**Extractives Global Programmatic Support - EGPS (P505507)**

**Iraq Extractive Industries Transparency Initiative (IEITI)**

A Report for the World Bank EGPS to identify potential areas for corruption and opportunities to strengthen revenue mobilization within the

**Commodity Trading Value Chain of Iraq**

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***Disclaimer:***

This is a draft report that, at this stage, only reflects the Consultant's views on the topic. It will be submitted for comments to the Iraqi Government and relevant IEITI stakeholders, as well as to the EITI International Secretariat. The final version of the report, after the comments received are incorporated, will be subject to peer review by the World Bank.

**Introduction**

There are two linked objectives of this report. One is to evaluate the risk of corruption in the main commercial activity of the Crude Oil and Refined Products Industry of Iraq. The other is to set out actionable recommendations for change within the most important organisations involved in the selling and supplying of Crude Oil and the buying, selling and supplying of Refined Products.

These supply and trading activities are where State employees acting within and on behalf of the Ministry of Oil interact with national and international buyers. They also act as the Importer of Refined Products under the instruction of the Ministry of Oil. The relationships inside the Ministry of Oil and the stance of the Minister regarding the release of commercial data to the public and to EITI is ultimately of paramount importance to enable a change in auditing and reporting to the public and EITI.

There appears to be strong support within the Domestic production companies and the State Oil Marketing Company for improving the clarity of commercial, financial and operational data in the industry. The IOCs transacting in Iraq are also mostly in favour of cooperating and do release information for the EITI validation. (As evidenced from recent activity with the I EITI) Therefore, the report makes recommendations to follow a path of increased audit and improvements in existing process combined with prompt release of commercial data within all State-Owned Enterprises and their counterparts in Iraq.

The long established, professionalism exhibited in the NOCs and SOMO indicates that such recommendations can be implemented with 6 – 12 months. Although the focus is on corruption risks and therefore on decision-making processes and oversight, the report describes the size and scale of the business and sets the commercial supply & marketing activity in the context of the whole development cycle of the commodity sector. This shows the revenue mobilised for the country is not dependent only on the production and sales performance of the National Oil Companies but also on the underlying processes and oversight of the whole sector. The volumes allocated to domestic uses and the oil allocated to compensate the Oil Producing partners are of great importance since they directly affect the volume available to the State Oil Marketing Company (SOMO).

The report evaluates the corruption risks in the Export Business and the Domestic Business in two ways: firstly, comparing Iraq with the risk categories set out in the OECD typology of corruption. Secondly the report analyses the risks from the perspective of Supply - Trading reviewing the main processes that are involved in the buying and selling of Oil and Products.

The evaluation of the risks is followed by a discussion of certain areas of concern and then the relevant recommendations.

# **Summary of Report**

The Iraq Oil Industry is one of the most important in the world with the potential to produce 4 to 5 million barrels of crude oil a day at relatively low cost for many years. The associated gas and gas liquids business, which to date has suffered from under investment, is also significant especially for the domestic market and possibly for future global demand for LNG.

This large scale and high profit potential both in the short and long term means that many actors in the Oil and Gas Industry both private and state controlled will invest time and money to be involved in all aspects of Iraq Energy. They will do this not only to build value for their businesses but also for strategic supply reasons. Some of these actors will resort to a variety of corrupt methods to enhance their chances of success from the first stage of exploration and development through production to the marketing of the output.

Oil makes up more than 95% of the revenue from the extractives sector of Iraq therefore this report focuses on it. Many of the issues and recommendations are nevertheless equally relevant for the mining industry where good practice at the earliest stage of granting of a licence as well as correct pricing of output can have very high impact for the lifetime value of an asset.

To reduce the occurrence and impact of corrupt commercial activity and to increase the short- and long-term revenue it is important to build and maintain resilient, transparent and readily auditable processes throughout the business life- cycle of an energy asset. The scope of this report entailed focusing on the activities post- production when output is supplied under contract to commercial third-party buyers, supplied to domestic entities or supplied as payment in kind to the companies who have participated in the risk of development and production.

In Iraq, as in all producing countries an important area where State Owned entities contract with third parties is in agreeing and implementing Field Service Contracts (termed Production Sharing Agreements in many instances). Since their implementation decides the volume of Crude Oil allocated as payment for the partners investment and costs, these complex agreements are of importance to the Industry and the State revenue. They are however not directly within the scope of this report on Trading and Supply. The findings on process and good practice are however also relevant to this part of the industry.

The State ownership and control of the Oil and Gas assets of Iraq means that the policy and implementation of the government and the Ministry of Oil is all important. The responsibility for key decision making in the industry lies with the parliament and government and its Ministers. Thus, policy can change with new leadership. This creates an opportunity for very rapid positive reform but also can create uncertainty regarding policy.

Recent long-term investments by International Oil Companies, such as BP and Total, confirmed their belief in the ability of present and future Iraqi governments to enable environmentally and commercially viable production of important flows of Oil and Gas. Part of these flows will be marketed and potentially traded globally by the State Oil Marketing Company (SOMO), which is already one of the world’s biggest sellers of Oil.

This report identifies that relatively small changes in the stance (stated policy) of the Ministry of Oil to information transparency while building on and developing the professional core of the State Oil Companies can have an immediate positive impact enhancing the status of the Iraqi industry, encouraging further investors and buyers and securing enhanced revenue for the country.[[1]](#footnote-0)

The report describes the main commercial activities in crude oil and products where the long-established core processes of SOMO provide better underlying protection against sustained corrupt sales and purchasing than exist in many other Oil producing countries.

The report did not identify any clear reasons why the Ministry of Oil does not promote the timely publication of clear loading and sales data to the public. This could be provided by the Ministry and or SOMO and the NOCs. Much of the data that is not published in Iraq is available against modest payment from vessel tracking, energy consulting and pricing agencies.

The desire within Oil Industry management to demonstrate their capability and good practice is strong. The Ministry could quickly and simply create the environment for a demonstrable improvement and the report recommends the Ministry to commit to build on the internal auditing and ISO 9001 Quality Management processes in place in Somo and the NOCs and positively champion and demonstrate the professional capabilities of the managers in the Oil Industry. Along with this internal commitment the Ministry should reinforce its support for the implementation of the updated EITI Standard.

The report finds that in most respects the marketing process is conducted in a way that does not enable corruption, albeit with some areas where improvements in financial data clarification are needed.

With the support of the Ministry of Oil it is possible for the NOCs and SOMO to adjust the way data is published to comply with the EITI Standard.

The commercial sensitive aspect of timing the release of precise pricing may need to be considered. In consultation with the counter parties the export data could for example initially be published in an aggregated or modified way without losing its informational value. After a period the data could be released in a disaggregated format. The present timing set out in EITI Standard is possibly too long rather than too short.

Transparency would increase public trust in the sector and in the government.

There will be resistance from some in government and from some counterparties in the National and International Oil business, but most significant participants will welcome this move as a sign for more companies to participate in the Iraq business both in short-term contracting and long-term investments linked to future supply.

Linking the promotion of best practice, prompt publication of key financial data backed by independent auditing while supporting the employees of the State Companies will achieve the goal of restricting corruption and increasing revenue for the State.

The report sets out key recommendations mapping a path for the industry to consolidate its position with EITI and encourage wider interest and participation in the industry from wider society by making not just results but processes more open to public scrutiny to celebrate and protect champions of transparency rather than continue supressing information and increasing suspicion about the sector and supply- trading in particular.

# **Scope of Report**

This report was prepared mainly based on interviews and interaction with members of the International Oil Industry and management of the Oil Industry of Iraq including representatives of Ministries and NOCs. The desk study element focused on the allocation and marketing of the crude oil of Iraq since 2020.

The Kurdistan Region of Iraq and its activity in the Oil Trading market of Iraq are not within the scope of this report.

