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Possible short-term repercussions Iraqi war

Ongoing military action in Iraq, with the objection of removal of the regime of Saddam Hussein, will have its short-term effects of international crude supply. Just before the ongoing onslaught, new figures were published concerning several incremental features of the petroleum sectors worldwide. According to financial media resources, shipments of Iraqi crude to the US, Iraqi oil imports normally around 600,000 bpd, have increased exponentially in the period from September 2002 to January 2003, reaching levels of 17.1 mln barrels. During the last months, refineries in the USA have become the biggest importers and users of Iraqi crude.

According to Bloomberg, ongoing shipments have tripled the last months, as stated by the US Department of Commerce, reaching last January levels of 17.1 mln barrels, which means around 6.4% of total US imports. The latter was largely induced by two new aspects in the market, first of all Iraq dropped its illegal surcharge on crude oil, as demanded by the UN, secondly, extremely low reserves in the American Strategic Petroleum Reserves made it a necessity to reach appropriate levels from other sources. The total shutdown of the Venezuelan petroleum sector during this period also contributed to this fact.

According to Eric Kreil, oil analyst at the EIA, Department of Energy US, is US is by far the biggest customer of Iraqi oil. "Iraqi oil is a pretty good substitute for the Venezuelan grades that were cut off," he stated. US imports of Iraqi oil rose by 64 percent in November from October, after falling to a four-year low in September. They continued to climb in December and January, according to Commerce Department figures released yesterday. About two-thirds of the oil Iraq exported in February went to the Americas, and half of that went to the US. Iraqi crude has been a very good substitute for the normal Venezuelan crude, which made up around 10% of total demand of the US.

In anticipation of possible disruptions to global supply, refineries in the Persian Gulf region are working at the top of their capacity. Refineries around the region are especially focusing on supplying current military forces (UK, USA, Australia) with jet fuel and diesel. According to sources and regional traders refinery operations in the region were at full tilt to make up for output losses arising from a couple of scheduled and unscheduled shutdowns. The Gulf is already starved of supplies from Kuwait, which has earmarked the bulk of its diesel and jet fuel for the U.S. military machine. As mentioned by AFP "Everybody's keeping his or her refineries going at full steam just case of a shortage," according to a Middle East refining source.

Postponements of regular shutdowns have already been instigated by the new necessities. Refineries in Bahrain, Abu Dhabi en other places in the UAE are at present trying to fill in possible gaps which will occur the coming days and weeks. Already the petrochemical sector in the Gulf had to cope the last months with major production hick-ups of refineries in Saudi Arabia and Iran (Bandar-al-Abbas). The upshot of these problems twinned with a spike in military demand was that players were importing jet fuel and diesel into the region and at the same time cutting back spot free-on-board sales.

Several sources indicated too that the American military have told several companies, such as KPC in Kuwait, to keep the supply chain going, even in the weeks after the war has started, due to expected increased demand. The U.S. military had chartered tankers on its own to

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ship fuel from Japan, South Korea and Honolulu.

This situation will have some positive effects on current refining margins in the region and in Asia, because it will definitely reduce supply overall, which will lead to increase profit margins. The latter have been almost negative for the last couple of months, leaving several refineries at the point of financial collapse. In the months after the war, prices will be positively induced too, because of the large backlog of shutdowns necessary due to planned refurbishments of current refineries in the region.

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