



IRAQ OIL REPORT

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Flares at the Nahr Bin Omar oil field on Jan. 12, 2017.

Iraq poised to capitalize on OPEC supply drops

With more than 300,000 bpd of new capacity coming online this year, Iraq is well positioned to take market share as U.S. sanctions snap back on Iran.

Iraq's production capacity is likely to expand by more than 300,000 barrels per day (bpd) by the end of the year, according to an Iraq Oil Report analysis, highlighting the country's ability to help compensate for supply disruptions from other OPEC members.

The Oil Ministry is unlikely to take full advantage of rising capacity because of other infrastructure bottlenecks, but Iraq's production potential still shows its growing importance to global oil markets - and U.S. foreign policy - as the Trump administration re-im-

poses sanctions on Iran and its oil exports.

OPEC members, along with Russia and other non-OPEC producers, met in Algeria on Sept. 23 to discuss a potential output increase to compensate for recent losses of supply, including from Iran - and Iraq is well positioned to help fill the gap.

Iraq Oil Report has gathered data from each of the country's producing fields to assess current production, current capacity, and expected capacity by the end of 2018.

The analysis shows that Iraq's federal gov-

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Q&A: SOMO Director General Alaa al-Yassiri

Iraq's oil marketing chief discusses rising export capacity, OPEC dynamics, oil trading joint ventures, and the status of a nascent hedging program.

After setting an all-time monthly export record in August, Iraq's oil sector is aiming for even greater heights.

As the director general of the State Oil Marketing Organization (SOMO), Alaa al-Yassiri is looking to capitalize further on the country's rising output.

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ernment and autonomous Kurdistan Regional Government (KRG) currently have a combined capacity of about 5.13 million bpd - more than 300,000 bpd higher than countrywide production in August, of 4.81 million bpd.

About two-thirds of that unused capacity resides at two fields under federal government control in Kirkuk - Bai Hassan and the Avana Dome of the Kirkuk field - which are partially shut in because there is no available route to market for their full capacity. They could increase production if authorities in Baghdad and

see OPEC, **page 7**

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REFINERY**



DELIVERING THE FUELS THAT ENERGIZE PROSPERITY

Baiji refinery begins its comeback

Despite ongoing violence, the Baiji refinery's resumption of operations marks progress in Iraq's northern oil sector.

The Baiji refinery, taken offline by the war with the self-proclaimed Islamic State (IS) militant group in 2014, has partially resumed operations.

The 70,000 barrel per day (bpd) Salahaddin-2 unit of the refinery is operating again, albeit not yet at full capacity due to inadequate power and crude supply, according to a senior North Oil Company (NOC) official, a Baiji worker, and an industry official.

Even if the unit is brought fully online, the refinery will be operating at less than one-quarter of its former capacity, of 310,000 bpd. But the facility's nascent comeback still highlights the progress that Iraq's oil sector has made since territory has been reclaimed from IS control.

The Salahaddin-1 unit, which also has a 70,000 bpd capacity, is being refurbished and is expected to begin operations by the end of the year.

When Baiji went offline, on June 16, 2014, the loss of the country's largest refinery was a devastating blow to the oil sector and the broader economy. After Baiji was finally liberated in the summer of 2015, the facility was initially thought to have been damaged and looted beyond repair.

But the Salahaddin-2 unit was largely intact, and the state-run North Refineries Company (NRC) has been working to bring it online. It began testing at 3,500 bpd in early September, and efforts are ongoing to push it closer to capacity.

The revival of Baiji is likely to help Iraq unlock some stranded capacity in Kirkuk,



The oil refinery in Baiji, in 2009.

where NOC-operated fields have been shutting in nearly 200,000 bpd of production because there is nowhere to send the crude.

NOC has produced more than 200,000 bpd since June 2018, with crude flowing to the Kirkuk refinery; the Baziyah refinery in Sulaimaniya; the Kalak and Ninewa refineries in Erbil; Baghdad-area power plants and refineries; and the Siniya refinery, near Baiji.