The Extractive sector of Iraq includes Oil, Gas and Mineral extraction. The importance of the Mining Industry and the scale of Commodity Trading of Minerals from Iraq is not of major economic importance compared to Oil at this point and is therefore not covered in this report.

# However, many of the issues and recommendations discussed in this report are equally relevant for the mining industry where good practice at the earliest stage of granting of a licence as well as correct market related pricing of output can have very high impact for the lifetime value of an asset.

This is similarly the case for two areas of activity in the Oil and Gas Industry that are outside the scope of the report on commodity trading but are of major importance to the revenue mobilisation of Iraq:

* Process for the awarding of **Exploration Licences**
* Contracting and Details of **Service Contracts**

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# There is considerable discretionary decision-making by State-Owned companies or Government Ministries in all stages of the value chain, particularly in the awarding of Exploration and Development licenses. Once awarded these licences normally remain in place for decades irrespective of commercial exploitation or implementation. The process for awarding licences and the terms agreed are therefore of great importance. Often the terms remain confidential enabling corrupt practices and inequitable allocation of revenues to continue.

The contractual terms agreed in these contracts are of great significance for the marketing of output since they will determine the amounts of commodity that is available to the State to market. Thus, understanding and supervision of the implementation of these complex agreements is vital.

# The complexity and scale of both financial and technical expertise required for companies to participate and implement the initial exploration and later development of projects. This makes the business hard to supervise except for those experienced within the industry. Even for experts involved in the Oil business it is very difficult to challenge the figures used. This is especially the case for outside agencies or experts.

# This report mainly focuses on the corruption risks present in the central commercial activity of selling the Oil and Gas produced to the international market and the allocation of oil within Iraq.

# The report describes the commercial and physical arrangements fulfilled by SOMO and Domestic NOCs in the energy value chain, including Suppling Oil to Producing Partners and Distributing, Marketing and Selling of Oil and Products.

# It also investigates the processes around the cash flow connected to the Oil and Gas sales as far as is possible to the point when the responsibilities of the Marketing Organisation end. Their responsibilities split broadly into four phases:

# Pre-Contract: choice of partners, clients or suppliers when importing

# Contract: Drafting and Administering the Contracts

# Lifting: Nominations, Operations and Loading

# Post Lifting:[[2]](#footnote-1) Invoicing & Claims connected to Loading and Quality

# **Description of the Oil & Gas Sector of Iraq**

# Scale of the Oil & Gas Activity: Production

# The importance and attractiveness of the opportunity in Iraq is demonstrated by reviewing two factors, its huge scale and its relatively low-cost structure.

# Iraq is a very significant producer of oil and natural gas and holds the fourth largest proven crude oil reserves in the world at 145 billion barrels of Oil based on OPEC 2023 data. That represents 11.7 % of the worlds proven reserves. In 2024 they were the 5th largest producer of Oil and the second largest in OPEC after Saudi Arabia. The nation’s capacity to boost production has been constrained by infrastructure and export bottlenecks and recently by decree of OPEC who wish to control the price of oil in the face of increasing USA production and stagnant demand.

The IEA states that prior to the dispute with KRG, Iraq (including the KRG) produced 4.6 million b/d of total petroleum liquids in 2022 and had a capacity of approximately 4.8 million barrels per day. Since then, the production dropped off due to pressure from OPEC to reduce exports and an ongoing dispute between Baghdad and the Kurdistan RG. In FH of 2023 for example the production averaged 4.3 million bpd. During 2024, despite both pressure from OPEC and the KRG situation not being resolved, output has gone up and annualised gross production has been quoted by the EIA and Iraqi sources at 4.67 million barrels per day.

# Scale of the Oil & Gas Activity: Revenue

Iraq’s economy is heavily dependent on oil income, with more than USD 115 billion oil export sales revenues in 2022 when crude prices were strong and approximately 115 billion USD in 2024 which is expected to account for > 90% of government revenues

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# .

This revenue is mainly realized through export sales made through the State Oil Marketing Organization (SOMO). Iraq’s oil sector is therefore central to Iraq’s fiscal position and critical to the vitality of the economy and the ongoing reconstruction efforts of the whole economy. This is particularly important for large capital investments such as upgrading the oil and gas sector, electricity infrastructure and transportation developments.

# Low Cost of Production in Iraq

Long Run Average Cost of Oil Production (Source IEA & EIA).

# The table below shows that the cost structure of the Iraq Oil Production of Oil and Gas is one of the lowest in the world and there is potential to maintain this high level of production of greater than 4.5 million barrels per day maintain the low Long Run Average Cost for many years.

**Costs $ per barrel 2024**

| **Oil Production 2024** | **Iraq** | **Angola D/S** | **Saudi Arabia** | **USA Shale** |
| --- | --- | --- | --- | --- |
| Capital Cost | 6 – 8 | 40 – 50 | 4- 7 | 35 - 45 |
| Operational Costs | 4 – 7 | 20 - 25 | 4 – 6 | 20 – 35 |
| Full Cost Range | 10 – 15 | 60 – 75 | 8 - 13 | 60 – 80 |

# This increases the strategic importance of Iraq for Oil consuming countries. It also gives it an essential central role in OPEC and increases its attractiveness to all participants in the Oil business. The incentive for both legitimate and corrupt activities by Iraqi and External players will therefore remain very high and implementing procedures in the Oil Industry to combat corruption is of key importance for the Oil & Gas Industry and the country in the short and long term.

# Scale of the Oil & Gas Activity & Risk of Corruption

There are significant risks of corrupt activity throughout the global energy industry and at all stages of the value chain. In countries with large mineral or energy reserves or production such as Iraq this risk is very high.

# In Iraq as reported above, the large scale of the onshore production and its very low cost of production relative to World prices for Oil and Gas has meant that many participants in the industry have been and always will be attracted to the country to search for significant gains.

**Export Revenue: State Oil Marketing Organisation (SOMO)**

SOMO is the most important organisation within the Ministry of Oil, tasked as it is with the job of selling at market level all Oil and Oil Products made available for resale to the open market. They are also responsible for arranging contract and spot volumes of refined products which Iraq must import.

SOMO is the only entity empowered to fulfil these roles.

Somo export availabilities are allocated according to agreements with the Ministry of Oil, production partners and contracted off-takers.

The volume available for export is as in most producing countries broadly:

SOMO Export Availability = GP – DO – CO

Where GP is Gross Production

minus DO, Oil for domestic use

minus CO, “Cost Oil” allocated to Oil and Gas Production partners to compensate them for their service provisions.

For comparison of Expected Revenue with Actual Revenue received from Oil Sales as cash receipts into the State bank accounts (either in the NOC account or as in Iraq, into the Ministry of Finance controlled account) it is necessary also to know the revenue and volume offtake of any Buyers who lift under a Resource Backed Loan.

There is certain priority given each month to the Sinosure offtakes which is not unusual for resourced backed loans or Structured Finance liftings.

The calculation of Export availabilities of refined products including Gas Liquids is similar but normally does not include any allowance for production service contract compensation nor for resource backed loans.

Refined products are not often at present used to compensate or prepay partners in Iraq but there is an existing agreement in place with Iran whereby Fuel Oil is exported to Iran by Iraq as part payment for gas and other debts.[[3]](#footnote-2)

**Characteristic Marketing Policies of SOMO reducing Corruption Risk**

Several characteristics of the Crude Oil Marketing strategy of Somo and their decision-making help to reduce the risk of corruption. They are discussed one by one below.

1. Marketing Strategy: Only End – Users need apply
2. OSP formation and usage
3. Decision Making by Committee
4. Credit Policy

There is little apparent or reported concern in the Oil Trading community concerning corruption in the export marketing of Crude Oil by Somo. There is some concern and frustration voiced by companies that cannot get on to the list of contract holders but that is very usual in any country with energy resources and a National Oil Company as the sole seller of contract oil form the State.

