



MINISTRY OF NATURAL RESOURCES | KURDISTAN REGIONAL GOVERNMENT  
وهزارهتی سامانه سروشتیهکان | حکومه تی هه ریمی کوردستان

**CWC - Iraq Petroleum  
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Minister of Natural Resources  
Kurdistan Regional Government**



MINISTRY OF NATURAL RESOURCES

KURDISTAN REGIONAL GOVERNMENT

وهزارهتی سامانه سروشتیهکان

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# KRG/GOI ISSUES AND FUTURE

- 1. Budgetary dispute**
- 2. Domestic consumption dispute**
- 3. Constitutional issues (revenue and oil export)**
- 4. Current KRG situation and oil export status**
- 5. Expected KRG/GOI future arrangements**



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# 1. BUDGETARY DISPUTE

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## BREACH OF AGREED BUDGET PRINCIPLES

- The agreed budget split is 17% KRG / 83% GOI, in the absence of constitutionally enacted revenue sharing law
- The KRG 17% has been reduced year after year, last year was just around 10%, and is now cut to **0.0**
- If KRG accepts the proposed oil export arrangement, as **brokered by some mediators siding with Baghdad**, KRG will end up with a net budget of only 7.5%
- This is because under their brokered proposal the bulk of the IOCs costs will have to be covered by the KRG from its already reduced share of the 10% budget

# 1. BUDGETARY DISPUTE

## WHAT ARE THE SPECIFIC 2014 BUDGET ISSUES?

- **THE KRG SHARE IS 14 BILLION (ONLY 10%)**
  - **real share supposed to be over \$23 billion (17%)**
- **KURDISTAN OIL EXPORT IS SET IN THE BUDGET AT 400,000 B/D**
  - **a number invented without consulting the KRG**
- **THE REAL STARTING EXPORT POTENTIAL IS 200,000 B/D**
  - **It can then be increased steadily if IOCs are paid**
- **IOC'S ALLOWANCES SET TO \$2.75 BILLION (ONLY 45% OF ACTUAL)**
  - **A shortfall of \$3.5 billion**
  - **IOCs invested more than \$15 billion so far**
  - **IOCs are required to invest \$10 billion more from 2014-2016**

# 1. BUDGETARY DISPUTE

## Impact of these Unrealistic Under - Allocations

- **The IOCs will not commit to oil export and accept less than half of their contractual compensation**
- **For this oil export to work, the IOCs payment shortfalls must be met by the KRG's already reduced budget**
- **This reduces KRG's budget even more from \$14 billion to \$10.5 billion Iraq's budget compared to KRG's entitlement of \$23 billion based on our real 17%**

# **1. BUDGETARY DISPUTE**

- **SNAPSHOT of IOC'S PAST INVESTMENTS**
- **IOC'S EXPECTED INVESTMENTS**
- **UNREALISTIC PROPOSED COMPENSATION**

# 1. BUDGETARY DISPUTE

## Investment by IOCs 2003 to 2013





## CSR Projects Funded by IOCs

**EDUCATION** – Construction and renovation of schools, supplies and scholarships

720 projects implemented

**HEALTHCARE** – Construction and renovation of hospitals, clinics and medical centres

193,359,988 USD Spent

**WATER PROJECTS** – Drilling of wells, repairing of ponds and construction of a water distribution networks

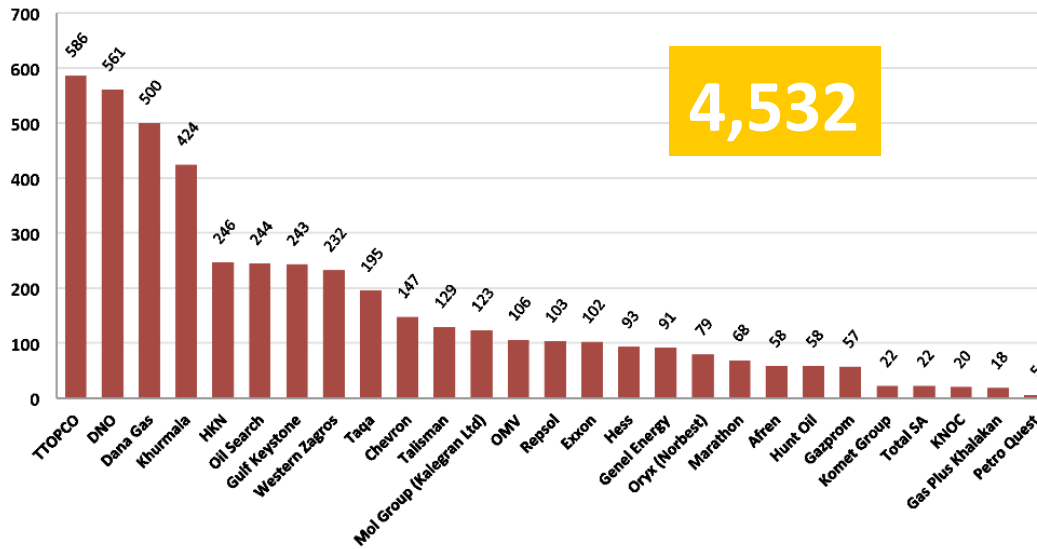
**AGRICULTURE** – Supplies, equipment and training

