Iraq's Oil Export Outlets

By: Issam al-Chalabi

*The following article was first published in Middle East Economic Survey (**www.mees.com**) on 30 November 2009. IOF reproduces it here with the author's permission.* ***Issam al-Chalabi*** *is a former Iraqi Minister of Oil (1987-90) and former president of the Iraq National Oil Company (1981-87).*

Iraq is a landlocked country with a narrow opening to the Gulf. That by itself has been the cause of many conflicts with neighbouring Iran and Kuwait, meaning that, in addition to utilizing its Gulf outlet, Iraq must send oil through other neighboring countries to provide additional and alternative export outlets. This again has been a source of political conflicts and confrontations ever since the commercial discovery of oil in Baba Gurgur in Kirkuk in 1927, when there were differences between the French and the British as to whether the terminal IPC was planning should be in Haifa in Palestine (under British mandate) or Banias in Syria (under French mandate).

The current stampede by the government of Prime Minister Nuri al-Maliki, spearheaded by Minister of Oil Husain al-Shahristani, to award oil deals to foreign oil companies is not matched by a similar hurry to provide the necessary oil export facilities, which remain the responsibility of Iraq's Ministry of Oil. The following facts should be borne in mind when considering the potential for Iraqi oil exports.

Gulf Export Facilities

Basra Oil Terminal (BOT – known until 2003 as al-Bakr) was built in 1975 by the Iraq National Oil Company (INOC) through Brown & Root (B&R), which acted as an engineering, procurement and construction (EPC) contractor. Its capacity was 1.4mn b/d. When Iraq decided in 1979 to go ahead with a plan to expand production capacity to 5.5mn b/d, INOC decided among other steps to expand BOT capacity by adding four single buoy moorings around it. A contract was signed with B&R on a cost plus basis. Execution was progressing, including the purchase from US sources of the four moorings, when work was halted in September 1980 by the start of the eight-year war with Iran. However, work on the project except for actual installations continued, with all pipes and materials stored in Kuwait, Bahrain and Singapore. The terminal was badly damaged during the war and all exports were stopped until 1989-90, when B&R partially repaired the four berthing facilities. Iraq by then had doubled the capacity of the Iraq-Turkey export pipeline to 1.6mn b/d and completed the Iraq Pipeline through Saudi Arabia (IPSA). After the invasion of Kuwait, Iraq used the pipeline sections stored in Kuwait by a subcontractor for other projects. The buoys were subsequently sold in the late 1990s by B&R to recover their expenses.

The Basra terminal suffered further serious damage during the second Gulf War in January 1991 and exports were halted completely. Similarly the Khor al-Amaya Terminal (KAAT) remained unrepaired after it was destroyed during the Iraq-Iran war. Exports under the oil-for-food program were only authorized by the UN Security Council through Ceyhan in Turkey. Using improvised methods and cannibalization, Iraq managed to start repairs at BOT, but it was only possible to export around 400,000 b/d through the terminal. After 2003, its capacity reached the current level of some 1.3mn b/d, with the possibility of exports of around 200,000 b/d from KAAT.

The Saudi government decided in mid-2000 to confiscate the IPSA facilities and started utilizing the East-West parts of the pipeline system to carry its own oil to the Red Sea. IPSA was a $2bn project with a capacity of 1.6mn b/d that was fully financed by Iraq. No serious attempts were made by either the former government of Saddam Husain or the authorities

after the occupation of Iraq in April 2003 to recover the pipeline system, with political relations between Iraq and Saudi Arabia remaining sour. Political observers believe that they will remain so in the near future.

The current export capacity from both terminals in the Gulf is thus around 1.5mn b/d. No work has been carried out on rehabilitating the two 48-inch offshore pipelines extending 50km from Fao to BOT, and there are growing doubts about the condition of the pipelines. The same applies to KAAT. In early 2009, the Ministry of Oil awarded a contract to Foster Wheeler of the UK to carry out front end and engineering design (FEED) for the rehabilitation and expansion of the terminals. The project includes:

- The construction of new crude oil and dry gas pipelines between Basra and a new Fao crude oil depot.
- The reconstruction of the Fao depot (western part), with around 20-30 tanks of 58,000 cu ms nominal capacity (floating roof tanks, vertical can type), booster pumps, main turbo-pumps or variable speed electric pumps and all other utility systems.
- The construction of new 48-inch sea pipelines to both BOT and KAAT.
- The construction of floating single buoy moorings near BOT, with all required berthing and loading facilities.
- The complete rehabilitation of KAAT to provide full berthing and loading.

If all goes well - and normally it does not in the current turbulent conditions in Iraq - and the Ministry of Oil can find the money from its own resources, such a project cannot be completed before 2013.

One other study on revamping oil export facilities was initialled two years ago with a Japanese consortium led by Arabian Oil Company and Toyo Engineering, and a proposal has been included among other projects to be financed by Japan utilizing a $3bn soft loan initialled since 2003 during the Madrid Conference. It seems to be on similar basis to that of Foster Wheeler, and it is not clear whether the Ministry of Oil intends to proceed with one of the projects or both.

Recently Iran has claimed that KAAT falls within Iranian territorial waters, and a similar claim might also be made by Kuwait and Iran in respect of BOT. If Iraq were to be forced to withdraw further into its territorial waters, there will be lesser water depth at terminals and ULCCs will not be able to berth.

Iraq-Turkey Export Facilities

Current capacity is around 1.4mn b/d, but to utilize it fully Iraq needs to pump Basra oil from the south through the south-north strategic plan, which is still under capacity and must be fully rehabilitated, including major sections of the pipeline, depots and pumping stations.

Turkey has started to utilize the spare capacity at the Ceyhan terminal for oil exports from Azerbaijan via a new pipeline system run by BP. Any expansion of the Iraq-Turkey system must presumably include additional pipelines and expansion of the terminal, and these have not even been considered by either side so far.

Iraq-Syria Pipeline System

Since the 1980s the old system has been used by Syria to export its own oil. In 2000, when both countries agreed to pump oil in violation of UN sanctions, there was a swap agreement under which Iraq supplied Syria with a maximum of 220,000 b/d for use in its refineries, allowing the Syrians to export more of their own oil. Technically, any attempt to export oil via this route will require a completely new pipeline system all the way from Basra.

Conclusions

Even assuming no major setbacks or damage to rehabilitation projects, Iraq's maximum existing oil export capacity is thus no more than 3mn b/d from both the south and north. If an expansion project is carried out in the south, and assuming there are no complications with

Iran and Kuwait over the siting of BOT and KAAT, a maximum capacity of 4.0mn b/d might only be possible by 2013. That would be consistent with current plans for oil production, with exports expected to be around 2.5-2.7mn b/d by 2013.

As for plans to boost oil production to 6-8-10mn b/d in 2016, relations with neighboring countries remain less than cordial, to say the least, particularly with Saudi Arabia, Kuwait and Syria. It is extremely doubtful whether, strategically speaking, Iraq's current ruling parties will support any new projects involving Turkey and Jordan. That leaves Iran, which will undoubtedly be opposed by many Iraqis and the Americans. So it is unclear how additional Iraqi oil would be exported.

According to the model contracts used for BP/CNPC in Rumaila, CNPC in al-Ahdab and other model contracts used for West Qurna and Zubair, the provision of export facilities is outside the scope of the work of the oil companies and if required will be an additional obligation and cost. Companies which might start production sooner rather than later might therefore find themselves short of export outlets.

To contact the author: ichalabi@orange.jo