

LUKoil Enters Fray in Iraqi Power Struggle

By [The Moscow Times](#)

November 29, 2012



LUKoil plans to invest around \$25 billion through a 20-year deal to develop the giant neighboring West Qurna-2 deposit.

LONDON/BAGHDAD — LUKoil has bought oil from Kurdistan, defying Iraq's ban on trade with its independent-minded region, but the Moscow firm has so far avoided the wrath of Baghdad, which hopes Russians may step in to tap its big fields further south as Westerners bail out.

Exporting oil independently of the central government is the latest of many defiant moves by the Kurdish regional government, which also signed deals with oil majors like ExxonMobil of the United States to develop its resources.

Baghdad has long insisted it has the sole right to export oil. It considers any other business illegal and tantamount to smuggling by the ethnic Kurds in northern Iraq.

Yet LUKoil's Geneva-based trading arm Litasco has become the third company to buy Kurdish condensate, or very light oil, five industry sources told Reuters — following in the footsteps of two of the world's largest trading houses, Trafigura and Vitol.

BLIND EYE

Those earlier deals, in October, provoked an angry response from the Iraqi central government, which said it had the right to "legally pursue all those who participate in smuggling."

But this time, Baghdad seems to be turning a blind eye.

"After checking with concerned parties, we got confirmation that LUKoil has not purchased any kind of crude for the benefit of the KRG," said an official from Iraq's state oil marketer SOMO, referring to the Kurdish Regional Government.

Iraqi government officials declined to comment.

Industry sources told Reuters that Litasco had chartered the tanker Cielo di Napoli to load around 19,000 tons of the Kurdish condensate from the port of Toros at Ceyhan in Turkey. The tanker sailed on Nov. 21.

LUKoil, Russia's No. 2 oil producer, declined to comment.

A spokeswoman for Litasco did not comment on the deal. She said the company "consistently endeavors to meet obligations towards its partners which are strictly in line with all the obligations and commitments of the whole group."

The condensate was bought via the intermediary Powertrans in a public tender, traders and industry sources said, similar to the procedure Vitol and Trafigura used to buy supplies. Litasco won the tender at a \$3.00 discount to naphtha prices, beating competing bids from Trafigura and Socar, one participant said.

Iraq considerably depends on Vitol and Trafigura for its fuel imports, but there is much more at stake in the LUKoil case, as the company is one of the biggest investors in the country.

Baghdad has said it would like to see Russian and Chinese companies taking over from Exxon, which wants to pull out from southern Iraq's \$50-billion West Qurna-1 project as it prefers contract terms available in Kurdistan.

"It's difficult for oil companies to resist the temptation of contracts offered by the Kurds, which represent a prize compared to Baghdad's tough terms," said Ali Shallal, an Iraqi oil analyst and legal expert.

"If LUKoil is targeting Kurdish oil, then now is the best time. Especially since it is favored by Baghdad to fill the gap left by ExxonMobil," said Shallal, who specializes in drafting oil contracts.

TRUCKS GO TO TURKEY

LUKoil plans to invest around \$25 billion through a 20-year deal to develop the giant neighboring West Qurna-2 deposit and has said it would be difficult for the company to commit itself to another huge project.

On Wednesday, it said it would decide by the year-end. Both Qurna projects are key to Iraqi ambitions to at least double output from its huge reserves and produce 6-7 percent of oil in the world.

Such plans are now being threatened by the pullout of firms such as Exxon and plans by French rival Total and Russia's Gazprom Neft to tap Kurdish fields.

West Qurna-2 alone is expected to produce 500,000 barrels per day in 2014, gradually rising to 1.8 million bpd.

The Kurdish regional government, lacking pipeline routes, began sending trucks laden with condensate to Turkey in July as part of an agreement with Ankara. In return, Turkey will export diesel and kerosene. Toros is one of two Turkish terminals that is designed to receive truck tankers.

The Iraqi Kurds and the central government have a long-running dispute over oil payments and exploration, which led to severe export delays this summer when Kurdistan blocked exports over a payment dispute.

The two sides have been unable to agree on an amended hydrocarbons law drafted in 2007.

The Iraqi government fears the increasing independence of Kurdistan could destabilize the country. Prime Minister Nuri al-Maliki wrote to U.S. President Barack Obama asking to intervene and dissuade Exxon from going into Kurdistan.

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