Somo is very long established in the business and has had a very consistent Marketing Policy both from a Pricing and a Client Distribution point of view. The consultant’s personal experience reflects this consistency and discussions with Somo personnel and with several Buyers undertaken for this report did not bring forward serious concerns. Nevertheless, the report does recommend close supervision of the client registration procedure.

1. Marketing Strategy: End - Users Only

The report has already shown how Somo is a very large and significant player in the Global Oil Market. Unlike many of their peers Somo does not sell delivered crude or product cargoes. Somo decided early on in its history to shield its crude oil from becoming a traded Oil that would be passed from buyer to buyer before reaching an end user. Somo, like many other NOCs, developed a policy over 40 + years only to sell directly to companies who can refine their oil. This means they have a long experience of selling their grades of Oil to buyers who are very long-term users of the crude and with whom Somo develops a co-dependent relationship. The buyers build or adjust their refineries and adapt their purchasing behaviour based on the expectation of continuing to buy the Iraq barrels at market value for a long time.

In 2024, 75% up to 80% of crude oil volumes sold by Somo were targeted and explicitly sold on contract to Asian buyers who are contractually expected to run the grades themselves. The balance is sold to Europe (10%) and 8 up to 12% to the USA.

Although the net receipts for Oil sold to the USA per barrel is likely to be lower than selling more to Asia, in the medium term Somo policy to spread out its long-term supply is not expected to change.

This policy has the effect of virtually eliminating the role of intermediaries who use corrupt methods to influence sales decisions to benefit off - takers or even become lifters themselves who then re-sell to the market. Intermediaries appear to be absent from Iraq’s Oil Contract portfolio.

If Intermediaries are excluded from becoming physical off-takers. This means for the purposes of the EITI Standard the first sale from the State, by Somo, is not to an intermediary and is reported to be always at the OSP official price.

This also means that there are very few spot (individual short term) sales of their main grades of Crude Oil. Thus, there is little activity around the Sales activity and a reduced risk of corrupt behaviour.

However, this does not mean that corrupt actors do not continually attempt to get involved in the area in the pre-contract phases such as registration of new clients. However, it does mean it would be highly visible and remarkable if a new client appeared on the Somo client list and began to lift OSP crude cargoes of Basra Medium or Heavy and then re-sold them.

1. OSP formation and usage

The method of Official Selling Price (OSP) setting by Iraq is not felt by the market nor this report to encourage manipulation nor increase the risk of corruption since it is set very publicly in advance of the lifting month based on the market conditions prevailing at the time and with deep regard for the adjustments made month to month by the other major producers in the Arabian Gulf. The most important OSP is the Saudi Arab Light quote which is reflected also in the very large “paper market” If the Iraq OSP went far off the expected narrow range of relative values the market would immediately react, adjust liftings as possible and comment. There is no evidence of this happening. This OSP formation is commercially a far safer mechanism than for example the Nigeria OSP that is the result of looking back at market conditions determined by buyers, trader and market behaviour. The OSP can therefore be affected by pricing comments of third parties who have a vested interest in manipulating the OSP downwards. This is not always in the interest of the selling company such as NNPC of Nigeria.

One way this can be judged is by analysing each decision and the processes in place around a decision. Following the EITI standard and releasing the core information around each decision is an effective way for an NOC to demonstrate that decisions are made based on sound processes, designed to enable the revenue from sales paid to the State to reflect objectives of the marketing policy. In small or simple companies or in individual cases this policy may be revenue maximising cargo by cargo but in a complex global market with very high volume of cargoes to load, Somo has chosen a term contract, OSP based system.

1. Decision Making by Committee

Because of its central importance to the economy of Iraq Somo has always been and still is very closely supervised by the Ministry of Oil and the leaders of the government.

The Minister of Oil is effectively the Vice President of the country and very much part of the elected government. He will often have a significant role in OPEC.

This raises the concern of political interference in decision-making in commercial matters, which is inevitably almost always present with NOCs. It is rare that the governments choose to divorce themselves all key decisions in the NOC. Thus, political influence is inevitable. However, it is not inevitable that it is a negative influence nor that it is corrupt.

In Iraq, there is no evidence, and it is not readily practical for a Minister to affect market pricing on a consistent basis to aid buyers.

Overall, in Iraq the number of people involved in decisions is large and very much committee based. This avoids a red flag present in many NOCs where political influence exists and very few people are involved in major decisions such as choice of off taker for Oil or Products. In countries with excessive political influence on Trading decisions it is frequently characterised by a small number of very powerful figures both at government level and in the NOC.

In Iraq, many key decisions such as the Marketing Plan and Budget are confirmed by Somo only after re-confirmation by committees within the Ministry and then reconfirmed by the Minister.

Overall, the evaluation of the report is that theoretical and overt risks of corruption in the marketing function in Iraq are low.

The report does, however, now look in detail at the area of client registration in place because in any country political influence can be exerted on to the State NOC Marketing Management directly from politically active people to enable a company to open up the negotiation of supply. They can in certain cases even by-pass the Marketing function in the first instance and give assistance to a preferred party to become a client.

1. Credit Policy

A further long running rule of the Somo marketing which reduces corruption risks is that they do not grant open credit to Buyers. This means that the control of each lifting is supervised at a financial level by the Somo Financial / Operational groups but also by the Ministry of Finance and their bankers, cargo by cargo.

**Iraq Export Marketing: Generic Evaluation of Corruption Risks**

* Evaluation of Corruption Risks against Generic OECD Reference Work

Having described the corruption reducing characteristics of the Marketing and Trading Activities of Somo, we now evaluated the corruption risks from the perspective of a generic analysis. We chose to do this against the excellent OECD paper of 2021 before analysing from a trading point of view each step in the commercial process.

The OECD identified in its 2021 Study on Corruption Risks, Source: Typology of Corruption Risks in Commodity Trading, the following Red Flags or Symptoms of “corruption risks of cross-cutting relevance across commodity trading transactions “

* Opacity of Ownership & Governance structures of key actors in commodity trading
* Use of fragmented corporate vehicles in commodity trading transactions
* Use of front companies to purchase commodities
* Use of joint venture structures in commodity trading transactions
* Concealment of beneficial owners of buyers
* Involvement of politically exposed persons in commodity trading transactions
* Use of intermediaries in commodity trading transactions
* A lack of or insufficient corporate due diligence.

As has been shown in the previous chapter of the report, an evaluation of the Crude Oil export business of Iraq raises few red flags as defined by this study. The characteristics of the End User Marketing Policy and the pricing of the crude oil sold under contracts made by SOMO at a price that is broadly set by the market and continually benchmarked to the other Arabian Gulf suppliers under the direct supervision of the Ministry of Oil all add up to reduce risks of corruption.

We examine two areas where some concern might be raised: Political Involvement and insufficient corporate due diligence

* Political Involvement

There clearly is indeed a great deal of political involvement in decision-making as in many NOCs. Processes within the NOC can be free from corrupt influence but there is a risk that very high-level political influence negates this. The most likely way this can happen is by influencing the processes of the company, the Human Resources and most obviously by in the introduction of new customers and that may come in the shape of Government-to-Government (G. to G.) deals. Somo reported positively that the Sales Contract that is linked to these deals are the same as normal contracts. This is positive for the security of the revenue flow.

In the case of Resource backed loans where the Oil Supply is structured to support the loan and pay it back over time, there is a risk that details and costs remote from the oil supply contract will leave it open for an overall misallocation of resources to occur. However, this is not directly within the scope of Somo, nor of normal Oil Marketing and it is not dealt with in this report.