**YOUTH** – Construction of sports fields

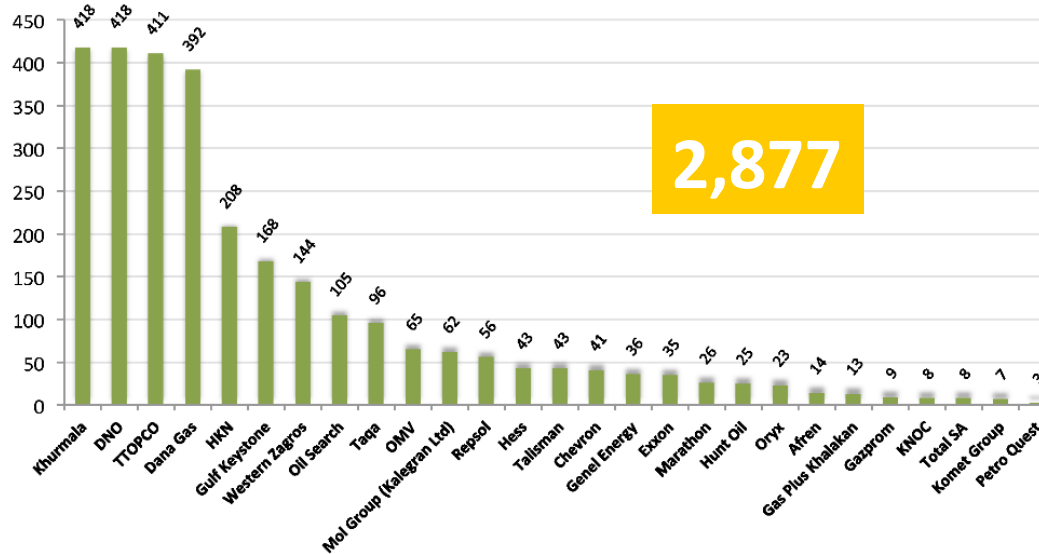
# 1. BUDGETARY DISPUTE

## Oil Company Employment Statistics

### Total Staff



### Total Locals

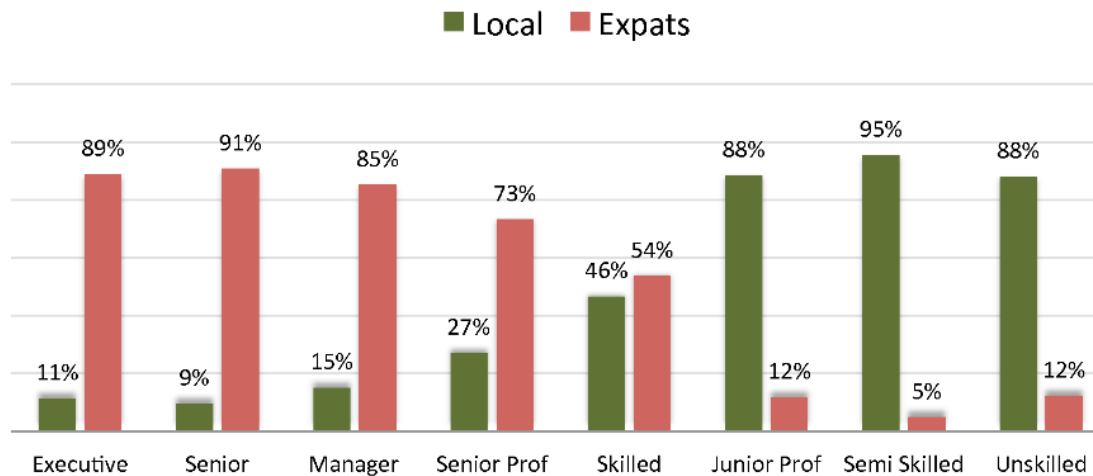


**63% Local**

# 1. BUDGETARY DISPUTE

## Oil Company Staff Breakdown by Level

### Local and Expatriate Staff Breakdown by Level

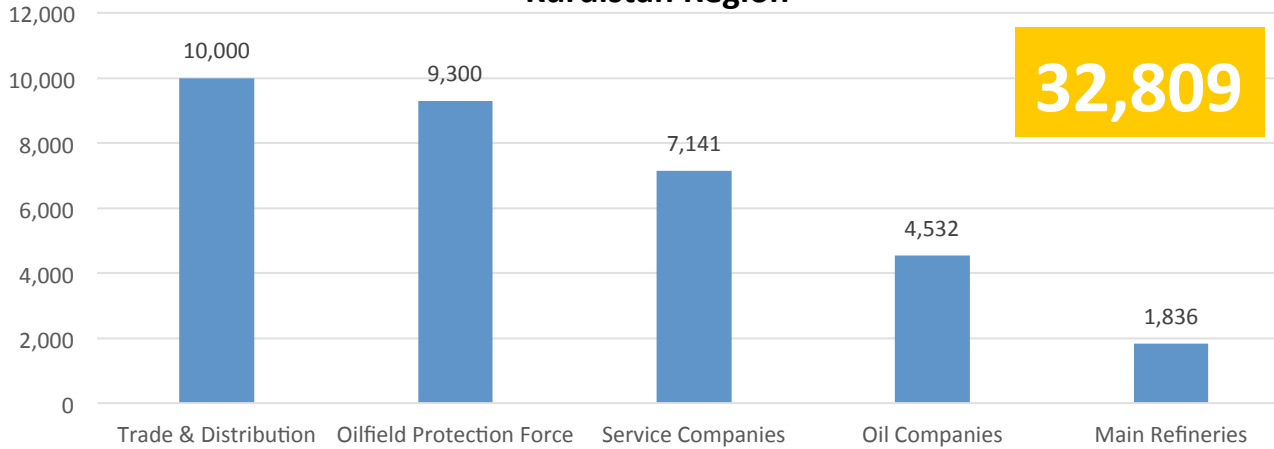


Level:	Local Staff	Expatriates	Total
Executive	1	8	9
Snr Mgr (GM, Country Manager, Deputy GM)	5	49	54
Functional Manager / Superintendent (Drilling, Production, Finance etc.)	53	304	357
Snr Professional (5+ years)	225	611	836
Professional(Graduate less than 5 years experience)	451	59	510
Skilled (Defined skill-set such as Drillers, Drilling Supervisors, Production Supervisors,Technicians, etc.)	425	491	916
Semi Skilled - includes those in training (Drilling crews, production helpers etc.)	600	29	629
Unskilled (roustabouts, casual labour, camp labour, no prior experience needed)	696	96	792
Other IOCs not included in study	421	8	429
<b>Total</b>	<b>2877</b>	<b>1655</b>	<b>4532</b>

