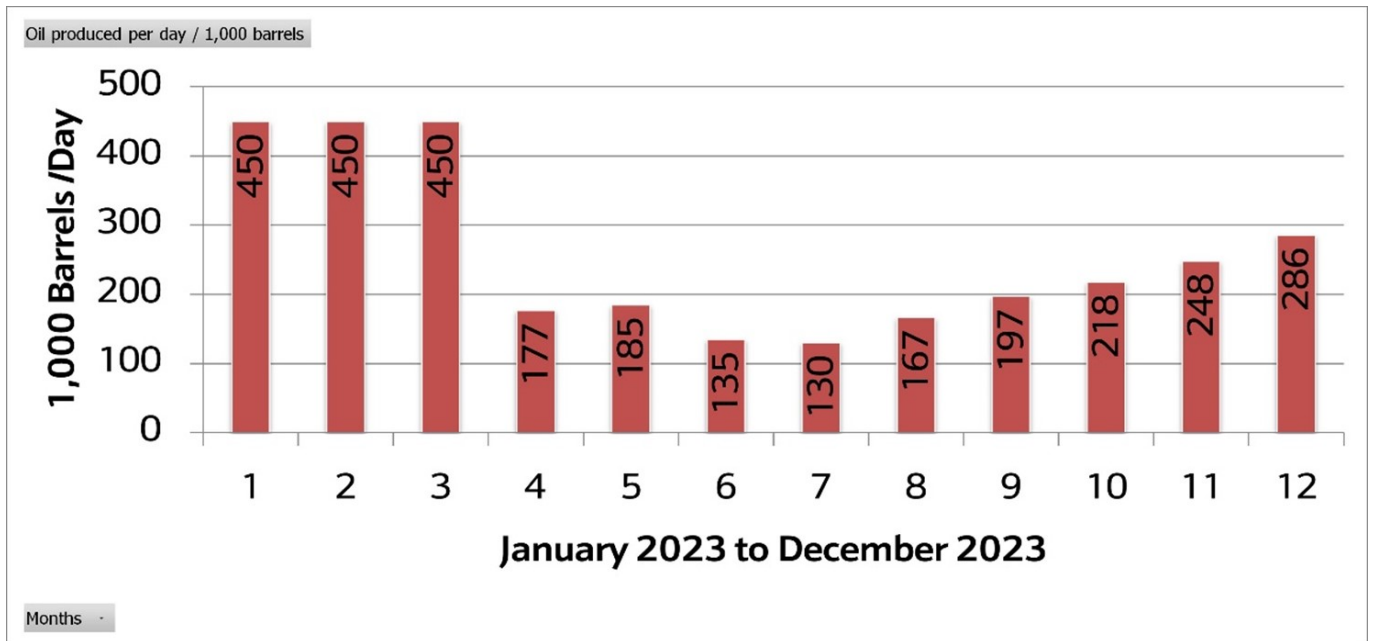
Presently, corporate data indicates a partial recovery, with oil production surpassing half of its pre-pipeline-lock levels. In December 2023, production reached 286,000 barrels per day. However, low domestic sales prices ranging from \$30 to \$40 have compelled companies to halt all investments and implement staff reductions.

Oil production in the Kurdistan Region in 2023

Since April last year, there has been a shift in oil production dynamics, leading companies to send home over half of their employees. Despite a rise in production, those laid off have yet to be reinstated due to companies slashing investment spending to the bare minimum, focusing solely on Operational Expenditure (OPEX) while reducing or halting almost all Capital Expenditure (CAPEX).

Based on the data collected, the total oil production from all Operational fields last year amounted to 93.776 million barrels, with the lowest production recorded in June and the highest in the first few months of the year, as presented in the first graph.

Graph 1: Monthly Oil Production Levels in 2023 (1,000 Barrels per Day)



The second quarter of 2023 marked the lowest level of oil production in the Kurdistan Region over the past six years. Deloitte data reveals that in terms of annual oil production, the peak was observed in 2019, reaching 170 million barrels, while the nadir occurred in 2023 with a production of 93.7 million barrels, as indicated in Table 1.

Table 1: Total Oil Production in the Kurdistan Region (2018-2023)

Year	First Quarter Total Exports and Consumption / Million barrels	Second Quarter Total Exports and Consumption / Million barrels	Third Quarter Total Exports and Consumption / Million barrels	Fourth Quarter Total Exports and Consumption / Million barrels	Total Exports and Consumption Million barrels
2018	30.5	31.43	35.75	40.96	138.64
2019	41.34	43.05	42.37	44.22	170.98
2020	44.49	38.5	41.8	41.14	165.94
2021	40.04	41.26	40.72	40.51	162.53
2022	39.09	40.32	38.73	40.17	158.3
2023	40.5	15.1	15.12	23.064	93.78

Source: Open Data, Kurdistan Regional Government, February 6, 2024

Note: Data for 2018 until the first quarter of 2023 is sourced from Deloitte, while data from the second quarter of 2023 onwards is sourced from the Ministry of Finance and reports from oil companies IOC and MEES.

