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The impact of the Russian-Ukrainian crisis on the volume of cash flows of oil-exporting countries (in OPEC) A comparative study of the Iraqi Sumo Company

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First: Abstract

The current study aims to shed light on the impact of the Ukrainian crisis on the volume of cash flows of oil-exporting countries and to identify the significant impact it has on the general cash flows of the state, both oil and non-oil cash flows. The current study relied on the descriptive-analytical approach, by reviewing books, magazines, and periodicals, in addition to reviewing previous studies related to crises and wars. 2022 As for the year 2021, it has relied on published reports from the Iraqi Sumo Company.

Introduction

Oil is the main source of cash flows in oil-producing countries, especially in developing countries. If we look at the revenues of the general budget of the oil-exporting countries in OPEC (the Organization of Petroleum Exporting Countries), we note that oil cash flows range between (40% - 85%) in these countries In Iraq, for example, this percentage reaches 90% according to the general cash flows published in the 2021 budget, and it is known that these cash flows are greatly affected in any global economic crisis or the event of war, as is happening now.

The study focuses on making a comparison between the volume of oil cash flows for the first quarter of 2021 and 2022, taking into account the increase in production and extraction costs, and then analyzing the available data to know the impact of this increase on Iraq's revenues, taking into account the specificity of Iraq as a country with debt Weak non-oil cash flows, as the operating budget constitutes approximately 82% of the budget volume and employee compensation (salaries) constitute (72%) of the operating budget volume, which was estimated in the year 2021 at a total amount of (101 trillion) one hundred and one trillion.

Second: the aim of the study

The current study aims to shed light on the impact of the Russian-Ukrainian crisis on the volume of cash flows of oil-exporting countries and to identify the significant impact it has on the general cash flows of the state, both oil and non-oil cash flows.

Third: The problem of the study

The problem of the study is complemented by the difficulty of obtaining data for the first quarter of 2022 on cash flows due to the lack of information that reflects the reality of these flows as a result of the fluctuation in the rise and fall of oil prices during this period, as well as the difficulty of predicting the period that enables the countries of the world to overcome this crisis.

Fourth: The hypothesis of the study

The study is based on the main hypothesis that this crisis will contribute to the increase in the volume of cash flows of oil-exporting countries and its impact will extend to the second quarter of this year, even if this crisis is limited and the opposite is true in the event of the dissolution or fading of crises or disasters.

Fifth: Sources of cash flows in the state's general budget

Before identifying the sources of cash flows coming into the state's general budget, we get to know the definition of cash flows.

Definition of cash flow: 1-

Cash flows are defined as: a list that displays cash receipts (receipts), cash payments (payments), and the net change in cash from three activities: operating activities (current), investment activities, and financing activities for an economic entity during a specified period in a manner that leads to reconciling the cash balance in The beginning of the period and the end of the period (1).

Cash flow is defined as an increase or decrease in cash or semi-cash items (cash and the like), which are short-term, highly liquid investments that can be converted into specific cash amounts without warning, and their maturity date does not exceed three months from the time of purchase. Banks are payable within three months from the date of the advance, and since the receipts represent amounts entering the facility, they are considered "cash inflows" and the payments are called "cash outflows" because they represent amounts out of the facility (2).

From the two definitions above, it can be said that cash flows are (the sum of the planned or expected amounts obtained by the state for the completion of annual and investment projects and these flows are affected by several factors, including internal ones represented by fluctuations in the political system, culture, and the social environment, while external factors include an economic downturn in addition to natural disasters and wars.

In general, the sources of cash flows (cash flows) in the Iraqi budget can be divided according to what was published in the Federal Budget Law of the Republic of Iraq, which showed that all cash flows received for the state budget come from the following:

1- cash flow oil

2- agricultural cash flow

3- tax revenue

4- Industrial cash flow

1 -cash flows from other sources

Oil constitutes the main source of these flows in the budget for the year 2021, and this does not apply only to the budget of 2021 only, but that all the budgets of the Iraqi state from the

establishment of the republic until the year 2022, oil is the main source of cash flows coming to the state budget, Iraq has suffered in many eras Of problems, including (wars, sieges, and coups, which changed the political system), but it was the wars that posed a source of threat to its economy, and after 2003, Iraq tried to open up to the global market to obtain cash flows that could help advance the Iraqi economic reality (4).

