
IRAQ IS GIVING OPEC A HEADACHE

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OPEC has an Iraq problem: the groups second-biggest exporter is lurching between quota busting and production-crimping crisis, clouding the policy-making picture as ministers decide how long they need to extend output curbs.

After consistently exceeding its output quota all year, Iraqi production plunged in October when clashes between the federal army and fighters from the semi-autonomous Kurdish region disrupted fields in the disputed Kirkuk province. While the conflict has calmed, exports from Iraqs northern fields remained 40 percent lower in the first half of November than before the fighting, tanker tracking data show.

The Organization of Petroleum Exporting Countries, due to meet next week in Vienna, is already grappling with volatile production in Nigeria and Libya, and Iraq adds another layer of unpredictability. For policy makers, the short-term disruption risks masking a longer-term truth: Iraq, which only got a production quota last year after decades of exemptions, has never felt comfortable with constraints and wants to maximize the countrys potential output.

Production will remain volatile, said Issam Chalabi, a consultant and former Iraqi oil minister. While it will be difficult for Iraq to replace barrels lost in the north quickly, Iraqs real intention is to reach the 5 million-barrel mark by year-end. Politics is the name of the game.

The uncertainty makes it more difficult for OPEC to judge the global balance of supply and demand next year and make a decision about how long to extend supply curbs.

While supplies from Libya and Nigeria -- which don't have formal production limits under the current OPEC deal -- show some signs of stabilizing, Iraq is becoming more erratic. The country's output fell last month by 120,000 barrels a day -- the most since January -- as the central government clashed with the Kurds, according to data compiled by Bloomberg. That meant Iraq pumped 4.35 million barrels a day in October, below its OPEC target for the first time this year.

Still, international companies producing in Iraq are pursuing plans to raise production capacity, Oil Minister Jabbar al-Luaibi said in September at a conference in the United Arab Emirates. The government was curtailing output at fields it operates on its own to meet its OPEC quota, he said.

OPEC's strategy of cuts is showing signs of success in bolstering prices, with Brent trading above \$60 a barrel this month after dropping to less than \$30 a barrel last year. Fighting over Kirkuk and other regional tensions contributed to the increase in prices, according to Daniel Yergin, vice chairman of IHS Markit.

This is the first time that we've seen regional geopolitics start to flow back into the price of oil in several years, Yergin said in an interview in Abu Dhabi Nov. 14. It's something that OPEC will have to grapple with.

It's unclear when flows will resume from oil fields around the northern city of Kirkuk, which still require use of a pipeline held by the Kurds to reach international markets. The pipeline exported 320,000 barrels a day in the first half of November, compared with 565,000 barrels daily on average during the first nine months of the year, according to Bloomberg data.

The disruptions involving the Kurds could last another six months, said Jaafar Altaie, managing director of consultant Manaar Group, which operates in Iraq. Iraq will still be cheating, but the cheating will be intermittent and it will be disruptive.

Nigeria's production, which tumbled to the lowest in almost three years last August following a series of militant attacks, has recovered to the point that the country has said it would join the OPEC accord after six months of stability. That calm may yet unravel after militants in the Niger River delta ended their cease-fire earlier this month.

Volatility in Iraq's output is unlikely to match that of Libya, where rival armed factions still compete for control of the country more than six years after the fall of dictator Muammar Al

Qaddafi, according to Standard Chartered Plc.

Nonetheless, Iraq is now among the wild cards OPEC needs to take into account, according to Ed Morse, head of commodities research at Citigroup Inc. in New York. Iraq has now joined them as itinerant, non-dependable supply to the market, Morse said by phone.

Kaynak/Source: