



POTEN TANKER OPINION



More Barrels To The Med

Kirkuk – Ceyhan pipeline expected to reopen after two years

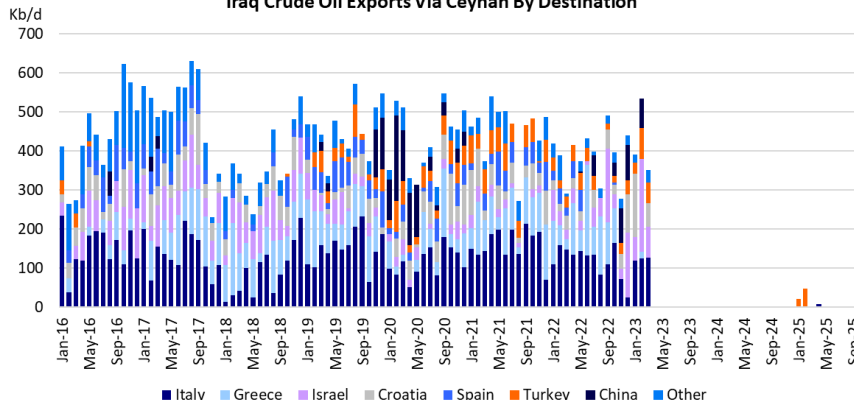
On Saturday, September 27 at 7:07 AM local time, flows resumed through the Kirkuk-Ceyhan crude oil pipeline. The pipeline had been shut since February 6, 2023. Initial flows through the pipeline will be around 180,000 barrels per day (b/d), ramping up to 230,000 b/d. The resumption of flows comes after an agreement has been reached between Iraq's federal government, the Kurdistan Regional Government (KRG) and the international oil companies that are producing in the region. Turkey previously already indicated that it was willing to restart Iraqi exports from its eastern Mediterranean port of Ceyhan. In this Tanker Opinion, we'll discuss the background of the conflict and the impact that these barrels will have on regional trade flows and the tanker market.

The pipeline in question carries oil from the semi-autonomous Kurdistan region in Northern Iraq to the Turkish port of Ceyhan. The initial phase of this pipeline became operational in 1976, and the first export cargo was shipped in May 1977. A second pipeline was added in 1986 to accommodate increased Iraqi production and exports. Combined, the two pipelines have an official capacity of 1.4-1.5 Mb/d but flows never reached full capacity. In the years prior to the closure in 2023 it carried about 400-500,000 b/d (see Chart 1), with most barrels destined for Europe.

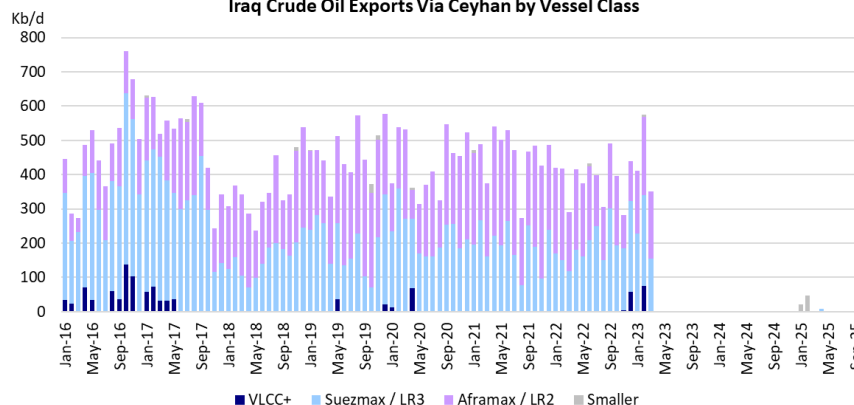
Turkey halted flows on the pipeline in March 2023, after the International Court of Arbitration at the International Chamber of Commerce ordered them to pay \$1.5 Billion in damages to Iraq for the unauthorized transportation of oil. According to the ruling, Turkey breached a 50-year-old pipeline transit agreement by allowing crude oil from Kurdistan to be exported without Bagdad's consent. The Turkish action kept 500,000 b/d of oil off the global market at a time that oil prices were rising, and Europe needed alternative supplies due to their ban on Russian oil imports.

The tripartite agreement between the parties in Iraq calls for the KRG to commit to deliver at least 230,000 b/d to Iraq's state oil marketer SOMO, while keeping an additional 50,000 b/d for local use. An independent trader would handle sales from Ceyhan. For each barrel sold, \$16 would be transferred into an escrow account and be distributed proportionately to the international oil companies that produce the oil. The remainder of the revenue will go to SOMO. The producers are owed about \$1 Billion in unpaid arrears, accumulated between September 2022 and March 2023. The oil companies that signed the deal and the Kurdish authorities have agreed to meet within 30 days of exports resuming to work on a mechanism to settling this outstanding debt.

Iraq Crude Oil Exports Via Ceyhan By Destination



Iraq Crude Oil Exports Via Ceyhan by Vessel Class



Source: Vortexa

Oil analysts have indicated that the net addition to global oil output as a result of this deal is much lower than the headline 180-230,000 b/d. When the pipeline was closed, significant volumes of oil were transported out of the Kurdistan region by truck, while domestic consumption continued. Some of these flows will now be redirected towards Ceyhan. However, from a seaborne transportation perspective, it does represent additional volumes of up to 230,000 b/d (and possibly more in the future). These additional exports from Ceyhan will mostly benefit the Aframax and Suezmax segments (see Chart 2) since European countries around the Mediterranean are the most likely customers for this crude. More Iraqi crude may back out crude from longer-haul sources, like the US Gulf and West Africa. Ceyhan can accommodate VLCCs, but in the past these large shipments were few and far between (mostly destined for China) and therefore questionable to come back in the short-term. Also unlikely to be revived are Suezmax trips to Asia due to the ongoing challenges facing tankers traversing the Suez Canal and the Red Sea.

It will take some time to determine the ultimate impact on seaborne trade flows, and which tanker segments will benefit the most. However, more oil from Ceyhan will boost Aframax and Suezmax employment (the first Aframax to load at Ceyhan has reportedly already been fixed) and American or West African barrels previously headed for the Med may be diverted (longer-haul) to Asia, providing potential employment opportunities for VLCCs.