

Third Roundtable Discussion

Iraqi - Kurdistan: Capital of Oil and Gas Exploration – What Does it Mean for Europe?

Background Information

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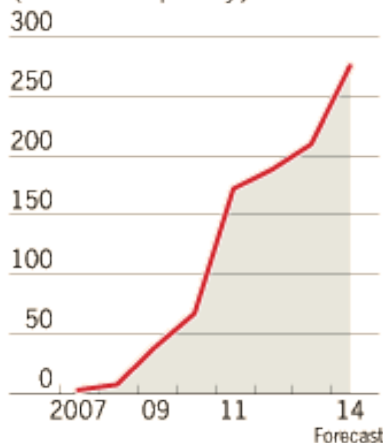
As part of this year's Energy-Talks series the European Centre for Energy and Resource Security (EUCERS) in cooperation with the Konrad Adenauer Foundation (KAS) in London and the Institute for Strategic Dialogue (ISD) under the overall theme of "Changing Political and Economic Dynamics of Global Energy Flows" is holding the third roundtable discussion on the topic of "*Iraqi - Kurdistan: Capital of Oil and Gas Exploration – What Does it Mean for Europe?*". The event will take place on June 17 2014, at King's College London.

In early 2013, overall Iraqi reserves of oil had been estimated at 141 billion barrels, 45 of which could potentially be situated in Iraq's northern region of Kurdistan. Similarly, Iraq's natural gas reserves are said to amount to 112 trillion cubic feet, mostly in form of associated gas from oil fields, while the majority of non-associated natural gas fields are located in the country's north. However, the production of Iraqi oil and gas has experienced severe setbacks over the past decades due to international sanction regimes, the 2003 Iraqi War and consequent sectarian violence. Although oil exports in the country's south are currently running at near full capacity, output in the north has been restricted by sabotage, deteriorating pipelines, and political disputes between the Kurdistan Regional Government (KRG) and Baghdad.

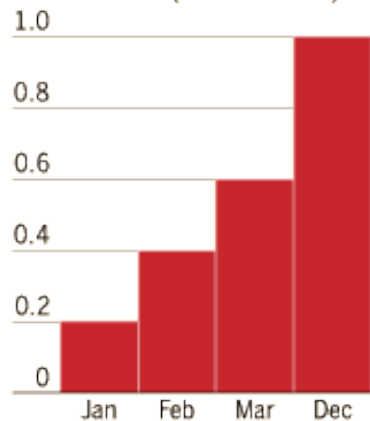
Generally, the KRG is the official ruling body of the predominantly Kurdish, federated region in

Kurdish oil

Production
('000 barrels per day)



Proposed KRG export volumes,
2014 forecast (million barrels)



Sources: IEA; Wood Mackenzie;
Kurdistan Regional Government

northern Iraq, and has been developing its oil industry in contractual dispute with the central government in Baghdad for over a decade. Continuous disputes arise concerning the authority over resource production and exports in the region. The KRG for example passed its own hydrocarbons law in 2007 in the absence of a national Iraqi law governing investment in hydrocarbons. Furthermore, the KRG objected to plans by Iraq's

North Oil Company to boost production at the Kirkuk field bordering the KRG, insisting any development plants required KRG cooperation and approval. In late 2011, the KRG further challenged the authority of the national government by signing agreements with ExxonMobil, followed by additional contracts with major companies such as Chevron, Gazprom, and Total. However other majors such as BP and RoyalDutchShell have not taken this step in order not to potentially undermine their heavy investments in fields in Iraqi's south.

While the central government stresses that all hydrocarbon contracts must be signed with the national government, and that oil produced in the KRG region has to be shipped via Baghdad's oil exporting arm - the State Oil Marketing Organization (SOMO) - the KGR also bypassed the central Iraqi export system when it began exporting 15,000 barrels/day of condensate and 20,000 barrels/day of crude oil to Turkey by truck. This number increased to around 50,000 barrels/day by April this year. Furthermore, Genel Energy plans to build a 420,000 barrels/day Kurdistan Iraq Crude Export (KICE) pipeline that would connect its fields in Kurdistan to the border with Turkey. However there has been no official agreement to this from the Turkish side so far.

Although general production levels in Kurdistan tend to fluctuate, estimated current output revolves around the 200,000 barrels/day mark. Yet KRG Prime Minister Mr. Barzani suggested that crude oil exports from the KRG could rise to 1 million barrels/day by 2015 and to 2 million barrels/day by 2019. However, critical investments needed to sustain such ambitious plans are still lacking, as investors remain vary. Nonetheless, the opening of a pipeline linking the Kurdish fields with the Turkish port of Ceyhan in December 2013, provided the general capacity for increased exports. Although Turkey initially pledged to await a solution between the KRG and Baghdad before allowing exports from its port, by the end of last month, 1 million barrels of Kurdish oil were loaded at Ceyhan, with another 2.5 million barrels waiting in storage tanks. The domestic political repercussions of this action may be felt immediately as Iraq's incumbent prime minister, Nuri al-Maliki, looks for partners to form the next government. Last year, Iraq's Oil Ministry had instructed a U.S. law firm to pursue legal action against any buyer of Kurdish oil.

For a map of the region, fields and pipelines, refer to:

http://www.oryxpetroleum.com/uploads/PDF/Kurdistan_Region_of_Iraq_Investors_Map.pdf

EIA, Iraq, 2013 - <http://www.eia.gov/countries/cab.cfm?fips=iz>

Reuters, 'UPDATE 3-Iraqi Kurdistan defies Baghdad to load first pipeline oil sale', May 22, 2014
<http://www.reuters.com/article/2014/05/22/energy-turkey-iraq-idUSL6NoO84oO20140522>

The Financial Times, 'Oil majors shy away from first major Kurdish export deal', January 26, 2014 <http://www.ft.com/cms/s/0/429f1102-7ddf-11e3-95dd-00144feabdco.html#axzz33ZfmVUt1>