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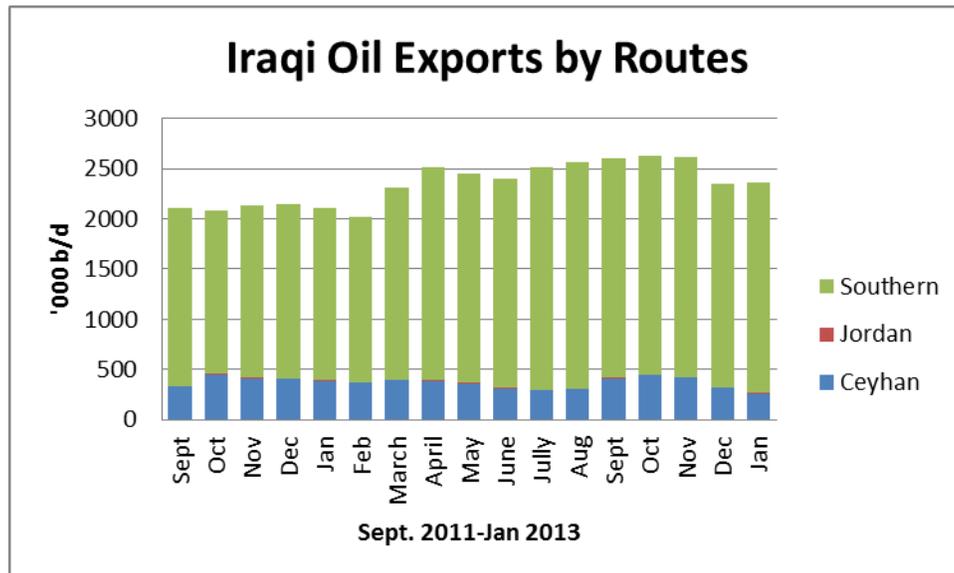
BULLETIN

FEBRUARY 6, 2013

KRG EXPORTS TEST BAGHDAD AGAIN

Iraqi Kurdistan has resumed loading small volumes of crude and condensate on trucks for export to Turkey, *Reuters* reported today from London. The KRG halted the truck exports in mid-January, saying that it wanted to improve the metering system. The halt coincided with Iraqi Oil Minister Abdul Karim Luaibi's threats that Baghdad would sue any entity engaged in the illegal export of Iraqi oil. The KRG has said that it plans to increase the volume of crude and condensate exported by truck to around 35,000 b/d.

The KRG completely stopped exporting oil via the federal pipeline to Ceyhan in December after operators in the region reacted negatively to payment terms proposed in Iraq's 2013 draft budget. By mid-December, exports via the pipeline had fallen below 30,000 b/d from an earlier high of as much as 200,000 b/d. The decline in exports to Ceyhan has contributed to reduced overall Iraqi exports during the past two months.