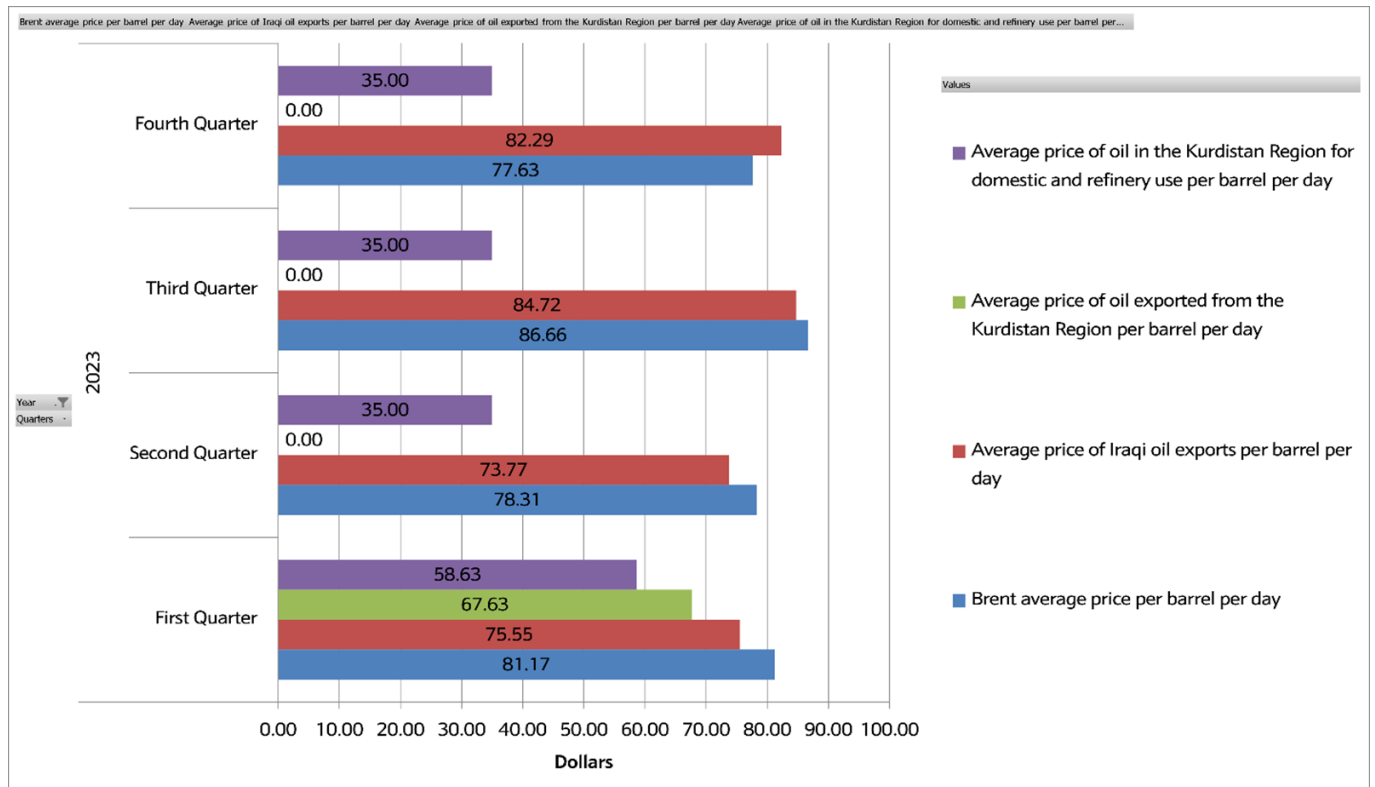
Pipeline Oil Exports and Its Losses

The losses incurred from exporting oil via Ceyhan (Pipeline), whether in Brent or the price of Iraqi oil exported abroad, amount to billions of dollars. The disparity between the prices of oil sold in the Kurdistan Region from the second quarter of 2023 to the present is less than half the price of Brent oil.

Before the pipeline was halted for oil export to global markets, the average price of Kurdistan Regional Government (KRG) oil was \$13.5 lower than Brent crude and \$7.9 lower than Iraqi oil exports. However, due to unresolved agreements and increased domestic sales, the difference in the fourth quarter of 2023 widened significantly to an average of \$38 for Brent and \$47 for Iraqi oil exports. See the graph below for average oil prices in the 2023 quarters among KRI, Brent and Iraqi

Oil prices.