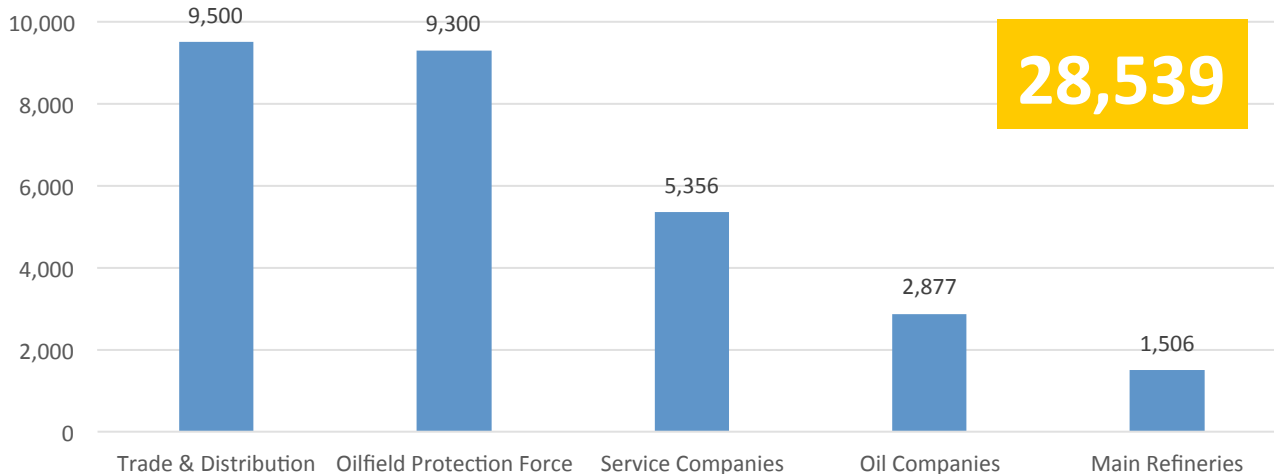
# 1. BUDGETARY DISPUTE

## Industry Employment Statistics

### Total number of staff working in the oil and gas industry in the Kurdistan Region



### Total number of local staff working in the oil and gas industry in the Kurdistan Region



**87% Local**



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## 2. DOMESTIC CONSUMPTION DISPUTE

# 2. DOMESTIC CONSUMPTION DISPUTE

Overview: From Production to Consumption (December 2013 used as example)

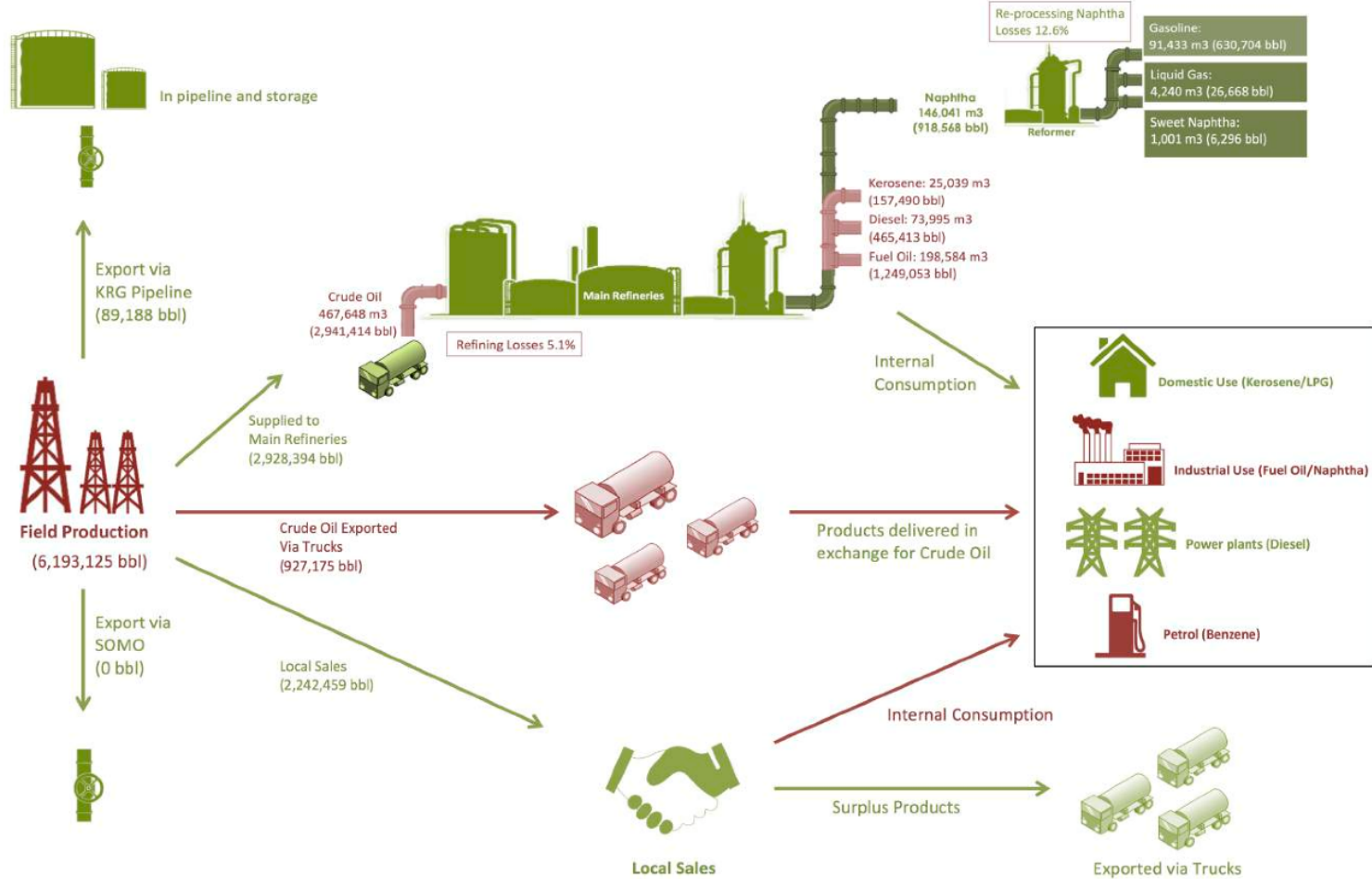
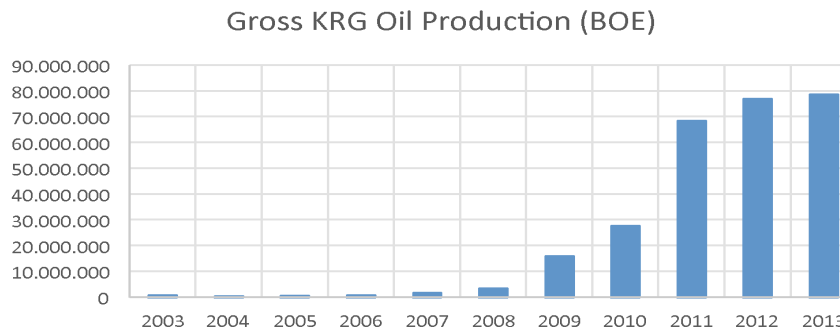