This is a very difficult area to report on with confidence in all countries since there is a good deal of unease in most governments about releasing all the relevant data on such deals. In some instances, countries must reveal the full detail of the linked financial commitments in order to raise further capital from banks to finance a new venture after making a Resource Backed deal. However, most often this data or contract detail is not available.

Nevertheless, the flows of Commodity from long term resource backed loans are an important feature of Commodity Trading and reporting on these large transactions is included in the updated EITI standard.

The positive cash flows from the Oil business indicate that Iraq can originate extensive financial support directly from banks and institutions. They may therefore not need to use specific dedicated existing Commodity flows to finance projects.

* Insufficient Corporate Governance

There is no direct trading related evidence of poor governance in Somo. However, the late reporting of financial results and other data gaps from the Ministry of Oil do raise concern. This concern links closely to consultant’s contention later in the report that it is essential to promote mutually supportive best practices of ISO implementation and Certification, EITI Compliance and external auditing in all the NOCs including SOMO to protect the reputation of the activities, raise confidence of the public and the industry overall.

**IRAQ Export Marketing: Evaluation of Corruption Risks Process by Process**

There are two areas of Trading Activity that are often red flags indicating a high risk of corruption in Oil exporting countries. This report finds this is not the case in the Iraq Oil export business. They are therefore not included in the table of processes below.

1. Exporting (First Sale) to Intermediary: Low to No risk
2. Non-Payment for cargo: No risk if L.C 100% enforced

The table below looks at the activities that Commodity Trader will go through in a commercial effort to purchase cargoes and comments on the perceived or reported risk of corruption.

**EXPORT CONTRACT SALES: Activities and Corruption Risk**

| **Commercial Action** | **Process** | **Risk Evaluation** | **Recommendation** |
| --- | --- | --- | --- |
| Client Registration | Recorded ISO | Low Acceptable | Update Policy & actively encourage new clients: |
| Product Allocation | Contractual | Medium Risk | Audit Contractual Terms to be audited |
| Sales Contract Drafting & Terms | Unknown but Standardised | Low  Process | Internal & ISO Checks |
| Product Sales Spot | ISO using Agreed Client List | Low  Acceptable Process | Audit client list annually. ISO audit of Sale Outcome |
| Export Pricing | OSP Public set by Policy | Public  Low Risk | Policy not Process: Benchmark versus peers in the Gulf |
| Spot Sale Pricing | Tender | Public  Low Risk | Audit all Sales:  Process Update Publish |
| Claims/ Breach / Credits incl. demurrage payments | Unknown: Process in place but not clarified | Medium to High  Needs to be explained /audited | Important to clarify with External and Internal Audit |
| Demurrage Levels | Unknown  Process in place | Medium  Not visible | Audit and Benchmark |
| Payment Terms | LC Controlled  Bank Control | Low  Acceptable | Audited / Controlled |
| Operational Options | Unknown  Process in place | Low but needs to be clarified | External Audit and reset of ISO probably needed. |
| Lifting Prioritisation | Discretionary / Contractual | Significant Operational value  Audit Contract | Check Process in Audit but Contract terms probably take precedence |
| Variance Analysis of Results | Not clear ISO check needed | Low Risk but could be important check to show how 2 entities control each other | Check Process in Audit |

* Spot Sales Policy & Process

Iraq sells most Crude Oil under contract at OSP price. This is part of their long-standing marketing policy. It is not within the scope of this report to comment on this. In most respects this strategy and long-term policy reduces corruption risks in the Supply and Selling since it makes it more unusual if a cargo or series of cargoes are sold to a new third party.

On the occasions that Somo now does sell spot cargoes they employ a process which is judged by the market and the consultant to be reasonable and open.

Below is a standard Sales Process description showing the key requisites for a seller of a cargo to receive compliant and transactable bids on product. The SOMO typical procedure for spot selling meets most of these requirements and their sale process is judged in the market as acceptable. They do not have a policy of fining bidders or indeed contractual parties who do not perform exactly on time and occasionally the time scale of bids may be shorter than ideal, but the overall process is acceptably open, and market participants are able to bid.

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* Corruption Risks in the Operational and Post Contract Phases

The view of the consultant is that the risk of corruption in the Pre-Contract and Contract Phases of the Supply – Marketing activity is low. This is based on analysis of the customers reports and the selling companies overt and reported policies. It would of course be very beneficial to be able to see existing contracts to verify more details.

Evaluating corruption risks or actual corruption in the lifting and post contractual phases of commercial marketing of Oil and Products present a much harder challenge.

The amounts of money involved in any specific corrupt activity may not be large but in multiplicity they can amount to a significant sum. It was necessary to compile this report on Iraq without seeing an audit of procedures and comparing them against contractual terms and conditions. The NOCs and Somo reported that there are in existence full audited procedures for all significant activities, and they are registered and audited for them to maintain their ISO 9001 certification.

At this point therefore it is not possible to judge to what extent the wish or need to maintain ISO certification combined with auditing and supervision inside the entities reduces the corruption risk to low levels. During the review and interviews for this report there was no instance where corrupt activities were implied or explicitly described.

However, there are some areas where data gaps are large and considerable sums of money which might be expected to remain in the State Account are credited as Oil back to lifters.

It is recommended that these gaps be investigated both to show good practice from a process point of view by seeking a clear Flow Chart of Claims and to clarify all breach and rebate activity.

For the purposes of submitting satisfactory data for EITI validation this area will also need to be clarified, and data submitted in a way that is dis-aggregated so that it can be understood.

Other operational areas such as nomination precedence and claims for non-performance are possibly not seen as relevant for EITI. Nevertheless, the detail of process around nomination which is very hard for outsiders to follow without clear process, should in the consultant’s view be set out. This will also allow discussion on whether the loading programme of Iraq can be published by Somo, which would not reveal any information that Oil companies cannot otherwise discover by tracking but would improve the transparency and ease of doing business with Iraq.

* Process Resilience

Consultant conducted a desk study of past reports and several interviews with the SOMO and NOC management responsible for ISO 9001 quality management. There is strong support from the personnel of Somo and the other NOCs for continuing and improving the implementation of the continuous process improvement and process auditing that is required to maintain ISO certification. Some companies, including Somo Marketing had recently updated their certification. Consultant was not able to verify the level of the detail and strictness employed by the ISO Auditors. This will need to be enhanced and if possible audited at least on an ad hoc basis by an external internationally reputable company such as DNV.

Within the ISO process for Marketing, it is naturally already required to record every cargo of Oil allocated, loaded and invoiced. Most cargoes were reported to be sold under Standard Contract terms with variation only related to quality and pricing related to date of loading. This standardisation of terms is readily checked and is another reason why the corruption risk should be relatively low. Auditing process conformity internally and externally would be a strong disincentive for people involved in Sales to attempt to modify terms to the benefit of the Buyer.

The terms in the Supply Contracts linked to the long-term Resource Linked Loan Facilities drawn up by the Ministry of Finance and agreed with Sinochem and Zhenhua are also reported to be the same as other Somo Export Contracts. This was not possible to verify. We believe this to be the case. The strategic value to the Chinese Government of the long-term supply agreement is already a great incentive for them to support Iraq financially. However, in Government-to-Government resource backed loans of great importance to the country conformity with standard lifting agreements is not always maintained and it would be valuable for supervision to know more details.

* Corruption Risks: Summary on Somo.

Constructing a process map and value chain for Somo’s Export Marketing activity in 2024 & 2025 based on freely available information does suffer from some major gaps in the exact processes and data that are made available. However, there are few red flags as per the OECD model of corruption risks and few issues apparent from the market and our review.

Global reconciliation of the expected and actual financial revenue from their activity which is the single most important check on Somo performance does not throw up major concerns. The concerns and the gaps come from the reluctance of the Ministry to allow full and timely release of data and the lack of a clear explanation of the claims and breach procedures.