About 90,000 bpd of NOC's production has recently been coming from the Bai Hassan field and the Avana Dome of the Kirkuk field, which had been under KRG control between

the summer of 2014 and October 2017. The fields can produce as much as 280,000 bpd, and increasing capacity at Baiji should help bring more of that capacity back online.

There have been a number of obstacles to the resurgence of Iraq's northern oil sector, however, including persistently poor security. Attacks continue on security and oil workers and energy sector facilities and infrastructure all throughout northern Iraq. ♦

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Iraq seeks sanctions waiver on vital Iran energy trade

Iraq depends on Iran for more than one-third of its power generation - a major sticking point as Washington prepares to re-impose sanctions.

Iraq is negotiating with the U.S. for exemptions from the impending snap-back of sanctions against Iran, arguing that it cannot cut consumption of Iranian electricity and natural gas immediately without suffering serious economic harm and social instability.

An Iraqi delegation was in Washington in late September seeking a waiver for its cross-border trade, meeting with senior officials in the State Department, Treasury Department, and National Security Council, according to multiple officials familiar with the talks.

Iraq's gas and power imports from Iran accelerated during the Obama administration, in the context of a multi-lateral deal to relax U.S. and European sanctions against Iran's energy sector in exchange for an inspection regime designed to ensure the freeze of Iran's nuclear weapons programs.

But now that the Trump administration has decided to walk away from that deal, Iraq is scrambling to adjust to the new reality. Even though the U.S. is re-imposing sanctions without its European allies, it still wields the potent ability to restrict access

But despite the looming sanctions deadline, the Iraqi electricity sector's reliance on Iran has been steadily increasing.

In 2017, Iran began sending gas through a newly completed pipeline, which crosses the border in Diyala province and then dog-legs southward to Baghdad.

That pipeline is now averaging about 1,250 million standard cubic feet per day (mscf/d), according to the senior Ministry of Electricity official, and is responsible for more than 4,000 megawatts of combined power generation at multiple gas-fired power plants.

To the south, a second newly built gas pipeline crosses the border into Basra province, carrying about 250 mscf/d, according to the Electricity Ministry official. An Iranian company Tadbir built and tested the pipeline, but it cannot be confirmed at time of publication if it is the same Tadbir that is sanctioned by the U.S. government.

Iranian gas began flowing to the Iranian-built Rumaila investment power plant in July, according to an official in the Basra Electricity Directorate, adding 310 megawatts to the grid. That plant was built and commissioned by Iranian company MAPNA Group, which is still doing work at the site directly and supervising its local partner Shamara Holding Group.

Iraq has also been importing electricity directly from Iran, via cross-border lines. In the hot summer months of 2017, Iranian supply to Iraq averaged over 1,300 megawatts, according to Electricity Ministry data obtained by Iraq Oil Report.

The importance of that power supply came into stark relief in July 2018, when Iran's direct power supply to Iraq dropped to approximately 100 megawatts. Iraqi officials sent mixed messages about the reason for the stoppage, with one Iraqi electricity official saying it was because of unpaid bills to Iranian companies, and another official saying it was because of Iran's struggles to meet its own domestic demand.



U.S. President Donald J. Trump greets Iraqi Prime Minister Haider al-Abadi at the White House on March 20, 2017 in Washington DC.

A central point of contention appears to be Iraq's imports of Iranian natural gas and electricity.

Iraq now depends on Iran for more than one-third of its power supply, according to a senior Iraqi Ministry of Electricity official, including imports of natural gas that fuel about 5,000 megawatts worth of power generation and more than 1,000 megawatts of direct electricity purchases via cross-border high-voltage lines. Iraq's total power supply is currently about 14,000 megawatts.

to the dollar market - a serious threat for a country like Iraq that depends on dollar-denominated oil exports for more than 90 percent of its revenue.