Graph 2: Domestic oil prices in the Kurdistan Region compared to Brent and Iraqi oil export prices in 2023



Source: The Energy Information Administration (EIA), Iraqi Ministry of Oil, and Deloitte.

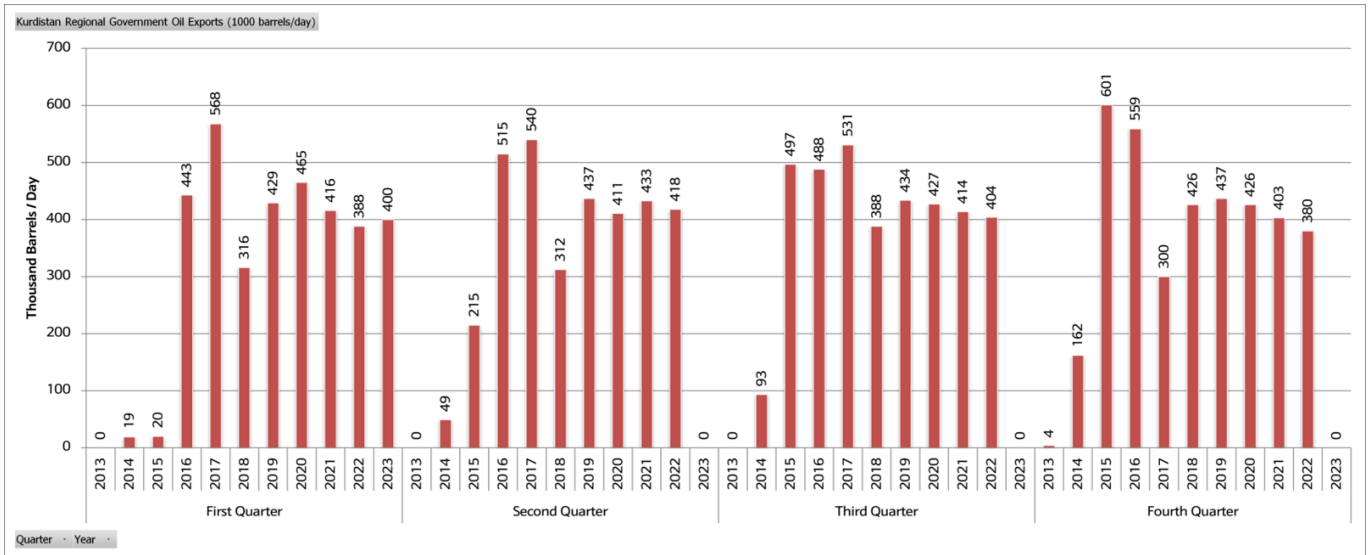
Note 1: Export oil prices were not fully available in the second, third, and fourth quarters of last year. However, according to reports from DNO and HKN, prices ranged between \$30 and \$40, with an average of \$35.

Note 2: HKN reported a trade value \$14 below Brent in the first quarter of 2023, indicating a difference of \$13.54.

Furthermore, as illustrated in Graph 3 the Kurdistan Region's oil exports to world markets are projected to be zero after a decade, in the current global landscape where oil production and sales are widespread.

In today's volatile energy market, the demand for oil is at an all-time high, with even sanctioned countries like Iran and other permitted to sell and export oil globally. However, uncertainty surrounds the Kurdistan Region's oil exports, as it remains unclear when exports will resume through the Ceyhan port or if alternative transportation routes, similar to those used for Kirkuk oil to the Basra port, will be established.