Diagram 1: Distribution of Crude Oil (bbl) from production to consumption.

## Historical Production, Refining and Local Sales

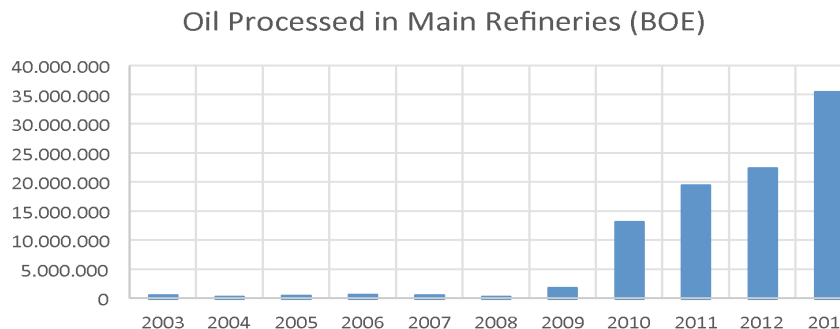
Gross KRG Oil Production (BOE)	
2003	395,945
2004	160,599
2005	367,738
2006	506,269
2007	1,524,211
2008	3,117,172
2009	15,689,046
2010	27,483,775
2011	68,231,486
2012	76,706,152
2013	78,463,518
Grand Total	272,645,911

Table 3 (a): Gross KRG Oil Production in BOE



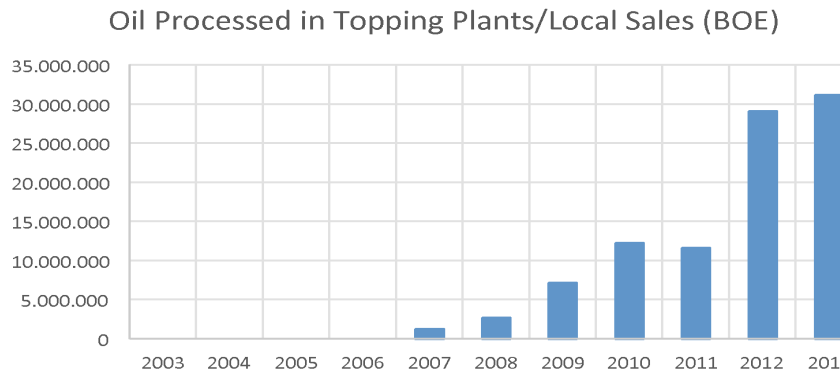
Oil Processed in Main Refineries (BOE)	
2003	395,117
2004	160,599
2005	367,738
2006	505,780
2007	391,617
2008	178,429
2009	1,716,206
2010	13,039,469
2011	19,357,929
2012	22,295,663
2013	35,382,470
Grand Total	93,791,016

Table 3 (b): Oil Processed in Main Refineries in BOE



Oil Processed in Topping Plants/Local Sales (BOE)	
2003	0
2004	0
2005	0
2006	0
2007	1,118,191
2008	2,594,596
2009	7,065,234
2010	12,152,594
2011	11,512,599
2012	28,953,021
2013	31,053,639
Grand Total	94,449,874

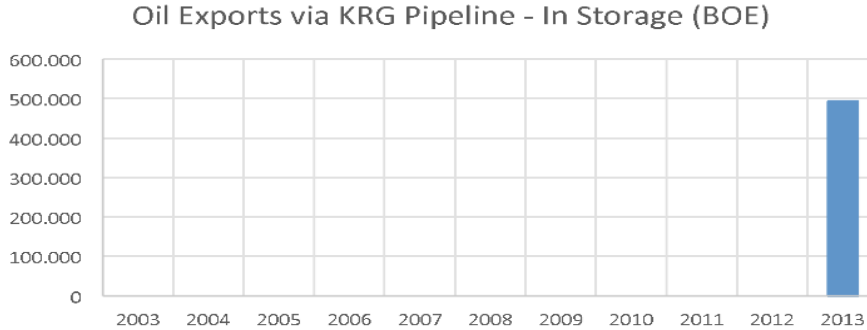
Table 4 (c): Oil Processed in Topping Plants/Local Sales in BOE



## Historical Exports

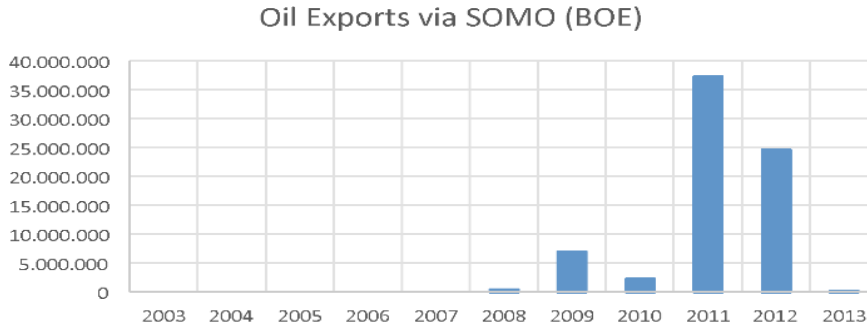
Oil Exports via KRG Pipeline - In Storage (BOE)	
2003	0
2004	0
2005	0
2006	0
2007	0
2008	0
2009	0
2010	0
2011	0
2012	0
2013	491,121
Grand Total	491,121