Case in point: Iraq has trucked a total of 500,000 barrels from Kirkuk to Iran so far this year, and is rushing to get stocks to 1 million barrels so it can sell the oil onto a tanker ship before U.S. sanctions are fully re-instated on Nov. 4, according to Alaa al-Yassiri, the director general of the State Oil Marketing Organization.

Whatever the reason for the reduced power transmission, it deepened the chasm between Iraq's electricity supply and demand. As temperatures were routinely spiking above 120 degrees Fahrenheit, citizens were unable to operate their air conditioners – and the government's electricity failures helped fuel a protest movement around southern Iraq, including demonstrations that caused minor supply disruptions at Basra oil fields and drew security forces away from counter-insurgency operations in northern Iraq.

Iranian electricity transfers to Iraq are now back up over 1,200 megawatts, according to Electricity Ministry data. But the disruptions in July and August illustrated a powerful lesson about the ways in which a faltering electricity sector can undermine the country's stability - and Iraqi leaders are now arguing to their American counterparts that they cannot realistically end their imports of Iranian gas and electricity immediately.

Instead, according to two officials familiar with the negotiations, the Iraqi delegation is proposing a multi-year plan to build up domestic gas and power supply to displace the country's dependence on Iran. In exchange, the U.S. would grant sanctions exemptions.

In the most optimistic scenario, according to one official involved in the negotiations, U.S. sanctions could actually function to give new urgency to Iraqi gas projects that have languished - including various plans to increase the capture of associated gas, which is generated as a byproduct of

crude oil production, and much of which is wastefully burned instead of being used.

One project to reduce associated gas flaring and increase fuel for power generation is making headway. The Oil Ministry and Houston-based Orion Gas Processors are in the final stages of long-standing negotiations to capture flared gas from the Nahr Bin Umar field.

A senior oil industry official who does business in Iraq said the government is negotiating contracts with an apparent sense of urgency, evidence that the potential waiver on Iraq's own dealings with Iran is in turn prompting constructive development of projects that would increase domestic gas supply capacity.

But the outcome of the broader negotiations between Baghdad and Washington is uncertain, and likely depends on the direction of Iraq's ongoing, protracted government formation process.

Iraqi Prime Minister Haider al-Abadi, who is viewed as friendly to the U.S., has all but conceded defeat following a disappointing showing in the May elections. His fortunes were further diminished when Grand Ayatollah Ali al-Sistani - at the height of this summer's protest movement - issued statements against a continuation of the political status quo.

If key posts in the next Cabinet are held by Western-friendly leaders, then it seems plausible the U.S. will work with Iraq to wean the country's electricity sector off of Iran - a prospect that could also benefit American compa-

nies that have been in slow-moving talks with the Oil Ministry over projects that could help boost domestic gas and power supplies.

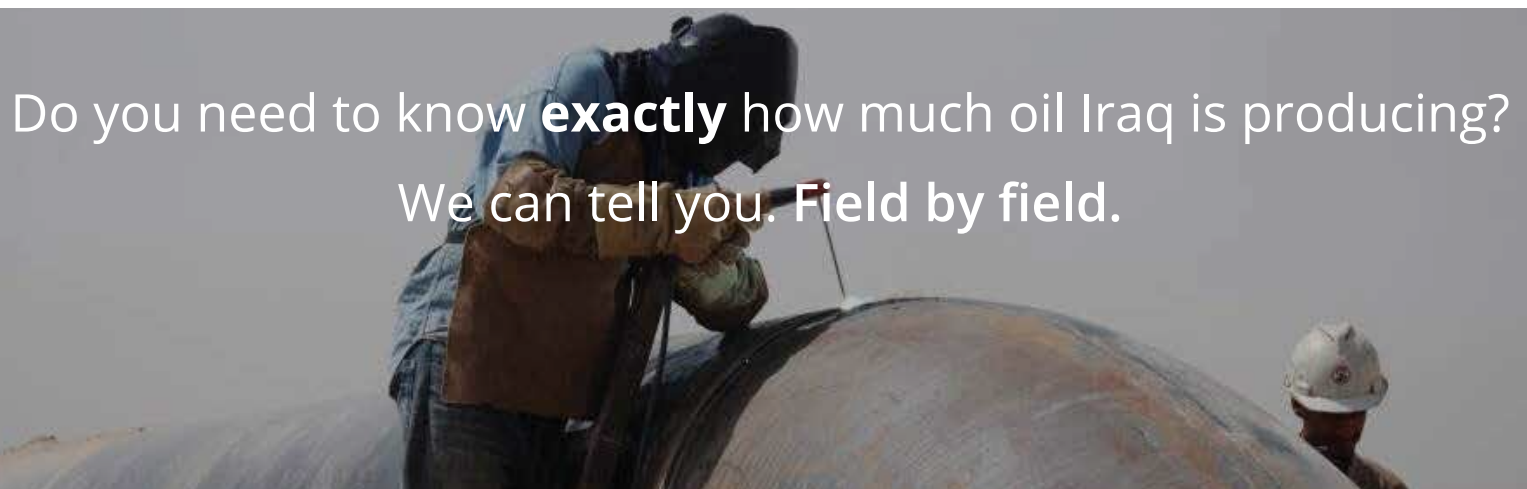
If, on the other hand, the next Cabinet is dominated by officials closely aligned with Iran, Iraq is less likely to endorse a plan that involves enlisting international companies to offset energy purchases from Iran.

In a worst-case scenario, if U.S. sanctions begin to bite in Iraq, it would play into an emerging narrative by Iran-linked political groups seeking to cast suspicion on American intentions in the country.

In Basra, for example, signs have recently been posted in public areas accusing U.S. Consul General Timmy Davis of being responsible for turning peaceful Iraqi protests into violent riots, which recently destroyed political party buildings and the Iranian consulate.

The U.S. consulate has denied the anonymous allegations and encouraged Iraqis to question the motives of lawless groups who are looking to deflect blame for their destruction, using a hashtag motto “#checkthesource.”

But in a highly partisan media environment, Iraqi perceptions are less likely to be affected by well researched facts than by the visceral reality of power cuts — and if Baghdad and Washington cannot reach a deal, Iraq's electricity problems could soon be blamed on U.S. sanctions. ♦

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Iraq poised to capitalize on OPEC supply drops

OPEC, cont'd from **page 1**

Erbil were to reach a political deal to send federal exports through the KRG-controlled pipeline to Turkey, or if the Oil Ministry is actually able to bring 140,000 bpd of promised capacity back online at the damaged and looted Baiji refinery.

But even if Kirkuk oil remains shut in, southern Iraqi oil fields are still expected to provide an additional 250,000 bpd by the end of the year, according to Iraq Oil Report's analysis. That would bring federally controlled production capacity to nearly 5 million bpd.

Much of that incremental production is slated to come from the Rumaila oil field, where capacity could now rise as high as 1.6 million bpd by the end of 2018, according to a field official.

The state-run Basra Oil Company (BOC) officially projects the field will top out at 1.5 million bpd this year, but recent development work has given cause for greater optimism. Specifically, a new treatment unit at a gas-oil separation station in North Rumaila is likely to come online before year's end, the field official said, which will add a further 100,000 bpd in capacity.

The state-run Missan Oil Company (MOC) is also expecting significant production increases from the "Eastern Missan" cluster of fields - Buzurgan, Fakka, and Abu Gharb - which are operated by the China National Offshore Oil Company (CNOOC). Those fields are currently pumping a combined 200,000 bpd, according to MOC Media Director Khalid Wahim, and are expected to hit 280,000 bpd by the end of 2018.

