Flash Alert - Reaction to KRG Independence vote puts 550 kb/d of Kurdish supply at risk - 26 September 2017

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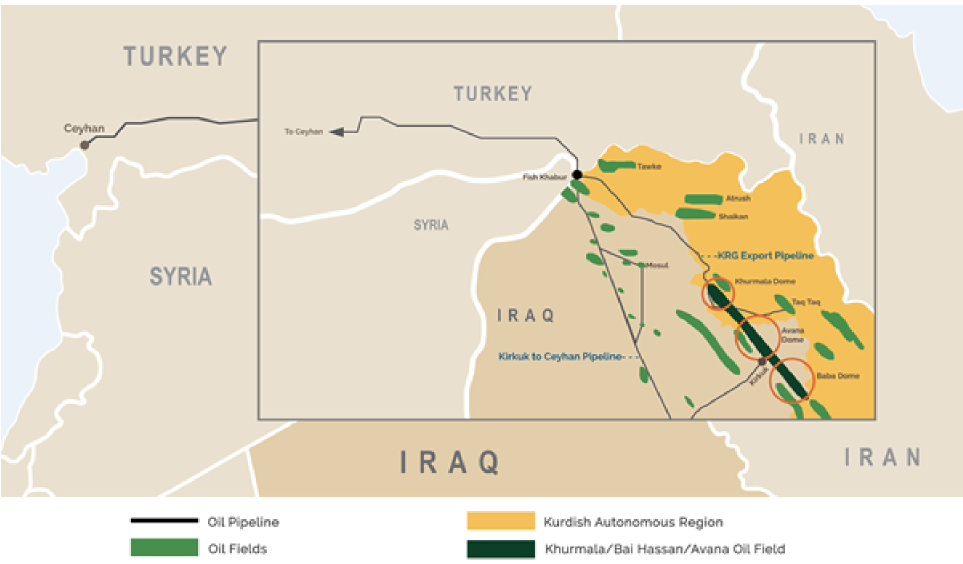
In Iraq, the Kurdistan region voted for its independence from the Federal Government of Iraq in a referendum. Despite the vote being largely a symbolic political move—it is legally non-binding under Iraqi constitutional law—it has been seen a sign of the nationalistic ambitions of the autonomous Kurdistan regional government (KRG).

The vote for KRG independence puts highly disputed ownerships rights on oil assets in Northern Iraq back in the limelight, as well as risking some 550 kb/d of crude exports reliant on the Kirkuk-Ceyhan pipeline.

The Turkish government reacted strongly to the news, threatening to halt shipments of Kurdish crude along the Kirkuk-Ceyhan pipeline. It is concerned that growing confidence in the political separation of the KRG autonomous region will instil similar ambitions in the Turkish Kurds north of the border. Iran seems to share this concern and has been supportive of putting pressure on the KRG against holding the referendum; the Iranian Kurds have long been in favour of separation as well.

At present, the main and only practical route to market for KRG as well as NOC (Northern Oil Company - the Northern Iraqi State Oil Company) crude is via the KRG export pipeline. This pipeline is linked to the existing Kirkuk-Ceyhan pipeline at Fish Khabur where it crosses through Turkey to the port of Ceyhan (see Figure 1). Flows along the old Kirkuk-Ceyhan pipeline between Kirkuk and Fish Khabur have been halted for some time. While the KRG pipeline has its own metering station, the blending of NOC and KRG crudes now along the KRG export pipeline mean Baghdad can only calculate the KRG portion of exports by deducting the amounts shipped from Kirkuk from the total amount received at Ceyhan.

