
IRAQ SEEKS FORMAL DEAL WITH KURDS TO PROTECT NEW OIL EXPORTS

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Iraq's resumption last week of oil shipments through a Kurdish-controlled pipeline bumped up its export capacity by five percent almost overnight. Now OPEC's second-biggest producer is seeking a formal deal with the self-ruling Kurds to ensure it can maintain the increased flows.

The central government in Baghdad has been locked in a dispute with the semi-autonomous Kurdistan Regional Government in the north of Iraq since 2014, when the Kurds began selling their oil independently. In March, Iraq's state-run North Oil Co. stopped using its only export route, the KRG's pipeline to Turkey, for crude it pumped in Kirkuk province. The Oil Ministry ordered a restoration of these exports last week.

Were still waiting for an agreement on the details regarding who should receive the oil revenues, Deputy Oil Minister Fayyad Al-Nima said Wednesday in a telephone interview.

The government is now exporting about 100,000 barrels a day from its Kirkuk fields, Al-Nima said. Officials at the KRG's Ministry of Natural Resources didn't immediately reply to e-mailed and telephone requests for comment.

A formal accord could keep Iraq's northern exports flowing smoothly, sustaining the producer's recent increase in supply to global markets. Iraq has struggled to raise oil exports this year, due partly to its feud with the KRG, and a failure by the two sides to reach a political agreement could jeopardize the renewed shipments. The three Kirkuk fields -- Baba Gorgor, Jambour and Khabbaz -- can produce a combined 150,000 barrels a day for export.

It looks like a very shaky foundation for the restart, Richard Mallinson, an analyst at Energy Aspects Ltd. in London, said by phone.

The central government and the KRG last reached a deal in December 2014, when they agreed that the Kurds would give Baghdad control of their exports in exchange for a full payment of their share of the federal budget. Within six months, independent Kurdish exports had resumed, and each side was accusing the other of not meeting its obligations.

Ministers Support

Iraq's new oil minister, Jabbar al-Luaibi, fed hopes for a new agreement, saying on Aug. 15, his first day in office, that he saw ways to resolve the dispute.

I don't think it's unreasonable to hope for two or three months of steady flows of oil exports from

Kirkuk, Robin Mills, chief executive officer of Dubai-based consultant Qamar Energy, said by phone. Beyond that it really depends. Does the new minister succeed in coming up with a more sustainable proposition?

Both governments could benefit from a deal, not least because both are short of cash after more than two years of battling Islamic State militants and weathering low oil prices. Iraq is exporting 3.8 million barrels a day, including oil sold by the KRG, Prime Minister Haidar Al-Abadi said Tuesday at a news conference.

Its in the interest of both governments to try and get as much revenue as they can at the moment, Hannah Poppy, an analyst at The Risk Advisory Group in London, said by phone. It probably wont be sustainable in the long term, simply because of the wider political disputes.

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