Other significant increases are expected from Zubair, operated by Eni; West Qurna 1, operated by ExxonMobil; and three fields under the authority of the state-run Dhi Qar Oil Company (DQOC).

KRG production capacity is also set to rise, by nearly 60,000 bpd. Now that the regional government has established a consistent track record of monthly payments to oil companies, the companies in turn are putting more money into field development.

Norway's DNO, operator of the Tawke license, is continuing to bring new production online at the Peshkibir field, which is likely to add another 15,000 bpd of production before the end of the year, according to company presentations.

Iraq production capacity (bpd)

	August production	Current capacity	New capacity expected by end-2018	End-2018 projected capacity
Federal Iraq (subtotal)	4,384,000	4,686,000	251,000	4,937,000
Basra Oil Company	3,270,000	3,355,000	137,000	3,492,000
Missan Oil Company	470,000	470,000	82,000	552,000
Dhi Qar Oil Company	197,000	205,000	32,000	237,000
Midland Oil Company	210,000	210,000	0	210,000
North Oil Company	237,000	446,000	0	446,000
Kurdistan region (subtotal)	426,000	445,000	59,000	504,000
Iraq-wide total	4,810,000	5,131,000	310,000	5,441,000

All figures are based on data gathered by Iraq Oil Report staff from each of Iraq's producing fields.

And the Khurmala Dome of the Kirkuk field, operated by the Kurdish company KAR Group, is continuing to ramp up production. The field averaged about 105,000 bpd for most of 2017, but industry officials say output is rising. According to development plans shared with the Turkish government, which were obtained and published by Wikileaks, the field is slated to hit 200,000 bpd by the end of 2018, on its way to a plateau of 275,000 bpd in 2020.

Bottlenecks

Not all of Iraq's new production potential is likely to be realized - at least in the short term - because of limited export capacity.

Beyond the political disagreements that are keeping roughly 200,000 bpd of Kirkuk production off the market, the country is consistently pushing the limits of its southern export capacity.

At the beginning of 2018, when Iraq tried to sustain exports above 3.5 million bpd, a pipeline failure caused the total shut-down of the antiquated Khor al-Amaya Oil Terminal (KAAOT) in the Basra Gulf. KAAOT has remained offline amidst delayed rehabilitation work, and Iraq's exports dipped below 3.5 million bpd for the first five months of the year.

Exports have surged back above 3.5 million bpd since June - and hit an all-time monthly record of 3.583 million bpd in August - partially because other infrastructure has come online to compensate for the loss of KAAOT.

Iraq's single point mooring (SPM) system includes four operational buoys, but until recently, only three of them could be used at

a time. Now, according to multiple industry officials, all four can be used simultaneously, though the system is still operating at roughly half of its nameplate capacity because of limited onshore pumping infrastructure.

If KAAOT can be successfully rehabilitated, it could add as much as 300,000 bpd of additional export capacity, though the potential timeline for such a breakthrough remains unclear.

Even if Iraq's export infrastructure is struggling to meet the pace of production growth, progress on both fronts has inspired optimism from Alaa al-Yassiri, the man responsible for marketing the country's oil.

In a recent interview with Iraq Oil Report, Yassiri, the director general of the State Oil Marketing Organization (SOMO), said Basra Gulf exports have occasionally risen above 3.7 million bpd - proof that the system can handle more output. Yassiri said he expects to be able to average 3.7 million bpd on a monthly basis - more than 100,000 bpd above the record oil sales in August - by the end of the year.

Another potential outlet for new Iraqi production is the Shuaiba refinery in Basra, which is undergoing upgrades and an expansion that could see it increase capacity to more than 310,000 bpd - an increase of about 100,000 bpd - by early 2019. It's currently taking in just 160,000 bpd, said Hossam Hussein Wali, the director general of the South Refineries Company, due to the extreme amount of salinity in local water sources. ♦

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Q&A: SOMO Director General Alaa al-Yassiri

SOMO, cont'd from **page 1**

In an interview at his office in Baghdad, Yassiri spoke with Iraq Oil Report about how Iraq is positioning itself for success.

