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The Use of The Cost-Plus Method in Calculating The Profits of Oil Companies and Its Impact on Public Budget Revenues (A Case Study in The Iraqi Oil Sector)

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Abstract
The aim of this research is to analyze the impact of adopting the (Cost Plus) method in determining the shares of foreign oil companies operating in Iraq on the revenues of the state's general budget. Since oil revenues constitute the primary source of government income. The research examines how this method affects the financial and economic aspects related to the general budget revenues by determining the capex, opex costs, and the fixed profit margin of the contracting companies for oil production on the share returned to the Iraqi government from oil revenues, especially in light of rising operational costs and fluctuations in energy markets. The methodology relies on quantitatively analyzing the financial data of the Rumaila oil field using the cost-plus method, and comparing it with the Production Sharing Agreement (PSA) model to identify the key differences between the two. The research results revealed an inverse relationship between rising costs and the decrease in the government's share. Cost inflation (Capex/Opex) reduces government revenue by 5-7% annually, especially with weak oversight. That is, an increase in costs by more than 15% reduces the government's share to less than 90% even with high prices. The research confirms that the company's profit is fixed regardless of the oil price, reducing budget flexibility during crises. Additionally, the fixed profit margin in Cost Plus leads to unfair distribution during price fluctuations. The research recommends linking the company's profit to the price by adopting the equation (Company Profit = Target Selling Price * Company Profit Margin), which ensures a provision of $0.5-1 billion annually when prices rise. And the establishment of a revenue stabilization fund, where 20% of the revenue is saved when the price of a barrel of oil is above $85, and withdrawn when the price is below $60 per barrel, which contributes to reducing the budget deficit by 60% during economic crises. The importance of the research lies in providing an applied analysis of the impact of using the Cost Plus method for policymakers and decision-makers in the Ministry of Oil to improve contract terms and increase revenues for the state's public budget.

Keywords: Cost Plus method, public budget, profits of oil companies