Table 6 (a): Oil Exports via KRG Pipeline – in Storage (In BOE)



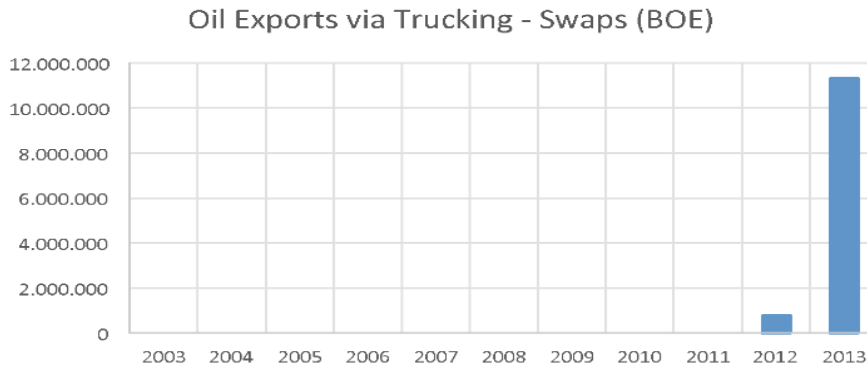
Oil Exports via SOMO (BOE)	
2003	0
2004	0
2005	0
2006	0
2007	0
2008	328,708
2009	6,870,351
2010	2,176,791
2011	37,242,281
2012	24,507,213
2013	8,602
Grand Total	71,133,945

Table 6 (b): Oil Exports via SOMO in BOE



Oil Exports via Trucking - Swaps (BOE)	
2003	0
2004	0
2005	0
2006	0
2007	0
2008	0
2009	0
2010	0
2011	0
2012	749,567
2013	11,282,860
Grand Total	12,032,427

Table 6 (c): Oil Exports via Trucking – Swaps in BOE





## 2. DOMESTIC CONSUMPTION DISPUTE

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### MoO Refined & Used versus Supplied to KRG

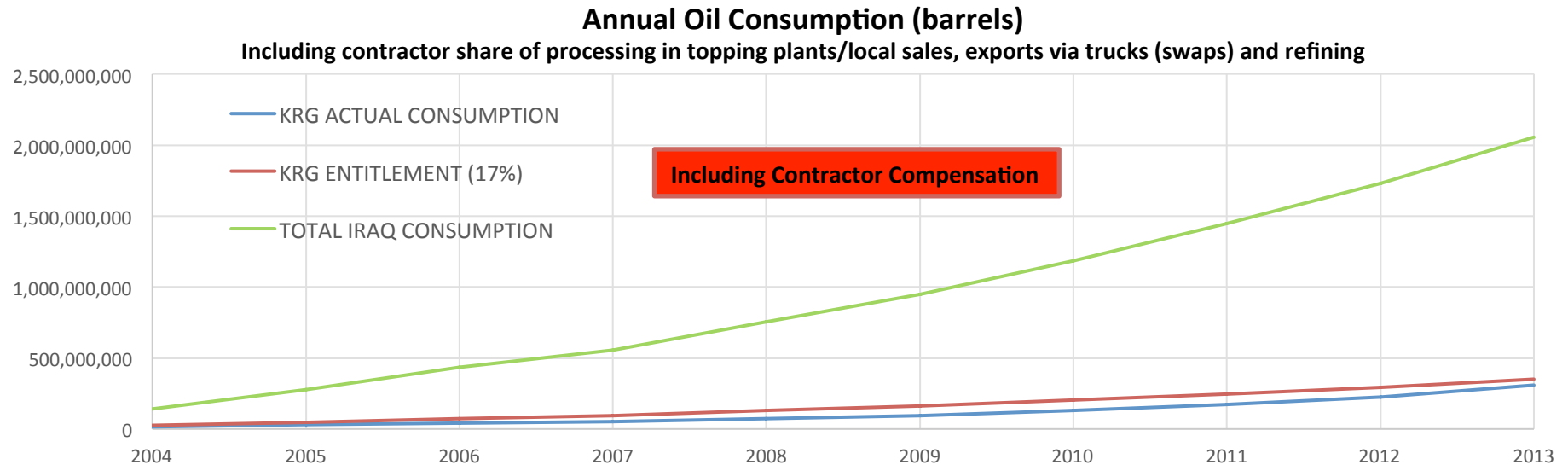
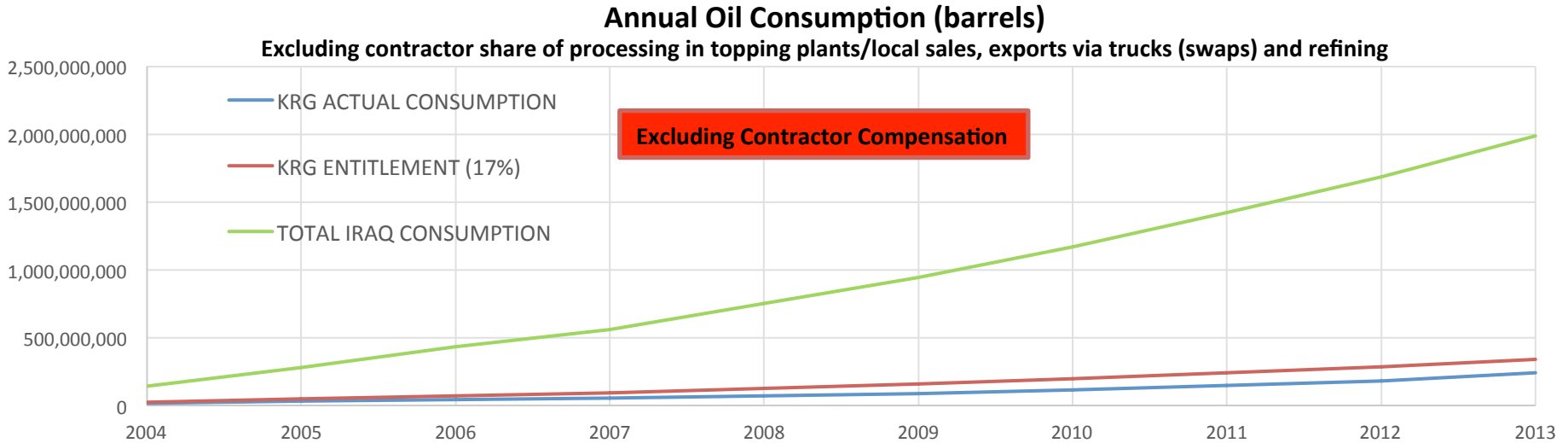
Annual