Graph 3: Kurdistan Regional Government Oil Export from Nil to Nil: 2013-2023

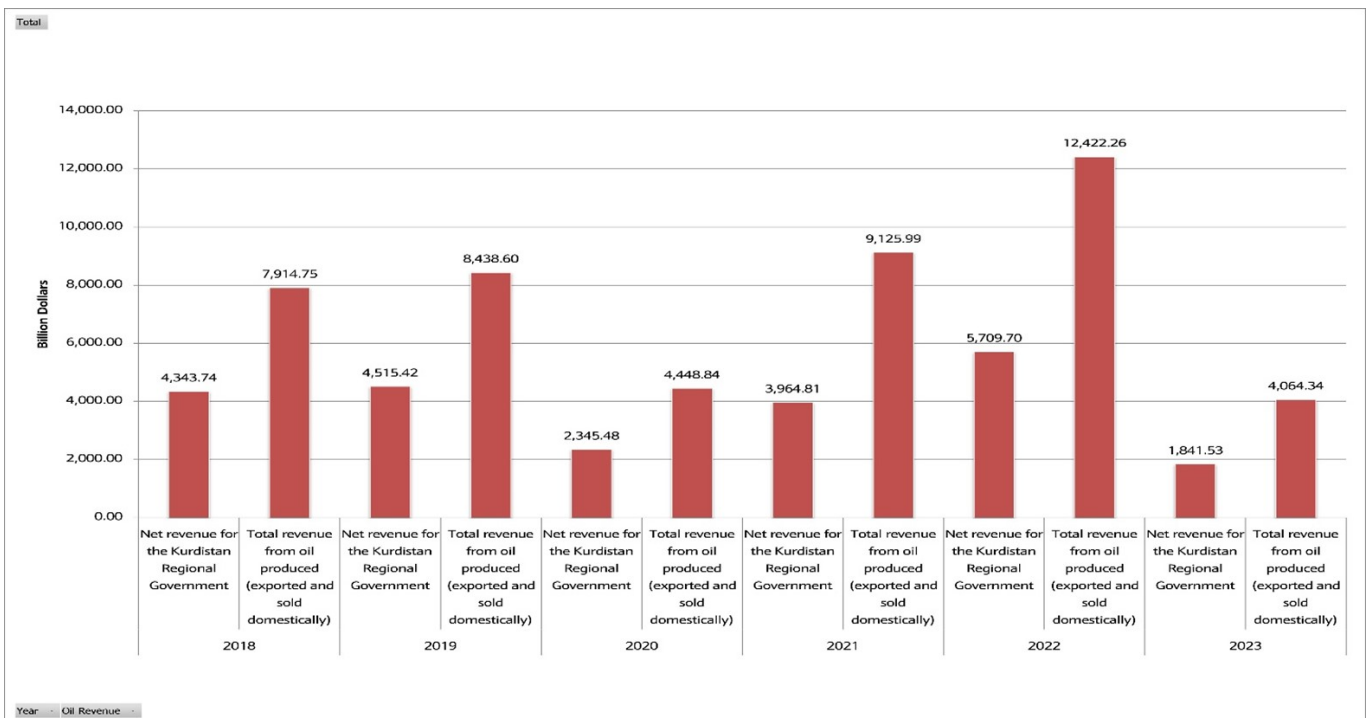


Billions of Dollars Lost Due to Oil Export Halt!

In 2023, it's estimated that the Kurdistan Region generated around \$4.06 billion from pre oil export halt and domestic oil sales. Notably, the net revenue from oil sales between companies and the government in the first quarter of 2023 alone is estimated at \$1.8 billion.

Throughout the past six years, the Kurdistan Region and its industry have weathered numerous challenges, including the extraordinary circumstances of the COVID-19 pandemic and the unprecedented drop in oil prices to below zero. However, the region faced its most significant setback last year. If the oil produced in the Kurdistan Region had been sold at average prices comparable to Brent or Iraqi oil, which averaged around \$80, the revenue would have doubled.

Graph 4: Kurdistan Regional Government's oil revenues between 2018 and 2023



Source: Open Data and Deloitte.

Note 1: Figures from 2018 to the first quarter of 2023 are sourced from Deloitte reports.

Note 2: Data for the second quarter of 2023 is obtained from the report of the Ministry of Finance of the Kurdistan Regional Government to the Iraqi Parliament and the Iraqi Ministry of Finance.

Note 3: Third and fourth quarter revenues from domestic crude oil sales averaged \$3 billion.

Note 4: The net revenue of the Kurdistan Region for the second, third, and fourth quarters of 2023 is extrapolated based on the first quarter.

While companies are currently selling oil domestically and receiving advance payments, there is no official Deloitte report available on the Kurdistan Regional Government's (KRG) net oil revenue for the second, third, and fourth quarters of the previous year. For the sake of estimation, the revenue for these quarters is assumed to be similar to that of the first quarter of 2023, involving transactions between the companies and the KRG.

Conclusion

The Kurdistan Regional Government (KRG) oil and gas industry faced significant challenges over the past year, with ongoing negotiations yet to yield a final consensus on oil exports from the Kurdistan Region. Despite nearly 11 months of negotiations, so far no conclusive agreement has been reached.

Complicating matters further, decisions from the Iraqi Supreme Federal Court and the Paris arbitration process have hindered progress. The delay in submitting the Iraqi oil and gas law to parliament by the Sudani's cabinet, despite a promise to do in the beginning of six months of his cabinet, underscores the complexity of the situation.

The suspension of oil exports to world markets has resulted in billions of dollars in losses, leading to economic hardship and strained infrastructure in the Kurdistan Region. The inability of involved parties to reach a consensus has exacerbated these challenges, prolonging the economic downturn and hindering progress.