# Critical areas where data on Revenue from sales is lacking

A lack of reliable and verified data is a characteristic of the Iraq Oil, Products and Gas market in late 2024.

The Ministry of Oil has reduced the amount of up-to-date clear information it releases.

Most importantly the Revenue achieved from the Exports of Oil which is up to 95% of the Income of the Country is not freely available even in a very basic form. No detailed information on Revenue by vessel or country of destination is released. This data is clearly available in detail within SOMO and the Ministry of Oil and is closely monitored by the Ministry of Finance who control the key bank accounts where the revenue appears.

Therefore, it seems reasonable and practical to request that this data is once again published consistently and promptly.

It would also help the evaluation of the performance of the Extractive Industry if the Standard Contracts for important activities were published even without the detail pricing or costings. (See recommendations below)

**The Iraq Domestic Oil Industry**

* National Oil Companies: Description

The Oil companies operating as producers, refiners and distributors are State Owned under the direct control of the government.

The major companies are regarded by the Ministry of Oil, and they regard themselves, as Production Companies. They are not expected to perform any active marketing of Oil or Gas, nor are they incentivised to earn foreign exchange revenue for the country. They are instructed to follow their production budgets and compensated for their production with a fee of Cost plus 20%. They do report their activities as separate companies or State Enterprises and publish annual reports, but they are in all senses established and managed as divisions of the Oil Ministry.

Under the direction of the Ministry of Oil the NOCs control the physical flow of oil from production to supply point either to Somo or to the recipient (domestic customer). The volume and the timing of the supply is determined in all senses by the Ministry of Oil.

There are several long-established Production Companies named and organised mainly by the geography of their original producing areas. They are the North Oil Company, the Midland Oil Company, the South Oil Company known now as Basra Oil Company, (BOC) the Dhi Qar Oil Company, and the Maysan Oil Company. These production companies were all interviewed to complete the underlying study for this report.

They were run in very similar ways and exhibited similarly high levels of professionalism and openness to discuss their operations and their structure. They are discussed further under processes and revenue below.

The process activity table for Domestic Production Companies below shows that the main risk of corruption is not related to pricing or commercial terms but is restricted to non-contractual, physical areas of activity. These were not possible to review other than by interview of management and review of published accounts for this report. A recommendation linked to good process and enabling prompt release of information on production is made in the recommendations section of the report.

The information available at present to the public in general and to EITI in particular on Domestic Oil and Refined Products is not adequate to be able to judge performance of the agencies involved in the energy industry. It is also not possible to evaluate levels of possible corruption based only the volumes given by the producers which are then allocated and internally invoiced.

There is no evidence of corruption in the domestic supply but there is also very little data to judge the situation. Smuggling of products and Oil from Iraq to other countries is reported but often this appears to be linked to the Kurdistan production, and it was not possible for this report to verify if other areas are susceptible to misallocation of oil and products. There is a strong profit incentive for parties to export subsidised (or misappropriated) oil and products to private sector buyers both in Iraq and in neighbouring countries. There was no evidence of that occurring reported. Nevertheless, the systems for volumetrically controlling movements to and from Buyers and especially from refiners should be published and.

This failing is not due to the information not being collected and made available in several places in the organisations concerned. The producers (NOCs) such as South Oil Company and Midland Oil do have a Sales and Marketing Process in place and do document in a normal Operational and Financial way to record the production and sales of the company. They also produce regular accounts and reported that they complete auditable accounts within a usual timeframe for large organisations. These accounts are not published to the public and the statistical data that lies within them is therefore not available promptly apparently because of delays in the PBSA.

* Domestic Allocation of Crude Oil Documentation.

At present the detail of information supplied or made available on domestic energy supplies is limited. Some information can be calculated from public accounts but many of these are very delayed and there is no automaticity in issuing clear revenue figures or results.

There is both a physical and a commercial (Cash) flow in the Domestic Oil and Products business. The physical flow is agreed between the Producing company and the Ministry who allocate volumes to Domestic End Users such as the electricity companies.

However, there is not a commercially negotiated or market related price attached to the supplies that are allocated. The NOC supplies at a price calculated on a cost plus mark up of plus 20 per cent and is recompensed internally by their owner the Ministry of Oil. Therefore, the commercial element and opportunity for corrupt actions involving cash are low.

**Corruption Risks in Domestic Oil Supply**

* Licencing and Pre-Production

As has been mentioned in the Export Marketing section of the report the early phases of the Oil Development and Value chain are controlled by Ministry of Oil. They are also outside the scope of this report. The physical and financial data reporting required to judge the performance of the Domestic NOCs of Iraq is not produced and published at the moment in a timely fashion. This is also the case for that data required by the EITI Standard is not met in Iraq in the domestic oil sector. Similarly to the situation in the Somo review, the reason for this failing does not seem to be caused by inability or unwillingness of the NOC managers.

The NOCs reported that they do produce adequate accounts within 6 months of their year end and often earlier than that.

Given the fact that the NOCs are 100% State Owned and controlled by the MOO not only in Strategy but in actual month to month allocation of supply, the NOC Producing Companies do not display any likely need to protect information to hide corrupt activities.

* Review of Corruption Risks in Supply Process

Broadly, the main risk of corrupt activity in supply and trading oil inside Iraq will involve the physical quantity of oil supplied compared to the actual physical output from the company’s production points in any month or year. This does not involve commercial agreements or contracts involving commercial trading. Thus, the only way such corrupt activity would be visible is if there is an identifiable recorded discrepancy between the production level of a plant or plants and the amount of supply received by the Ministry of Oil and its nominated suppliers.

* Evaluation of Corruption Risks against OECD Reference Work

Similarly to the review performed for export marketing we looked at the corruption risks in the Iraq Domestic Oil Market against the OECD study of 2021.

The OECD identified in its 2021 Study on Corruption Risks the following Red Flags or Symptoms of “corruption risks of cross-cutting relevance across commodity trading transactions “

1. Opacity of Ownership & Governance structures of key actors in commodity trading
2. Use of fragmented corporate vehicles in commodity trading transactions
3. Use of front companies to purchase commodities
4. Use of joint venture structures in commodity trading transactions
5. Concealment of beneficial owners of buyers
6. Involvement of politically exposed persons in commodity trading transactions
7. Use of intermediaries in commodity trading transactions
8. A lack of or insufficient corporate due diligence

Within the Domestic Oil business of Iraq virtually none of these red flags are visible nor applicable because of the structure of ownership and the lack of commercial transactions made by the NOC entities. The Ministry of Oil itself is responsible for all the commercial decisions.

There are however in consultant’s opinion other more salient red flags in most domestic businesses especially when subsidised prices dominate the market.

Generic Red Flags for Risk of Corruption in NOCs Globally in Domestic business dealings.

* Smuggling of low-priced subsidised Oil or Products
* Fraud related to Volumes produced and supplied
* Payment of overstated delay or quality claims from clients
* Financial Misappropriation

There is a high Incentive for Physical misallocation of subsidised Oil and Products from Iraq since domestic cost and price is low and profit potential is very high from smuggling. This is a very important problem in several African Oil exporting countries where the subsidised price of refined products is less than half the open market price. It is also a risk in Iraq and Kurdistan wherever supervision is low.