In the 2008 crisis, (Nabih Maroun) indicated that the global financial crisis highlighted the need for more diversification in the economies of the Gulf Cooperation Council countries, which represent the largest oil-exporting countries in the Organization of Petroleum Exporting Countries, and highlighted the weaknesses in the financial system, which mainly come from debt rates. Therefore, the GCC countries will have to consider a set of basic reforms that redesign the management and governance of financial and economic affairs, to take advantage of the global recovery phenomenon and build solid foundations for sustainable growth. (5)

In our opinion, this crisis must constitute the cornerstone in drawing a map of the Iraqi economic plan, in order not to find other sources of cash flows for the budget, similar to what the Gulf countries did after the 2008 crisis. To review economic plans and policies and restructure the Iraqi economy because of its impact on finding and diversifying sources of national income. That the Iraqi economy is an example for the rest of the world, as the agricultural sector is a sector prepared to support the cash flow of the budget, the industrial sector because of its raw materials for the production of various industries, as well as the rest of the sectors, tourism, cultural and others.

Sixth: The material effects of the crises on oil prices

Crises greatly affect the trade exchange between countries and the prices of all materials. Oil is one of the most important sectors affected by global crises, depending heavily on demand from major countries (6), including the Russian-Ukrainian crisis.

1-Defining the financial crisis

The financial crisis is defined as (the sudden drop in the prices of one or more types of assets (8). Assets are either physical capital used in the production process, such as machinery, equipment, and buildings, or financial assets, which are property rights to physical capital or

commodity stocks, such as stocks and accounts Savings, for example, or they are ownership rights to financial assets, and these are called financial derivatives, including future contracts (for oil or foreign currencies, for example) (9), and if the value of an asset suddenly collapses, this may mean the bankruptcy or collapse of the value of the institutions you own (10).

Causes of the global financial crises: 1-

A- sudden collapse in the stock market, the currency of a country, or in the real estate market, or a group of financial institutions, to then extend to the rest of the economy (11).

B-The bursting of a "price bubble," for example. The financial or price bubble, or the speculative bubble as it is sometimes called, is the buying and selling of huge quantities of one or more types of financial or physical assets, stocks, or houses, for example, at prices that exceed their natural or real prices (12).

C- Speculation through buying and selling assets of all kinds for their own sake, to take advantage of their price fluctuations, and not to use them for the purposes for which they were found or to benefit from their returns (13).

D- The crisis may arise as a result of wars between the countries of the world, as happened ow in the Russian-Ukrainian war (4).

The effects of the Russian-Ukrainian crisis on oil 2-

The rise in oil prices was due to the decisions of some major countries to stop importing Russian oil as a kind of international sanctions, and straining relations between producers as a result of the search for a new oil market or the acquisition offer meaning a larger share in the market in the future. Saudi Arabia, for example, increased its production by about 3 million barrels per day, and Iraq also increased production due to the actual need to cover the needs of the major countries, in addition to the decline in US crude stocks and oil exported from non-OPEC countries. (www.opec.org/opec_web/en/index.htm).

All of these factors contributed greatly to the rise in the price of oil in global markets. There is no doubt that this rise, especially in February and March, had a significant impact on increasing the cash flows coming into the Iraqi budget and the budgets of oil-exporting countries, and the

impact of high oil prices does not only harm oil-importing countries. Only, but it extends to consumers, through the lack of supply on the various products produced by these countries, or in other words, the global economy is a chain-linked, as the rise of oil leads to global economic problems, and various economic crises affect the price of oil, meaning that the economy is an expression About a circular chain and its center is international cooperation (14).

This close interdependence of the global economy and its analogy to a circular chain is what explains the impact of this economy on the gains and losses of major global companies and financial institutions. The collapse of banks in 2008 led to collapses in the global economy and all fields, not a collapse in the banking sector. The sustainability of work in the global economy The continuation of the cash flow depends mainly on the understanding and solidarity of these countries to plan out the global crisis, for all crises and not only for the current crisis (3).

We note that in all the crises that struck the world and in various eras, especially at the end of the second millennium and the beginning of the third millennium, they were overcome by collective action and not by the effort of one country, so the World Trade Organization and the Group of Twenty were established in addition to the rest of the global, continental and regional economic organizations (Bergevin, 2018,59)

Ninth: The causes of the Russian-Ukrainian crisis

- The concept of the Russian-Ukrainian conflict:

Since the dissolution of the Soviet Union, the relationship between Russia and Ukraine has experienced successive crises. And in each of those crises, there are fingerprints of the West. Why is the West exploiting the Ukrainian arena? How does it fuel the conflict between Russia and Ukraine?

