Iraq boosts coffers by $2bn in Chinese prepaid oil deal | Financial Times

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Unnamed buyer locks in price while Baghdad gets short-term fiscal relief, say analysts

Iraq's Nahr Bin Umar oilfield. The government relies on oil for 90% of its revenue © Essam Al-Sudani/Reuters

Chloe Cornish in Beirut

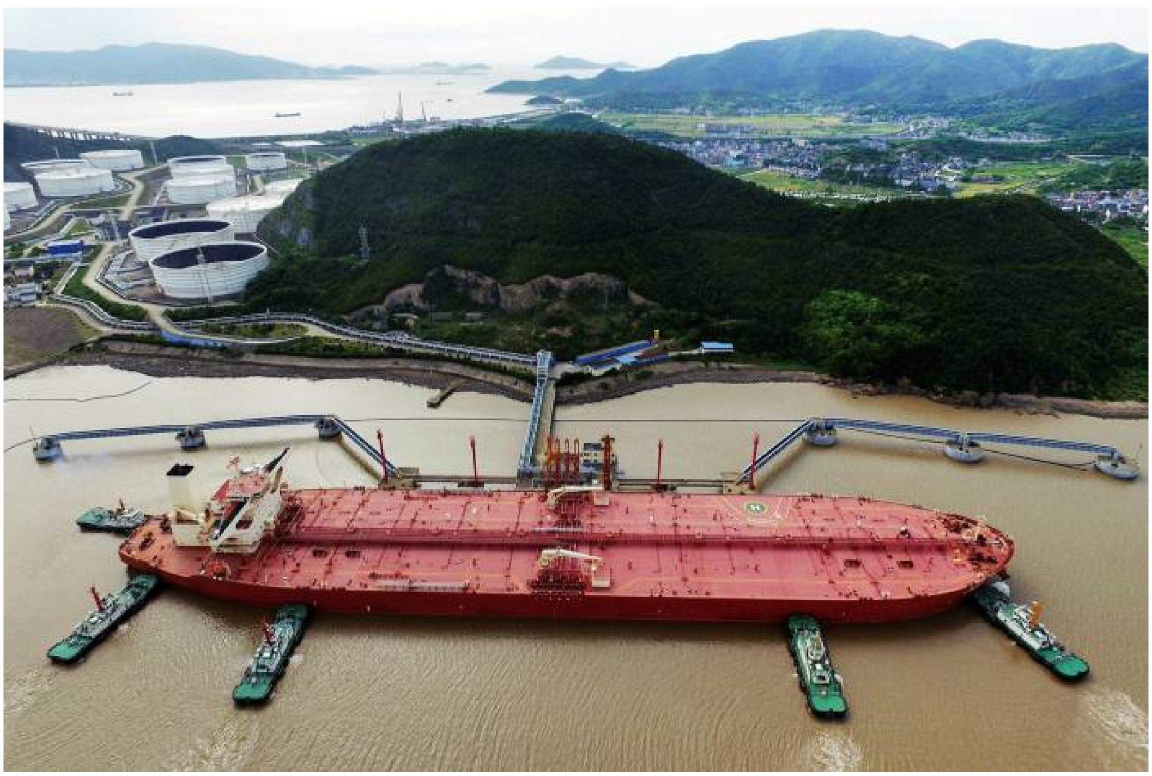
Iraq is set for a $2bn boost from a Chinese oil company paying upfront for a year's supply of the fuel, Iraq's state-owned oil marketer said this weekend.

Opec's second-biggest exporter is desperate for funds after the pandemic-related global oil-price crash halved oil revenues, which the Iraqi state relies on, last year. Baghdad depends on oil for more than 90 per cent of its income. This is the first time it has offered a prepayment deal for crude.

Alaa al-Yasiri, general manager of Iraqi state-owned oil marketer Somo, said on Saturday that Iraq had "got $2bn at zero interest with a premium over the price" through the contract, adding that "there was intense competition between two European and Chinese companies, and the Chinese company won".

Although Mr Yasiri did not reveal the successful bidder in an interview with the state-run Iraqi News Agency, Bloomberg reported in December that ZhenHua Oil, which is part of state-owned defence company China North Industries Group Corp (Norinco), had clinched the deal. The company did not immediately respond to a request for comment.

Analysts said the Chinese oil company had secured a lucrative deal while the Iraqi government had bought some short-term relief from its fiscal crunch — although it is less than half of the roughly $4bn per month the government expects to spend on employee salaries and pensions.



A crude oil terminal in Ningbo Zhoushan port, Zhejiang province, China. The oil-hungry country has cultivated close economic ties with Iraq © Stringer/Reuters

The Chinese company "basically have locked on a price in a low-price cycle, and as you can see, the oil price is going up", said Yesar al-Maleki, an energy economist. "The Chinese have locked in a very good amount of oil for that price, although for one year only."

Ahmed Tabaqchali, chief information officer for Asia Frontier Capital's Iraq fund, said the deal was equivalent to less than 4 per cent of expected oil revenues for 2021. But it showed that "Iraq may be starting to become more sophisticated in its selling strategies by partly beginning to hedge its oil sales".

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Somo issued the tender for the five-year deal in late November. But it raised eyebrows in the trading world by initially giving companies less than a week to bid, before extending for a few extra days. It also asked for an upfront payment for the first year's supply of 4m barrels per month. At about $2bn, that ruled out all but the deepest-pocketed companies.

"It looked like a pre-arranged deal," said Shwan Zulal, head of Carduchi Consulting.

The tender also comes with an unusual sweetener — the company is allowed to sell the Iraqi crude in whatever market it chooses, which means it could potentially undercut Somo's own prices.

Iraq exports most of its crude to Asia and the Pacific — in 2019, 2.5bn barrels of the 4bn barrels in total it exported, according to Opec data.

Oil-hungry China has cultivated close economic ties with Iraq. In 2019, Beijing and Baghdad made an "oil for infrastructure" agreement, in theory exchanging 100,000 barrels of crude per day for work by Chinese companies in Iraq.