**Domestic Commercial / Physical Operations of Oil Production:**

| **ACTIVITY** | **RESPONSIBLE** | **COMMENTS** | **Corruption Risk** |
| --- | --- | --- | --- |
| Production Plan | MOO & Basra Oil | Joint Agreement | No |
| Oil Production | Basra Oil |  | No |
| Advice of Availability | Basra Oil |  | No |
| Allocation of Volumes | MOO | No report on how supply is prioritised | Low but possible Internal Iraq |
| Delivery / Supply | Basra Oil | Price Fixed by MOO Decree Cost Plus | Low Physical Under Delivery |
| Invoicing for Supply | Basra Oil & MOO | Price Cost plus Fixed | No risk |
| Measuring Supply Volume | Basra Oil & Client | Is there an independent external Inspector? | Low but risk of Under reporting |
| Reporting Financial Results | Basra Oil | Delays due to FBSA otherwise normal | No risk |
| Investment in Plant & Equipment | Basra Oil | Not linked to Commodity Trading | Present but internal to MOO and Iraq |

# **Actionable Recommendations**

The recommendations arising from our analysis divide into three mutually supportive broad categories. None of the actions or changes are costly or complex relative to the activities they are linked to. The Iraq Oil and Gas Industry which displays a high level of professionalism and capability is easily capable of fulfilling the recommended changes since most have at some time in the last decade been part of their business routine.

1. Data Provision
2. Process Improvement
3. Training and Consultation with Industry Peers

# **Data Provision**

# **Domestic Oil: Responsibility & Source NOCs & Ministry of Oil**

# Item 1: Production

# Production level for Crude Oil by each NOC Production Company

# Unit: Million Barrels per day

# Period: Monthly

# Allocation: Split between Electricity Companies, Refineries etc

# Item 2: Financial

# Financial Information: Accounts including comparison with Budgets to be published within 3 months of year end

# If no approval by FBSA the Reports should be published with note on final audit.

# Item 3 Allocation of Oil

# Activity: Allocation of Oil for Service Contracts: Source Somo & Ministry of Oil

# Data on actual allocation and loading of Crude Oil in million barrels

# Timing: Quarterly in arrears by grade disaggregated by field operator

# **Data Provision** continued

# **Exports: Responsibility & Source: Somo & Ministry of Oil**

# Item 1 Volumes & Revenue

# Data on Revenue: Monthly: within 1 month.

# Data on Vessel Loadings: Monthly within 3 months

# Contract Holders: Quarterly update of Clients (within 90 days of Contract)

# Contracts Volumes: Identified by Somo with Min /Max volume Quarterly

# Destination of Cargoes: Identified by Somo within 90 days of lifting.

# Variance / Breaches: Breakdown of total claims and credits by category

# Item 2 Financial

# Accounts comparison with Budgets to be published within 3 months of year end

# If no approval by FBSA the Reports should be published with note on final audit.

# Financial reconciliation between expected Export revenue and Actual to be published monthly in arrears of maximum two months.

# **Actionable Recommendations: Process**

# **Recommended Process Changes +/ or Re- Confirmations**

# **Implementation by June 2025**

1. ISO: Existing Internal Audit and ISO 9001 Processes in all NOCs and SOMO key departments, including Marketing and Finance must be updated and fully documented within 2025.
2. ISO Process to be discussed and published with some representatives of the MCO / Third Parties in Iraq
3. Audit: External Independent Company not owned in Iraq such as DNV to work with a local owned partner to perform a bi-annual check on ISO 9001 implementation of different NOCs and SOMO including spot checks in 2025 3 Q
4. Audit: Breach of Contract process, measurement and allocation. Full audit of process and explanation for 2024 accounts.[[4]](#footnote-3)
5. Output: Production, Allocation & Loaded Volumes & Gross Oil Revenue Data to be reported and/or uploaded to EITI quarterly by SOMO
6. Output: SOMO Marketing to publish accounts for 2024
7. Outputs: NOC including South Oil to publish accounts for 2024
8. Outputs: Client Registration for Oil Contracts: Somo to release annual list of new and old registered clients / counterparties / suppliers.

**End of Substantive report**

**Jan 30th Draft Report**

**References, Notes & Appendixes (to be completed for Final Report)**

**Appendixes / Notes**

1. Note on Definition of Trading & Relevant Scope in Iraq
2. Note on Data Gaps in Service Contracts & Oil Allocation as payment in kind
3. Iraq Refined Products Imports and Spot Sales: Activities and Corruption Risks
4. Iraq Oil & Gas: Production & Exports 2024
5. Note on OPEC Dispute
6. Note on Resource Backed Loans
7. Example of Interview Pre-Meeting Question Template
8. Note on OSP of Iraq
9. Organisations Consulted & Interviewed
10. ISO 9001 Certification Somo
11. Top 10 Buyers of Iraq Oil and Products 2022 - 24
12. Comparative Note: Trading of Oil & Products in the Arabian Gulf
13. Note on Best Practice including Examples of Documentation
14. Note on EITI implementation.
15. Note on Generic Risk of Corruption in Trading Oil
16. Domestic Oil /Products: Subsidisation and Non-Commercial Supply Activities
17. Istanbul Presentation Slides Final
18. Stakeholder Table
19. Domestic Oil Production Table

**References / Written Sources**

* 1. Reuters: Commodities Daily report
  2. OECD: 2021 Typology of Corruption Risks
  3. Iraq Oil News: December 2024
  4. EIA:
  5. OPEC: Annual Report 2023 & 2024 Jan Monthly Review
  6. IEA
  7. EITI Standard 2023
  8. Iraq EITI Report for 2021,
  9. Platts SPG Arabian Gulf Report
  10. Argus Daily Oil Report
  11. OECD
  12. OPEC Annual Report 2024

**Appendixes / Notes**

# **Definition of Trading & Relevant Scope in Iraq**

# The terms “Commodity Trading” and particularly “Oil Trading” are often used to describe the whole commercial activity of the Oil Industry. It is more accurate to describe Trading as the commercial activity involving Buying, Transporting and Selling Oil where one or more of the parties takes on price and perhaps other risks that may involve loss or profit. This report focuses on Iraq where the State-Owned enterprises avoid actively taking on price risk. Thus, their activity along the value chain is better described for example as Exploration, Production, Marketing and Sales. The exposure to price risk is not present in the Sales and Marketing activity of Somo and the NOCs but price is of course of great importance to the economic value of each sale and each project over time.

# Despite not actively being traders, in other words, not buying from third parties or selling to third parties and taking on price risk, the NOCs and particularly SOMO are involved in very valuable transactions. They interact with third parties who are motivated to make profit and secure oil and gas supplies at the best conditions for their entity that they can.

# Thus, the Supply or Marketing and Sales activity could be open to influence from corrupt actors who have a strong incentive to gain advantage and profit in one way or another.

# **Data Gaps in Service Contracts & Oil Allocation as payment in kind**

The level of data availability and data collection in Iraq in late 2024 is very low both passively and actively from the point of view of the public and specifically EITI. The reason for the low output and publication of data does not appear to be one of technical difficulty or inability of the actors in the energy industry (The data providers)

The reason appears to be that the overriding position of the Ministry of Oil and other government bodies is that the key data of the industry is confidential. It is consequently the policy of the government to discourage or prohibit the accurate and readily comprehensible publication of key prices, contracts, or even basic revenue from the Oil and Gas business.

The task for the World Bank and EITI is to illustrate and persuade the Ministry of Oil that it is in the best interests of the industry for the Ministry to support disclosure of usual commercial data.

The arguments used need to be based on the real situation that there appears to be no reason to hold back the physical and financial results of the industry and make it difficult for the public and other interested parties to follow the output of the most important part of their economy.

The main recommendation is to build out from the core capability and strong historical basis of Somo and the NOCs. The management needs to be motivated and enabled so that as and when they are allowed to demonstrate to the public what their activities are yielding, they will be able to do it simply and clearly.

Improving systems and building in a high level of automaticity in issuing and recording data would be popular in the NOCs and it would immediately help the provision of data.

It would be very significant if the disaggregated data on Crude Oil loadings for example could be published within 2 months of loading or on a quarterly basis.

It is important for WBG and EITI to continue to discuss and explain the objectives of the programme to other members of the Iraq and Arabian Gulf Oil and Gas community.