Year	Total MoO Refined & Used (B/D)	MoO Products Supplied to the KRG (B/D)	Percentage Supplied to KRG of all MoO Refined & Used (%)
2004	139,795,000	14,782,500	10.6%
2005	139,430,000	15,330,000	11.0%
2006	152,205,000	10,731,000	7.1%
2007	124,100,000	10,767,500	8.7%
2008	193,815,000	14,235,000	7.3%
2009	187,975,000	17,155,000	9.1%
2010	214,255,000	11,680,000	5.5%
2011	231,410,000	13,505,000	5.8%
2012	235,544,000	7,300,000	3.1%
2013	253,125,310	8,641,055	3.4%

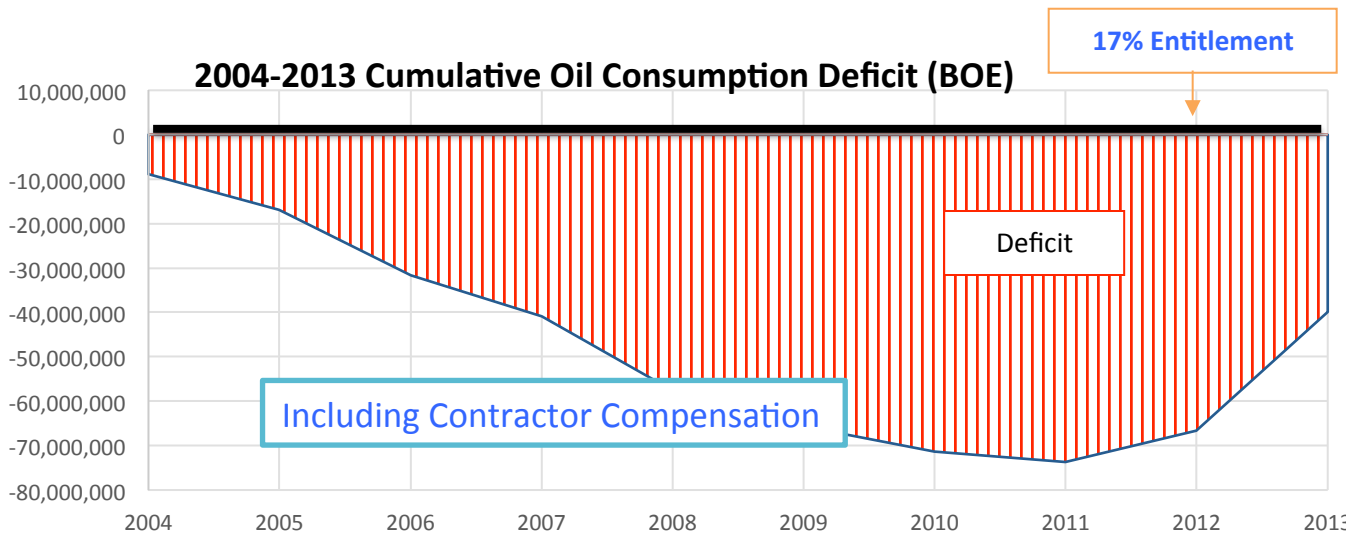
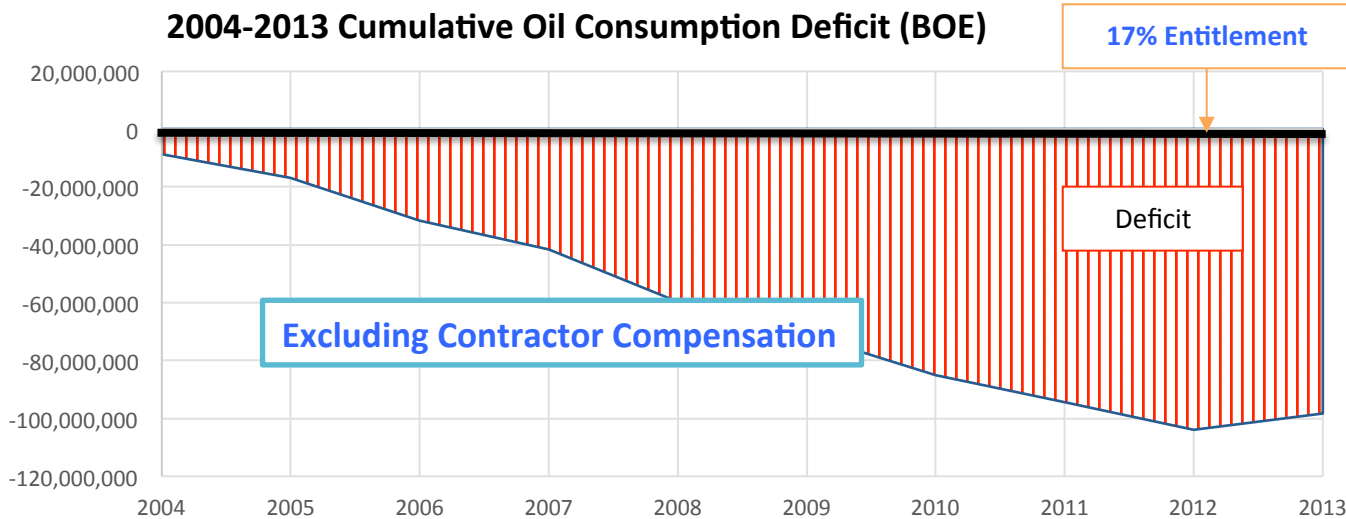
Cumulative