Export capacity from Iraq's southern outlets is set to expand further this year, Yassiri said, which could enable the federal government alone to average 3.7 million barrels per day (bpd) in exports.

SOMO is also working to expand an initiative to squeeze every possible dollar out of its exports via joint venture arrangements with the trading arms of international oil companies.

And the Iraqi government is even studying a potential hedging program, which could help stabilize revenue expectations for the oil-dependent country - though that proposal still appears to be unfunded, and in its very early stages.

Iraq's surging oil sector is also influenced by the decisions of OPEC and other producers as they examine production quotas ahead of the next full meeting in December.

You have mentioned compensating the market for the reduction of supply from Iran. Do you mean that OPEC members might increase their production to account for a reduction from Iran?

We didn't refer specifically to Iran. We did refer to supply and demand. It means that OPEC producers in their meetings, they discuss the issue of the supply and demand of crude oil. So they [OPEC producers] look at whether the supply is suitable to meet the demand. According to this, follow up and a study, the target production is decided.

Iran is a founding member state of OPEC, and all the members [of OPEC] should help Iran to get out of its crisis. Not as some people think, that it [Iran's crisis] is to be a benefit for others.

If we talk about OPEC's job, yes, OPEC is supposed to keep stability in the market. I mean the stability of supply and demand. As a result, if there is no stability, there will be damage for consumers and producers.

What is Iraq's proposal for achieving this stability?

It depends on supply and demand. Simply, if the producers, the member states of OPEC, reach the conclusion that supply is less than demand, certainly there will be seeking for a decision for alternatives for [OPEC members] that have the ability for an increase.

But does Iraq have the capacity? Everyone knows that Iraq has the capacity for increasing the production.

What is Iraq's expectation for increasing exports over the coming months? How much by end of this year? By the end of 2019?



Alaa al-Yassiri, the director general of Iraq's State Oil Marketing Organization, at the Nov. 30, 2017, OPEC meeting in Vienna.

What is Iraq's export capacity currently?

We already reached that capacity. Currently we have the capacity for exports of 3.7 million bpd, just from the south. But there is the possibility for an increase of this capacity. The work is going on for increasing it, and also the work is going on for looking for other outlets for exports, for example activating the pipeline to Ceyhan. It is possible for this to add an amount 400,000 bpd of exports.

The question is: does Iraq have the ability to increase the production? The answer is yes. Iraq has the ability to increase the production. How much the ability will be? It depends on plans, investment of money, and time frames. Some increases could be done immediately, some for the middle term, and some others for the long term.

I think exports will be 3.7 [million bpd] by the end of 2018, if Ceyhan is not included. If it is included, it'll be different. There will be more. For the end of 2019, in fact it depends of the amount of production. According to our current export capacity, we already have it.

For the [oil sale] contracts for 2019, we have a lot of demand. But how much are we going sign for? We won't know until this November. As we will have a complete plan for 2019, about how much real production we will have, and how much will be consumed locally, and then I'll be informed about the amount available for the exports. Any amount that the Oil Ministry decides, SOMO will be able to export it.

Khor al-Amaya terminal has been offline for most of the past two years. Can you explain specifically what exactly

needs to happen on a technical level in order for it to become operable again?

We can use this facility. But it is not run or maintained by SOMO. According to the reports I have, the problem is in the off-shore pipelines. It needs special experience and ability to do that. We are still continuing our pressures on the company that is doing the work. So far, there is good progress in their efforts. But the responsibility of this work is on the Basra Oil Company (BOC).

What is the maintenance schedule planned for the SPMs and ABOT?

In fact, the maintenance and the management of the SPMs, and the other terminals, is the responsibility of the BOC. But there are periodical maintenance works for them. Usually, each SPM takes about one month. But does SOMO do the maintenance? The answer is no. It is the BOC that does such work.