Most participants will welcome more transparency. The entry of Abu Dhabi and Saudi Aramco into the full Trading Community has altered their attitude to openness since they now want to be able to transact on an even playing field globally.

The promotion of the goal of automatically including EITI provisions of disclosure in Term Contracts with NOCs or State-Owned Trading Companies will maintain some pressure on the Iraq Ministry.

1. **IRAQ Refined Products Imports and Spot Sales: Activities and Corruption Risk**

| **Commercial Action** | **Process** | **Risk Evaluation** | **Recommendation** |
| --- | --- | --- | --- |
| Client Registration | Recorded ISO | Low Acceptable | Update Policy & actively encourage new clients: |
| Supply Decision / Allocation | Contractual  ISO using Agreed Client List | Medium Risk | Audit Contractual Terms to be audited |
| Purchase Contract Drafting & Terms | Unknown but Standardised | Medium Risk  Process | Cost and Process  Internal & ISO Checks on costs of Product |
| Product Spot Sales of Refined Product | ISO using Agreed Client List | Low  Acceptable Process | Audit client list annually. ISO audit of Sale Outcome |
| Export Pricing | Spot Sales by Tender | Public  Low Risk but potential corrupt influence | Policy not Process: Benchmark versus peers in the Gulf |
| Import Tenders Pricing | Tender | Public  Low Risk but potential corrupt influence | Audit all Sales:  Process Update Publish |
| Claims/ Breach / Credits incl. demurrage payments | Unknown: Process in place but not clarified | Medium to High  Needs to be explained /audited | Important to clarify with External and Internal Audit |
| Demurrage Levels | Unknown  Process in place | Medium  Not visible | Audit and Benchmark |
| Payment Terms | LC Controlled  Bank Control | Low  Acceptable | Audited / Controlled |
| Operational Options | Unknown  Process in place | Low but needs to be clarified | External Audit and reset of ISO probably needed. |
| Prioritisation | Discretionary / Contractual | Significant Operational value  Audit Contract | Check Process in Audit but Contract terms probably take precedence |
| Variance Analysis of Results | Not clear ISO check needed | Medium Risk could be important check to show how Financial and Operational Cooperate with each other | Check Process in Audit |

The analysis of the corruption risk in the Refined products business brought forward very similar results and conclusions for recommendations as that for Crude Oil. There is a good deal of discretionary decision-making in the conducting of the business including spot sales that can sometimes happen at short notice.

In order to evaluate the risk that corruption is affecting the revenue earned and most importantly that costs are being increased due to high-cost price purchases for imports of gasoline, diesel or even gas, there needs to be an audit of the processes, and the outcomes measured against norms of pricing at the same time the decisions are made to export or import products.

The reported processes and pricing systems were recorded as normal and in line with market norms. but it is not possible to conclude therefore that the prices are in line with best practice.

The list of clients for the products both as suppliers and as buyers does indicate that some influence is being brought to bear on the mangers contracting the products. However, there is no evidence directly. Anecdotally there is an issue with certain companies getting advance notice of tenders and winning “too often”. Consultant had two interviews concerning products imports.

1. **Iraq Oil Industry: Production & Exports 2024**

Total Production of Oil for Iraq excluding KRG, thus controlled by the central Oil Ministry in Baghdad was reported as 3.95 million barrels a day or 1,442 million barrels in the year.

The average price of Dubai crude in the last year was $82 per barrel and the approximate gross market value of Iraqi crude was approximately $80 per barrel and therefore the gross value including exports and the potential market value of oil allocated to domestic companies for domestic use and the oil credited to producing partners of the country was close to $116 billion. (Including KRG volumes would indicate a gross theoretical value of output in the international markets of $136 billion).

For the purposes of this report, it is not of importance to calculate the exact numbers but it is essential to recognise two major processes under the control of the Ministry that affect the volume of Crude Oil available for export and therefore the revenue from the industry.

To be completed later

1. **OPEC Dispute**

# OPEC and KRG issues are both very politically sensitive and my experience indicates to avoid the topic. However, there are those who think that in government they believe the OPEC restriction is a reason to increase opacity of data.

# The incentive to keep production of Oil high is naturally very strong with such good economics and the budgetary stress on both the national government and the individual companies running the oil fields. An ongoing dispute with OPEC reflects the influence of the Iraqi production and it was felt by some in the industry that oil production levels not sanctioned by OPEC was a drive for opacity in output data.

# IRAQ are still the second largest producer in OPEC but have been asked to curtail production in line with OPEC objective to maintain Oil price as high as deemed possible and strategically correct in the face of increasing USA (Non-OPEC) production.

# I do not think this dispute is behind the opacity. It is not logical since the output level of exports is well known in the international business. The OPEC policy of cutting output by two million barrels per day, which has been in place since November 2022 is expected to be extended until the end of 2026 by OPEC+.

1. **Resource Backed Loans**

# Resource Backed loans such as the Sinosure Agreement are used by countries who wish to have access to a large loan facility These are prioritised because there is a Financial Facility agreement or a Financial Loan contract partner to the Supply which are negotiated including minimum offtake availabilities and financial provisions per quarter or per month. In Iraq the Ministry of Finance is the counterparty to the Structured Finance and Supply Agreement.

1. **Example of Interview Pre-Meeting Question Template**

**Questions for CSO Discussion Group on Teams Call November 2024**

**regarding the Energy Supply & Trading Business incl. Domestic Oil**

# Main Area of Interest: Understanding & Transparency in the Supply & Value Chain in Export and Domestic Supply & Sales of Oil. EITI 2.6, 4.0 ,4.2.

# Main Information Gap of High Value is EITI 4.5 Traceability of Payments. (From Min Fin / Min Oil) Secondary Area: Exploration Service Contracts: Transparency & Administration of Contracts and Subcontracts

**Questions Template for Wider Group**

| **Export Oil Supply & Value Chain (SOMO)** | |
| --- | --- |
| Is the opinion of the group that Somo functions in a professional way?  Do the group have suggestions to improve Somo visibility / openness of results or process? | |
| Do the group have a solution to accessing the calculations of demurrage / rebates to Service Companies / buyers of Crude Oil | |
| Can we improve the visibility of the Cash Flow within the Ministry of Finance and Ministry of Oil? | |
| Can we get access to the Audited reports of the Ministry departments? | |
| **Exploration & Production Service Contracts** | |
| **The Cost Oil calculations** and Payments in Oil to the Production / Service Companies both National and International are very sensitive. Secrecy is inevitable but there should be external auditing / benchmarking.  Is there any example of the calculations being fully open or audited and explained? | |
| **Licence Allocation:**  What comments on the process do the group have?  Do they feel the contracts are administered in a professional way? Are audits public? | |
| Is it possible to see key terms of the Service Contracts Involving Domestic SOEs? Are these published anywhere? | |
| **Domestic Oil Supply & Value Chain** | |
|  | |
| What are the most important S.O. Enterprises in Iraq? | |
| Can we get better access to the people who transact in the organisation? | |
| Who is responsible for Internal and External Audit of SOEs? | |
| Can we build up a physical supply chain including volumes for domestic oil with parallel financial flows (or invoices) EITI 4.2. | |
| How do the SOEs get financed? (Cash Injection or Debt or are they not financed and just build up liabilities?)  It looks like they just build up reserves from selling Oil they do not pay for. Is this correct ? | |
|  | |
| **Traceability of Payments** EITI Requirement 4.5 | |
| ‘‘Treasury share of national oil companies’ profits’ This a material amount of money that should be accounted for in all SOEs”  Can we build the value chain including all the companies involved and then with us (EITI) fill in the income streams and withdrawals? | |
| **Important Payments and Accounts Not Published.** |  |
| Do the group have suggestion of how to improve access to data or encourage publication.  Example: Development Fund of Iraq Accounts not published? |  |
| Arrears on supply of Oil and Products not clearly stated nor what subsidies are granted by law and what is unofficial. |  |
| SOEs spending (on behalf of the Ministry of Oil) is not reflected in the national budget, these must be disclosed to ensure accountability in their management?  This is the overarching key area and touches on CONTRACTING and SPENDING State Reserves.  Since most income in Iraq is from extraction this is the big question and links directly to the core EITI issue that EITI Requirement 6.2 is not being met. |  |

**Discussion White Board Example**

**High Level evaluation: Corruption Risks & Activities in Iraq Oil**

Sales to Export: Risk of Selling Cheap

* Client Registration and Participation
* Benchmarking
* Value visibility
* Invoicing & Payments Reconciliation
* Revenue remittance to Government

Domestic Oil Allocation: Risk of Misallocation & Smuggling

* Volumes
* Pricing

Tracking Funds: Risk of Funds Misappropriated or not collected

* Central Bank
* Ministry of Finance
* Ministry of Oil
* Subsidiaries.