Year	Total MoO Refined & Used (B/D)	MoO Products Supplied to the KRG (B/D)	Percentage Supplied to KRG of all MoO Refined & Used (%)
2004	139,795,000	14,782,500	10.6%
2005	279,225,000	30,112,500	10.8%
2006	431,430,000	40,843,500	9.5%
2007	555,530,000	51,611,000	9.3%
2008	749,345,000	65,846,000	8.8%
2009	937,320,000	83,001,000	8.9%
2010	1,151,575,000	94,681,000	8.2%
2011	1,382,985,000	108,186,000	7.8%
2012	1,618,529,000	115,486,000	7.1%
2013	1,871,654,310	124,127,055	6.6%

## Iraq Domestic Consumption versus KRG Consumption



## KRG Consumption Under Utilisation



this is the excuse why Baghdad cut our budget

they expect us to shut our refineries and accept a 3% consumption contribution from them!



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### **3. CONSTITUTIONAL ISSUES** **(REVENUE SHARING, OIL EXPORT)**

## 3. CONSTITUTIONAL ISSUES

(REVENUE SHARING, OIL EXPORT)

### Article 110 GOI Exclusive Authority

- It gives GOI authority on 10 categories of matters.
- In some cases the power is expressed in terms of “formulating policies”; “regulating”; “issues” or “policies”.
- **None of these exclusive categories have any reference to oil and gas management or export.**

# 3. CONSTITUTIONAL ISSUES

(REVENUE SHARING, OIL EXPORT)

## Article 110 GOI Exclusive Authority

foreign policy

budget

defence policy

census & statistics

national security

citizenship & immigration

fiscal & customs policy

broadcasting & postal policies

standards, weights & measures

planning of waters flowing to Iraq

### 3. CONSTITUTIONAL ISSUES

#### (REVENUE SHARING, OIL EXPORT)

##### Article 141 Validity of KRG Decisions

*Legislation enacted in the region of Kurdistan since 1992 shall remain in force, and decisions issued by the government of the region of Kurdistan, including court decisions and contracts, shall be considered valid unless they are amended or annulled pursuant to the laws of the region of Kurdistan by the competent entity in the region, provided that they do not contradict with the Constitution.*

### 3. CONSTITUTIONAL ISSUES

(REVENUE SHARING, OIL EXPORT)

#### Article 115 Superiority of KRG Laws

*All powers not stipulated in the exclusive powers of the federal government belong to the authorities of the regions & governorates that are not organized in a region. With regard to other powers shared between the federal government & the regional government, **priority shall be given to the law of the regions & governorates not organized in a region in case of dispute.***



### 3. CONSTITUTIONAL ISSUES

(REVENUE SHARING, OIL EXPORT)

Article 121 Second: Right to amend GOI Laws

*In case of a **Contradiction** between Regional and Federal legislation in respect to a matter outside the exclusive authorities of the federal government, the regional power **shall have the right to amend** the application of the national legislation within that region.*

### 3. CONSTITUTIONAL ISSUES

#### (REVENUE SHARING, OIL EXPORT)

##### Article 112 First: Rights and Obligations

**First:** *The federal government, shall together with the producing governorates and regional governments, undertake the management of extracted oil and gas from present fields, **provided that it distributes its revenues in a fair manner** in proportion to the population distribution in all parts of the country, **specifying an allotment** for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, **and this shall be regulated by a law.***

### **3. CONSTITUTIONAL ISSUES**

**(REVENUE SHARING, OIL EXPORT)**

#### **CONSTITUTIONAL SUMMARY**

- **Oil and gas fall outside the exclusive GOI authority; GOI has only certain qualified rights under Article 112**
- **SOMO has no status under the Constitution; the old laws are highly questionable as they contradict the Constitution**
- **Article 141 has already approved two of the KRG's pre -2005 field contracts that feed the present Kurdistan oil export**
- **Articles 112, 115, 121 are clear on the KRG's export rights and the KRG has enacted its laws to that effect; hence the old laws are no longer applicable in the Kurdistan Region**



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## 4. KRG SITUATION & EXPORT STATUS

## **4. CURRENT KRG SITUATION AND EXPORT STATUS**

### **Production & Revenue Forecast**

- **If we export continuously at full capacity, we can now only meet around 50% of our budget**
- **By this year end we can cover our allocated 10% budget**
- **After that we will gradually catch up to our true 17% entitlement, which Baghdad never paid**

## **4. CURRENT KRG SITUATION & EXPORT STATUS**

### **Sales Process in Ceyhan & Payment Arrangements**

- **SOMO's Ceyhan process is followed by the KRG**
- **Plus independent quality & quantity verifications**
- **Sales proceeds go to a KRG account at Halk Bank**
- **5% of the sales proceeds are set aside by the KRG for United Nations related compensations**

## 4. CURRENT KRG SITUATION & EXPORT STATUS

### How KRG Salaries have been Covered since Jan-2014?

- Baghdad so far paid the KRG **only \$900 million** for the last 6 months
- The KRG has been obliged to borrow around **\$2.0 billion locally** against future oil sales/revenue
- The KRG has been obliged to borrow around **\$1.0 billion internationally** against future oil sales

## 4. CURRENT KRG SITUATION & EXPORT STATUS

### Current Export Status

- The KRG is currently exporting around **125,000 b/d** through the Iraq-Turkey pipeline system
- **Two tanker-ships** have been sold and left Ceyhan to their intended markets
- **Two more tanker-ships** will be loading this week for their agreed buyers
- Oil exports shall increase to **200-250,000 b/d** during July, and then to **400,000 b/d** before the year end





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## 5. EXPECTED KRG/GOI FUTURE ARRANGEMENTS