Trade Bank of Iraq and SOMO are studying the hedging program still. We know it has to be approved by Cabinet or Parliament first. But on a technical level can you explain the status of it?

This hedging program with the Trade Bank of Iraq is still a study. It is not yet reached [to the level of] a project. Yes, it does need an approval from the government. But it is still a study.

This study has been submitted to us from different parties. Some through our customers, the IOCs submitted to us some studies related to the hedging program. Also from the TBI. I did personally speak to the head of the TBI, Mr. Faisal, as this issue is a sovereign one, because the issue of the crude oil is not only looking for new markets. This issue is related to the general budget of the state. It is supposed to be that when the budget is decided, whether it takes this matter of hedging in consideration or not. Because in the budget the expected price of oil is estimated.

So this hedging program should be approved by the Iraqi Finance Ministry and the Central Bank of Iraq, as they are responsible for the monetary policies in Iraq. For us, SOMO, will help and explain if this is possible to be implemented. That's why I did request to speak to the Trade Bank of Iraq, as it is an Iraqi bank and a specialized one, and

this hedging program could be through it, as it has dealings with the CBI and the Finance Ministry. Also it [TBI] has experience with SOMO, as it is a commercial bank, and they made good efforts, and there were meetings. But it is still a study.

How would Iraq benefit from a hedging program?

As I mentioned earlier, the benefit will be decided by the policy of the state. If the policy of the state wants to guarantee revenues according to a specific oil price that go to the treasury of the state, it may use a hedging program. For example if it is decided in the budget \$60 for a barrel, so by using the hedging program [the state] will not get less revenues than what is decided.

preparing the studies. And for the TBI, they consider it as a commercial activity they study, and if they reach to a specific stage, may be they'll get profits. As I said, there is no money for this hedging program.

Iraq has enough crude production capacity to export from the north. What are the main reasons that the federal government is not using the Kurdistan pipeline to Turkey?

There are several reasons for this. They are known to many people. There are political, financial, and legal reasons. There are differences about the interpretation of some items of the constitution by our brothers in the region (KRG), which the federal government doesn't accept.



Tankers dock at the al-Basra Oil Terminal.

But if the policy in the budget of the state is getting as much as possible of the revenues, by any price, but in this case if there will be risks of any decrease in the price of oil, and then there will be an impact on the general budget of the state.

In fact, [the hedging program] doesn't connect to SOMO. But it is more connected to the monetary policy of the state.

How much money will Iraq have to commit for such a plan?

No, there is no money allocated for this program. In SOMO there is no money allocated for this. Our customers - for no money - are

We are very convinced that any exports for any produced oil in Iraq should be through SOMO only. And this is the main and central issue of difference. Our brothers in the region export the oil [independently]. According to us, it is violating the constitution and to the financial management of the state. It raised big problems. It needs much discussion. We hope that the next government will sort out this issue, and there will be good understandings.

As a result, all the parties are losers, if the current mechanisms continue as they are. It is a sovereign commodity, so it sup-

posed to have one financial manager for the state. Then the citizens, whether in the region or in Baghdad or in Basra, should know about the mechanisms that the oil is sold through. And know about the revenues, where they go, and who has the authority to use this money.

I think this issue needs discussions – political, financial and legal – in order to get out of it.

If Iraq builds a new pipeline to Turkey, that would mean the country has two pipelines to Turkey. Why is that a good thing for Iraq? Why not just use KRG line and repurpose that money for other pipeline projects?

The main [northern export] system is our pipeline that goes through the [Iraq-Turkey] border to Ceyhan. It was targeted too much. It became unusable because the pipeline was targeted by Daesh.

At the same time, the [KRG] built a new pipeline. International companies are invested in it. When we saw the fees, we think there are very high. This is what we think, because the distance between Kirkuk and the borders are not suitable with the fees paid for that.