Spending Funds: Risk of Funds being spent on Poor Projects or Misappropriated /Overpaid to Entities not correctly vetted or controlled

* National Oil Companies
* National Gas Company
* Gas to LNG and Gas Liquids to Chemicals
* Payments for Commodity
* Funds Tracking

# **OSP Iraq**

# Somo Pricing related to OSP: This report is not commenting on Marketing Strategy per se therefore it is not appropriate to comment on the efficacy of the OSP nor on the allocation of contracts around the globe except in so far as the practice touches on the issue of Corrupt behaviour. There is an area of overlap however since the decision on who to sell crude to and how much to sell at a specially adjusted OSP for example to the Medi is both a “discretionary commercial call and part of the long term and very long-established Marketing Strategy.

1. **Organisations Consulted & Interviewed**

Table: To be drafted with World Bank of Iraq

1. **ISO 9001 Certification Somo**

To be completed later

1. **Top ten Buyers of Iraq Oil and Products 2024**

![](data:None;base64,iVBORw0KGgoAAAANSUhEUgAAAAEAAAABCAYAAAAfFcSJAAAAAXNSR0IArs4c6QAAAARzQklUCAgICHwIZIgAAAALSURBVAiZY2AAAgAABQABYlUyiAAAAABJRU5ErkJggg==)

1. **Comparative Note: Trading of Oil & Products in the Arabian Gulf**

SOMO Peer Comparison of Best Practice & Comment on Future Development

Somo Iraq are the most important NOC producing export crude oil that has not vertically integrated down the value chain towards international end-users and has not developed an exporting supply company nor a Trading Capability. Equinor (Statoil) of Norway, Saudi Aramco and Abu Dhabi using ADNOC have all embarked on Global Trading employing professionals from many countries to develop a business that allows them to build a portfolio of assets and activities where their core Oil supply gives them a competitive advantage and opportunities to build expertise and add value.

1. **Note on Best Practice including Examples of Documentation**

To be completed later

1. **Note on EITI implementation.**

Post the ongoing 2025 validation process the reporting template should be reviewed. Some of the IOCs commented that they found the form filling onerous, others did not object and were glad to comply. It would be helpful if the formatting of the EITI required data were the subject of a special discussion or meeting so that the formatting can be coordinated and aligned with SOMO and if possible, with other NOCs. It should then be possible to pass data as a file electronically to Iraq EITI for publishing on their web site. It could also be added to their annual reviews.

If the data is available on a web site run by the Ministry of Oil or Finance or SOMO, EITI could also add “click through” links with the agreement of SOMO and the relevant Ministry. Generic Attraction of Oil & Gas Business for Corrupt Actors

1. **Generic Risk of Corruption in Oil Industry**

The high entry cost and risk combined with its technical complexity create a significant barrier to entry but also a very high reward for successful ventures. Thus, the incentive to use corrupt practices to gain an advantage in the business is significant. This is true in all countries but especially in a country such as Iraq that has such large scale and relatively easily exploited resources of both Oil and Gas. Iraq is exceptional for its strategic value due to its size and Iraq needs financial assistance to develop or upgrade.

This large scale of production and high economic value furthermore incentivise corrupt activity in the operation and commercialisation of the output of energy fields. The sheer scale of Cash Flow in the industry from the very first award of a Seismic Analysis contract through to the Sales of Oil and all the associated provision of service contracts make it almost inevitable that corrupt actors will try to get involved and exploit the resource and the flow of revenue in some way. Each stage of the process involves large amounts of money and can be of importance to the country and therefore it is important to develop processes and supervision to reduce or even eliminate corruption and enhance the allocation of resources both during the process of oil and gas production and its sale.

1. **Domestic Oil /Products: Subsidisation and Non-Commercial Supply Activities**

There is clearly a great incentive for actors to arrange a diversion of Oil both from the NOCs and more importantly, further down the supply chain from their clients. This risk is ever present in countries with subsidised prices. This is an incentive for producers but more often their clients who receive very low-priced Oil or products to sell on the illegal market locally or more often to export via smuggling to other countries where the free market price level is more than three times higher than in Iraqi local market.

This is highly attractive in Iraq because of the very low cost of oil and the internal pricing of subsidised oil in Iraq. The borders are extensive, and the political disruptions of the last decade have meant that many actors have become skilled at executing this kind of trade and monetising such diverted oil in the region.

This was outside the scope of this review of Commodity Trading. There is no written evidence available to the writer that this practice is present in Iraq. The physical control and tracking of commodity from production to end receivers is a responsibility of internal auditors and physical controllers in the industry working at all production points.

The pressure on all sectors and participants in the domestic industry from corrupt actors will not diminish and will probably never disappear.

1. **Istanbul Presentation Slides Final**

To be completed later

1. **Stakeholder Table**

| **EITI and International Organizations** | **Iraqi Government** | **Companies** | **Other** |
| --- | --- | --- | --- |
| Iraq EITI MSG | Ministry of Oil | Private sector extractive companies in scope for EITI reporting as listed in the 2021 | Civil Society Organizations |
| Iraq EITI National Secretariat | Petroleum Contracts and Licensing Department | State-owned extractive companies in scope for EITI reporting as listed in the 2021 | OECD |
| EITI International Secretariat | Ministry of Trade | Media Companies incl S& P / Argus Reuters London |  |
| World Bank Baghdad Office | Companies Registrar Department | Trading Companies in UK, Dubai and Geneva | Major Oil Companies |

1. Domestic Oil Production Table

| Product Supplied | Total Volume Produced | Volume / Month  mill bbl. | Cost of Production  $ p/bbl. | Invoice to Ministry of Oil | | Destination | Client |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Basra (South) Oil |  |  |  | |  |  |  |
| Midland | 3.0 | 2,4 | $25 | | $27.5 | Baghdad | Electricity Co. |
| Kirkuk |  |  |  | |  |  |  |
| North Oil |  |  |  | |  |  |  |

**End of Notes and Appendixes Draft Jan 30th**

1. Also known as the “Virtuous Circle of Transparency”. [↑](#footnote-ref-0)
2. Post Lifting: In most Trading companies the marketing and financial divisions would work closely on financial results and variance analysis of actual revenues against expectations. This is mainly handled in Iraq by the Oil and Finance Ministries making it remote from the managers responsible for the trades. [↑](#footnote-ref-1)
3. Details not available to consultant but widely reported. [↑](#footnote-ref-2)
4. The amount of money returned in this area is very significant. It is unusual that this rebate /credit is apparently not double checked prior to implementation by an independent and non Somo agency. It is possible we have misunderstood the process, but this kind of decision related mainly to delays and the related demurrage payments should be fully transparent so that the Marketing Department can demonstrate the way that the rebate /credit is earned by the Buyer/Lifter. [↑](#footnote-ref-3)