# 5. EXPECTED KRG/GOI FUTURE ARRANGEMENTS

## KRG's Policy and Plans

- **The KRG sees the unity of Iraq to be directly linked to the full implementation of Iraq's Constitution**
- **The KRG shall defend and maintain its constitutional rights to oil exports and sales, but will be happy to cooperate on transparency and independent monitoring**
- **The KRG seeks the implementation of revenue sharing either based on a legal framework or by an intergovernmental agreement between KRG and GOI**
- **The KRG's oil policy shall continue until an unrestrictive financial and economic independent has been achieved either by agreement or by policy results**

# 5. EXPECTED KRG/GOI FUTURE ARRANGEMENTS

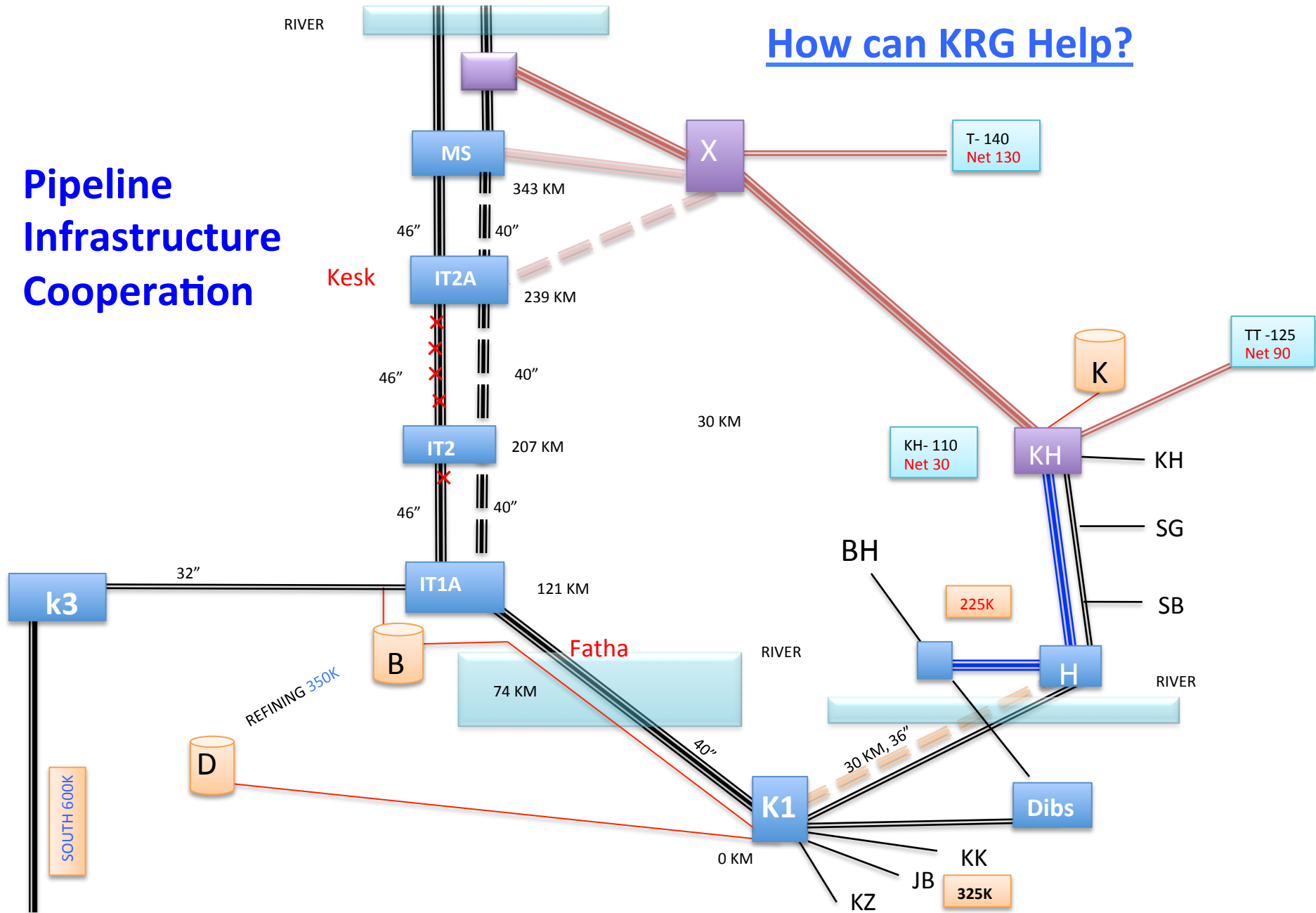
## KRG's Message to Others

- Under the current wave of violence and security risk Baghdad should open a new chapter with the KRG, by acknowledging all Kurdistan Region's rights
- Those who see the unity of Iraq through strong central controls should by now realise that type of model for Iraq has gone,
- The new Iraq can only be governed based on power sharing and wealth sharing
- As for the well intended mediators, please do not pressure us any more or interfere with our rights, and stop appeasing the power grabbers in Baghdad - the past events show that such policies have so far only harmed Iraq's unity and stability

# 5. EXPECTED KRG/GOI FUTURE ARRANGEMENTS

## Pipeline Infrastructure Cooperation

### How can KRG Help?



# SUMMARY AND FINAL REMARKS

## Reminder-1 on the Constitution

### Article 13 Validity and Superiority

**First:** This Constitution is the preeminent and supreme law in Iraq and shall be binding in all parts of Iraq without exception.

**Second:** No law that contradicts this Constitution shall be enacted. Any text in any regional constitutions or any other legal text that contradicts this Constitution shall be considered void.

# SUMMARY AND FINAL REMARKS

## Reminder-2 on the Constitution

### Article 1 Guarantor of Unity

The Republic of Iraq is a single federal, independent and fully sovereign state in which the system of government is republican, representative, parliamentary, and democratic, *and this Constitution is a guarantor of the unity of Iraq.*

# **SUMMARY AND FINAL REMARKS**

## **KRG's Willingness**

**Despite of all these unfair treatments, the KRG is offering to be helpful to Baghdad, and continues to reach out to Baghdad to agree to resolve all our differences through constructive dialogue; to build and create a new and united prosperous Iraq; based on the implementation of it's Constitution; leading to the full and true power sharing and wealth sharing amongst all it's peoples.**