The federal government, we had a route for the old pipeline. And we could build on the same route, a new pipeline. I think this is the normal thing to do. Or we can use the region's pipeline, which needs – as I explained – political, financial, and legal agreement and understanding. The other thing is that we need to agree with the investor [in this pipeline], and there should be a study about these fees and who is to be paid, and how these fees were decided.

Why is it taking so long to start the swap arrangement with Iran?

We previously mentioned that this was stopped because of logistical reasons. The problem was the customs on the Iraqi side, not the Iranian side. There are problems between the transportation companies and the Iraqi customs commission. For this reason, the customs gave these companies three months to resolve their problems. The time passed and they didn't do what was required, so the customs stopped them.

Then we interfered and [customs] allowed these companies to resume their work. But it was a humbled way. We even asked other companies to provide the transportation. We already have 500,000 barrels of oil in Iran. And we are trying to reach to 1 million, in order to be a commercial shipment that we could sell, before November 4. It resumed more than a week ago.

How much does Iraq owe to Iran for electricity and gas, which SOMO has to pay for via these exports?

This issue is irrelevant. This is a different issue related to the Iranian gas that is purchased by a different contract, and how Iraq will pay back to Iran in the light of the American sanctions. In fact, this contract is through the Ministry of Electricity and I don't have any details about it.

How will Iraqi exports be impacted by U.S. sanctions on Iran?

Well, if the American sanctions are implemented in its current form, there will be an impact on all markets, not only on Iraq. There will an impact because the supply and demand will differ.

What is the status of the approval for the artificial island for exports?

There is such a project. I was aware of the preliminary studies and I talked about it with the DG of the BOC, as it is run by BOC. They own and will operate it, and then we will use it. But what stage has this project reached? And what other real steps are they taking? In fact, I don't know the details.

Lastly, let's talk about SOMO's current and planned trading joint ventures. Lima, the joint venture with Litasco, became Iraq Petroleum Trading. How much is IPT purchasing each month?

At the beginning, Litasco with SOMO formed Lima as the core. Then we changed the name to Iraq Petroleum Trading, IPT. I don't have the figures of loading right now with me. But they are loading not bad amounts of oil.

About the negotiations, selling, and revenues, they are run in the joint venture between Litasco and SOMO. Then we will allow them to resell the shipment, and we participate in the selling process and sharing the profits.

The IPT is purchasing the oil as normal from SOMO, using the same criteria we have with other companies.

Will SOMO have shares as a co-owner of the company?

We will have a meeting, with Litasco, in November. There will be a meeting to reassess what has been done by us and Litasco, in order to discuss the next step, if SOMO will get shares. Right now, SOMO shares profits, but it doesn't have shares. We'll discuss it in November, whether SOMO will buy shares in the company or not.

You told us six months ago that the venture was started, that SOMO was sharing profits, with ZhenHua. What's the status?

We have a JV with China's ZhenHua, on similar basis of Litasco, but with different goals. As with any JV that SOMO joins, it will have different goals. With Litasco we have goals, and with ZhenHua it is to get knowledge about China's market. It is a big market, and ZhenHua is a state-owned company. Currently, we have discussions with other Chinese companies. The Chinese market is very important for us.

With ZhenHua, we are currently in the phase of profit sharing. Also in November, there will be a meeting in order to decide on establishing a company, and we'll share the profits. Then the third stage will be purchasing shares from the company. Yes, the goal is to form a JV with ZhenHua, too, owning 50 percent, like Lima, exactly.

We have three phases with the companies. In each, the third phase is purchasing shares from the company.

Last time we talked, you mentioned many other joint ventures are being discussed. What is the status of those in particular? How will they operate differently than ZhenHua and Litasco?

We have reached, with some companies, very advanced stages. For example, we are very close to sign with the Chinese company CNOOC. One of the biggest companies in China. We are very close to sign it with CNOOC. Also we have very good negotiations with BP. ♦

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