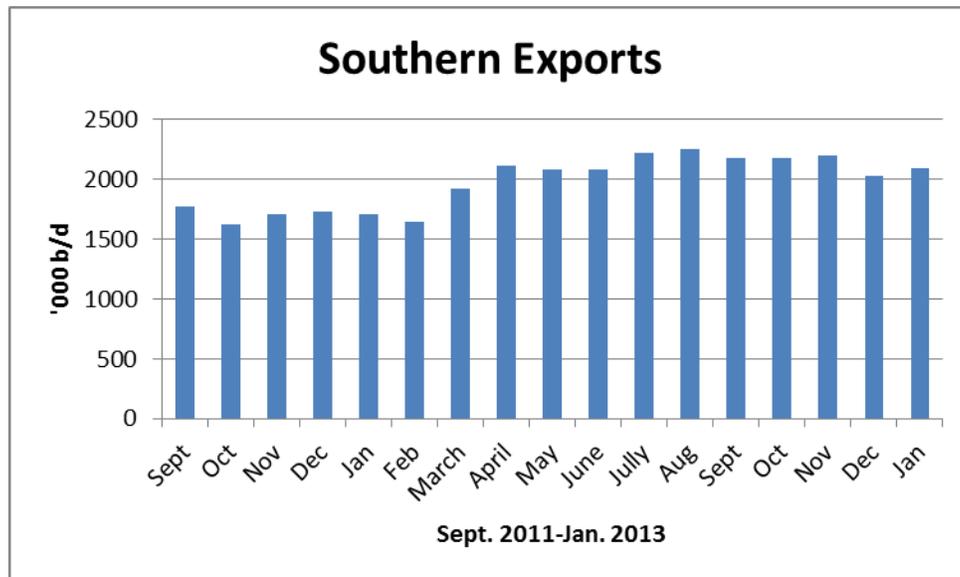


Source: SOMO data

Exports of both Kirkuk and KRG oil via Ceyhan fell from 442,000 b/d in October (after Irbil and Baghdad reached a mid-September agreement on payments) to 253,000 b/d in January, according to monthly figures from SOMO.

Southern Exports

Weather-related problems have also been blamed for recent declines in Iraq's southern exports. In mid-January, seventeen vessels were waiting at the anchorage for loading orders and faced delays of 8-9 days beyond the original window of time scheduled for loading.



Iraq has been working to reduce weather-related delays by adding more storage capacity onshore and by completing the installation of a second and third single-point mooring. However, the two new SPMs installed late last year apparently experienced problems with their solar-powered batteries. The maintenance contractor, Petrofac, has said it hopes to fix the problems before the end of this month.

Storage Capacity

In mid-January, South Oil Company head Dhiya Jaffar attended the opening of four new storage tanks which aim to increase the company's storage capacity by 1 million barrels to 6.5 million total. By the end of this year, South Oil hopes its storage capacity will reach 8.5 million barrels. That volume of storage may still be less than optimal given that Iraq hopes to increase southern exports to about 2.7 million b/d by the end of this year. Iraq attained its highest level of southern exports in August, when they hit 2.25 million b/d.

At the OPEC meeting in Vienna in December, Luaibi said that the Shell-operated Majnoon field would produce more than 100,000 b/d at the beginning of April. Other increases, he said, would come from Rumaila, Zubair and West Qurna-1. Some analysts have predicted that Iraq's production capacity will increase by a bit more than 400,000 b/d in 2013, not counting any input from the KRG. However, during the last five months, southern exports averaged 130,000 b/d less than the August high-point.

Possible Legal Moves by Baghdad

The resumption of exports by truck to Turkey may motivate Baghdad to initiate judicial proceedings against entities like Genel Energy, which admit on the public record that they are exporting oil—not just that they have the KRG’s permission to do so.

According to press reports, both the oil from the Taq Taq field and condensate from the Khor Mor gas plant are being trucked some 900 km to the Turkish port of Mersin. There the oil is stored in tankage once used by the Atas Refinery, which has been dismantled and relocated to a site in India. Mersin is 120 km west of Ceyhan. There is no direct access by rail from the Iraqi border to Mersin but it may be possible to use rail for some of the journey.

Baghdad complained earlier when trading firms Vitol and Trafigura bought KRG-origin condensate exported from Turkey’s Toros terminal at Ceyhan. Both have been selling product to SOMO. Vitol reportedly apologized to Baghdad, while Trafigura was excluded from participating in SOMO tenders, but may still be selling gasoline to it through a third-party.

Turkish Government Position

Besides the chilling effect that litigation might have on KRG exports, the region needs the full support of the Turkish government if it is to achieve its goal of greatly increasing independent oil exports. Prime Minister Recep Tayyip Erdogan is—by most accounts—unwilling to cross swords with the Obama Administration over oil trade with the KRG.

Senior U.S. officials have made it clear that they strongly oppose Turkey’s playing any role in facilitating KRG oil exports independent of the federal government, including a threat that outright Kurdish independence would lead to a break in relations between Washington and Irbil. These officials argue that Washington is not for or against Prime Minister Maliki; they insist on maintaining Iraq’s territorial integrity and its constitution.

In an on-the-record briefing with Turkish reporters on February 5, the U.S. Ambassador in Ankara, Francis J. Ricciardone, said that Turkey should not alienate the rest of Iraq by making special deals with the KRG. Erdogan has been hoping for an early White House meeting with President Obama since his reelection in November. But yesterday Ricciardone told the reporters that no date had been set.

“The White House has made clear its welcome of the prospect of the Prime Minister coming to Washington as early as that proves possible this year. No date has been set, again, as far as I know,” the Ambassador said.