- Russia and Ukraine. Successive crises

The West did not stop its attempts to encircle the Russian Federation, especially after the dissolution of the Soviet Union, nor did it stop its attempts to dismantle Russia itself.

Contrary to all US commitments to the Soviets, NATO expanded eastward and included countries from the former Soviet Union, in addition to the former Warsaw Pact republics.

What confirms the intention against Russia is what happened in 2000 when Russian President Vladimir Putin asked US President Bill Clinton about America's position regarding Russia's request to join NATO, "but the response did not come."

The announcement of a plan to include Ukraine in NATO, and Kyiv's announcement of its intention to acquire a nuclear weapon, were nothing but great steps towards the larger goal, which is besieging Russia and later China.

Causes of the Russian-Ukrainian crisis :<https://www.almayadeen.net/>)

Several reasons are addressed by most of the websites that deal with political aspects and the rest of the media, including the following:

- 1- The European Union is one of the causes of the conflict between Russia and Ukraine
- 2- NATO is one of the causes of the conflict between Russia and Ukrain
- 3- Ukraine's intention to acquire a nuclear weapon

Through the above points, it is possible to know the impact of this crisis on the global economy, which in turn directly affects the world oil price, in addition to the difference between Saudi Arabia and Russia and the conflict between them over the acquisition of the oil markets, which led to an increase in cash flows to oil-exporting countries. From the rise in these prices to the countries in the Organization of Petroleum Exporting Countries falls on Iraq, as there are no other sources of cash flows to fill the shortfall that occurred as a result of this decline from Russia.

Tenth: The relationship between global crises and high oil prices

Several factors indicate the existence of a significant either directly or indirectly correlation between global crises and the rise in the global oil price. Throughout history, we have noticed that oil selling prices have been affected by crises, whether in the case of economic crises or wars, but the world has not witnessed 1970 until 2021 the impact of a crisis on the global economy in a way As big as what happened now in the increase in oil prices through the impact of the Russian-Ukrainian crisis during this year, and among the most important factors

mentioned by researchers and writers are the following:
(<https://www.facebook.com/groups/892791664741250> 3/)

1-There is a direct relationship between the demand for oil and global crises, especially wars between countries in the areas of oil presence.

2-Oil prices are effectively dependent on global stability, ie the absence of economic or political conflicts.

3-The collapse of the economy of any country in the world will be offset by the collapse or economic downturn in another country. The crisis begins with one country and does not end with it.

4-The oil demand depends mainly on the rate of demand for the products of the major industrial companies and the movement of transportation.

Eleventh: Analysis of the impact of crises

(the Russian-Ukrainian war) on the general cash flows of Iraq

To analyze the impact of the crisis (the Russian-Ukrainian war) on the general cash flows in Iraq, the following was carried out:

1- Introducing the research sample (Iraqi Sumo Oil Marketing Company)

Iraqi Oil Marketing Company ([in English](#): State Oil Marketing Organization "SOMO") is the organization responsible for marketing [oil at Iraq](#).^{[1][2][3]} It is the only official body authorized under the Iraqi laws in force to conclude contracts for the export of crude oil, as well as contracts for the export and import of oil derivatives.

The company's work is focused on marketing Iraqi crude oil, namely Basra Light Oil and Kirkuk Crude Oil, through export outlets in [Basra oil port and the port of Khor al-Amaya](#) And the Turkish port of Ceyhan. The Oil Marketing Company is also working on exporting fuel oil and some special products that are surplus to the needs of local consumption, and providing gasoline, kerosene (gas oil), kerosene (white oil), and liquid gas according to the needs of the local market.

Orphan Explains the impact of the crisis it's part, the Iraqi National Oil Marketing Company "SOMO" clarified that Iraq's share of the OPEC decision down Production of about two million barrels will be 220,000 barrels per day therefore, the decision to reduce production will prevent the continuous decline in oil prices contributes to its rise, especially as it has lost 35% of its value in recent days and months than it will lead to a continuous decline that may bring prices to 50 dollars a barrel."

He pointed out that "the reduction will not affect Iraq's oil exports, as they will remain in the same current quantities and will be addressed through internal consumption.

It is noteworthy that Iraq occupies fourth place among the largest oil exporters in the world, while its oil reserves are considered the fifth largest proven oil reserves in the world, amounting to 140 billion barrels. The sources of this oil are located primarily in the southern and northern regions.

Likewise, Iraq is being exposed under pressure from major consumers demanding it pumps more crude to curb price hikes, amid fears of possible supply disruptions caused by Russia's military presence on Ukraine's borders Thus, this leads to an increase in cash flows to Iraq.

The percent age increase (or decrease) in cash flows	Amount of increase (or decrease)	Total monthly cash flow	2022 Monthly Export Quantity	The average selling price of oil in 2022	Total monthly cash flow	2021 monthly export quantity	The average selling price of oil in 2021	the month
33%	3557679058.78	8322679526.55	99286078	83.825	4765000467.77	88922697.000	53.586	January
76%	3796148787.1	8809162756.92	92790173	94.936	5013013969.82	82877757.000	60.487	%February
87%	5126661025	10913197257.40	100,579,612	108.503	5786536232.94	91311929.000	63,371	March
65%	4160162956.66	9348346513.33	97551954333	95.75	5180183556.83	87704127.6666	59.148	The average for the first quarter of my year 2021a and 2022

The table was prepared by the researcher based on the data published by Sumo on its official website

From Table (1), we notice that the rate of increase during the first quarter is(65%) despite the increase in the selling price that occurred in January 2022 and despite the increase in production in March of the same year, and this percentage is a very large percentage in an economy that relies heavily on oil as a source of cash flows in the state’s general budget this indicates the impact of the Russian-Ukrainian war on the cash flows received to the general budget from oil sales revenues, and this high percentage supports the hypothesis of the

research, which states (that the Russian war will contribute to increasing the volume of cash flows to the oil-exporting countries and its impact will extend to the second quarter of this year, even if This crisis is limited.

Through this study, we expect an increase in cash flows after a period of the end of the crisis or during the third quarter of 2022, because the organization's agreement to increase production will lead to an increase in Iraqi production and thus can benefit from the size of the increase in the outcome due to the high percentage of the increase in the volume of cash flows And with the continuation of the crisis until mid-April.

Now we see through market indicators and global spending that the global economy will seek to increase the oil demand will increase more than it was before the crisis because the major countries will support countries that do not support the war on Ukraine to win world opinion against Russia to reduce such crises and develop defense capabilities. expenditure in the field of agricultural and service sectors for poor countries by the World Bank and the Group of Twenty, through a development plan that can extend for ten years. Urging rich countries to develop their capabilities and support the industrial and agricultural sectors in them by creating an industrial insurance system that contributes to the development of these sectors to support their people.

Twelfth: Conclusions

Through what was circulated in this study and the results obtained from the data available to the Iraqi company Sumo, the researcher reached a set of conclusions as follows:

- 1-This crisis played a major role in increasing cash flows for the first quarter of 2022 compared to the same period of 2021.
- 2-All business sectors have been affected by this crisis as a result to the rise in the prices of primary resources and business sectors are closely linked to each other, especially in such a case (as a global crisis).
- 3-The impact of this crisis on cash flows from oil will continue even if this crisis is ended, and it may extend for more than a period. THa, that is, it can be extended until June of the current year.

4-The impact of this crisis quickly will lead to a reconsideration of the current world order through a review of economic systems and other ways that major countries avoid similar future effects, as well as the prevailing social culture.

5-This crisis can contribute to making oil-exporting countries, especially Iraq, find a source of incoming cash flows to the budget, as did most of the Arab Gulf countries after the economic crisis of 2008.

6-The Iraqi government does not have strategic plans to confront crises, and this is an indication of the weakness of the national economic plan or its lack of experience. There are no solutions to address the problems facing the private sector after most projects have stopped and its inability to pay the workers' dues, yet there are no government initiatives to support this sector.

Thirteen: Recommendations

1-The necessity for the oil-exporting countries to unite to control the production quantities to the greatest extent possible, taking into account the preservation of the reserve amount for those countries because of its impact on the most important global markets.

2- Finding other means for diversifying the cash flows of the Iraqi general budget.

3-The development of the agricultural sector because of its important role in increasing cash flows, as it is noticeable that most agricultural products have risen due to this crisis.

4-The Iraqi government should reconsider the economic system and search for other sources of cash flows by encouraging, support the private sector, reconsidering the state's economic structure, monetary policy.

5-The Iraqi government should work with a team of specialists in economic planning (the national planner) that has a vision that qualifies it to find solutions to address the lack of food and industrial resources in light of crises, as was the case in the past.

6-Direct implementation of an immediate treatment plan to remedy the consequences of this crisis in all sectors, and on the market in general.

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