Figure 1: Northern Iraqi Pipeline Infrastructure

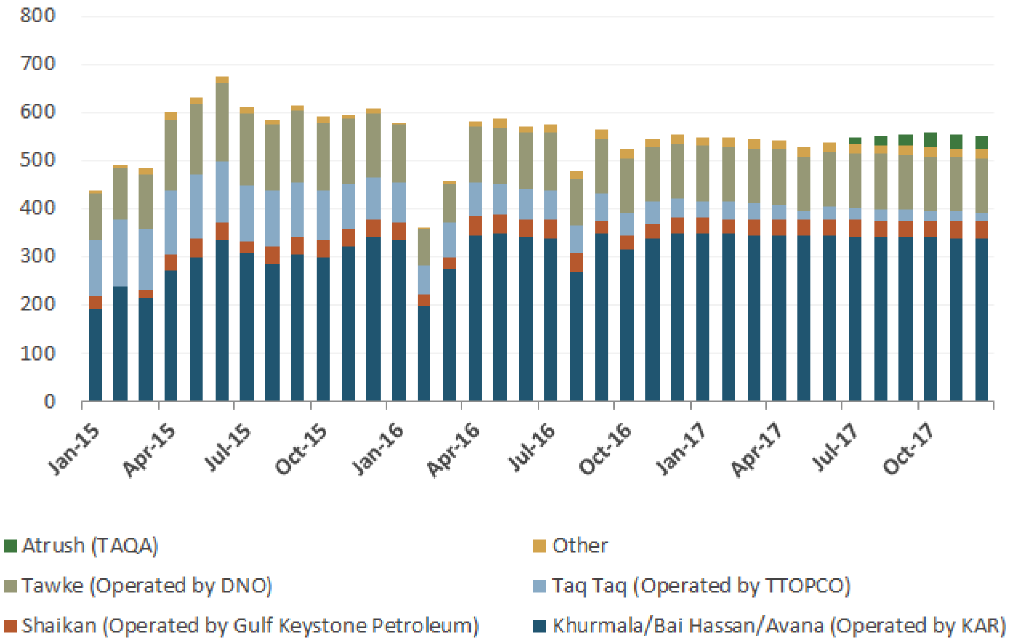


Furthermore, according to the original Pipeline Tariff Agreement renewed between Baghdad and Turkey in 2010 for 25 years (with a 10 year possible extension), all fluids inside the Kirkuk-Ceyhan pipeline belong to the Iraqi government.

In response to the results of the referendum, Turkey has said the KRG must step back from its decision, otherwise the Turkish government will "continue to take steps with determination" against the KRG, including halting shipments through the pipeline.

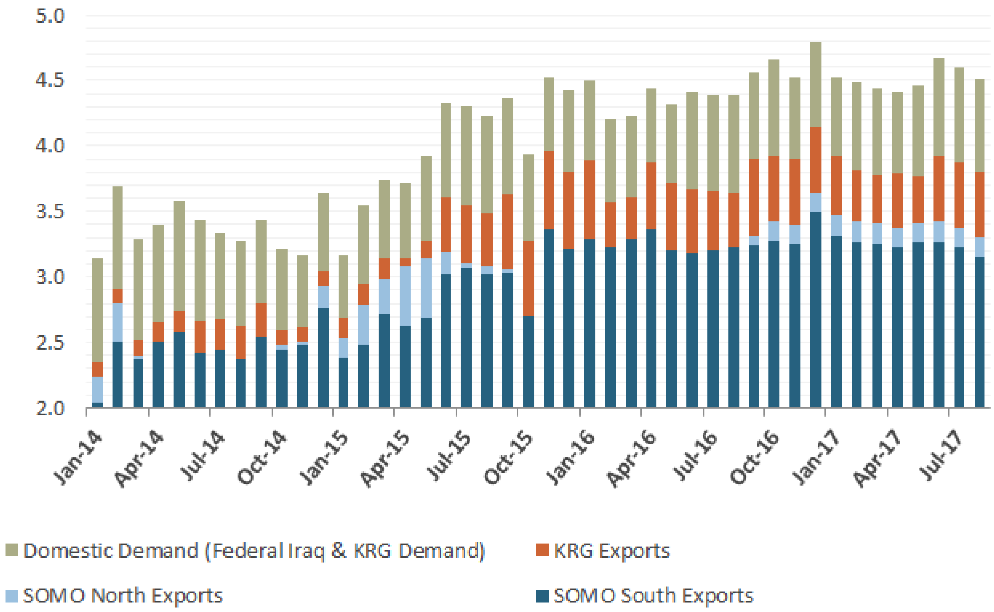
If the Turkish government follows through with its current rhetoric, we could see as much as 420-430 kb/d of a total of 540-550 kb/d of KRG production stranded, impacting some key operators in the KRG (*see Figure 2*). Coupled with this there is an additional 150-160 kb/d of NOC.

Figure 2: KRG Production by Field, kb/d



However, despite the significant risk to KRG production we find it possible that close to the same volume could come online in the South of Iraq in a relatively short period of time. Currently we estimate there could be as much as 600-700 kb/d of capacity being held back by the IOCs, given recent field developments.

Figure 3: Total Iraq Crude Dispostion, kb/d



Despite Shell's exit from Majnoon, recent reports suggest the field is on track to double output in the coming months towards 400 kb/d. Further to this, West Qurna 1 is expected to increase capacity to 600 kb/d in 2H2017 (seeFGE - Middle East Oil Monthly, 25 August 2017 and FGE - Crude Supply, Trade and Price Differentials, 25 September 2017).