Iraq returns to international oil market

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Iraq on Thursday stepped back into the international oil market for the first time since the war, offering 10m barrels of oil from its storage tanks for sale to the highest bidder.

For some international companies it will be the first time in more than a year that they will do business directly with Iraq. Companies such as ExxonMobil of the US, shied away from directly buying Iraqi oil under the UN's oil-for-food programme as Washington stepped up its rhetoric against the Saddam Hussein regime.

But Iraq has some major obstacles to overcome - most notably the lack of security - before its oil exports can again flow on a sustained basis.

Mohammed al-Jibouri, head of Iraq's oil marketing, acknowledged the tender was a one-off sale. Even so, the sale of 8m barrels of Kirkuk crude oil from Iraq's storage tanks at the Turkish port of Ceyhan and 2m barrels of Basrah Light from the tanks in Mina al-Bakr on the Gulf is an important step - and not only because it is expected to generate more than $250m.

Emptying the tanks will allow Iraq to restore some crude oil flow through its pipelines towards the ports. But how much oil will be available will depend on Iraq's ability to get engineers - many of whom fear being kidnapped, robbed or having their cars stolen on the way to the fields - back to work.

In the meantime looters have damaged offices in Basra and numerous oil installations around the country.

The tender, for which bids are due by June 10, switches the transaction back to dollars - the international currency of oil sales - despite the greenback's recent fall in value. Saddam Hussein in 2000 insisted Iraq's oil be sold for euros, a political move, but one that improved Iraq's recent earnings thanks to the rise in the value of the euro against the dollar.

The sale comes less than a week before the Organisation of Petroleum Exporting Countries is due to meet in Doha, Qatar, to discuss whether to reduce its output allocation to make room for Iraqi exports.

Despite the tender, analysts do not expect Opec to cut production as any significant level of sustained exports from Iraq remains months away.

"The market is still a bit sceptical about when Iraqi oil is coming back, because there doesn't seem to be much control over the looting taking place," said one trader in London on Thursday.

Some analysts estimate Iraq will not return to its pre-war export level of about 2.7m barrels a day until the end of the year.

Issam Chalabi, a former Iraqi oil minister, says it could take Iraq as much as three years and $3bn of investment to achieve 3.5m b/d, the volume Iraq pumped before its 1990 invasion of Kuwait.

The benchmark oil futures on the New York Mercantile Exchange on Thursday rose 22 cents to $30.27 a barrel. The trader said the rise reflected uncertainty about Opec's intentions next week at the Qatar meeting, and the prevailing tightness in the US oil market, as commercial stocks rise slowly off 27-year lows.