

Mechanisms of contracting and executing crude oil export agreements.

Ministry of Oil

Oil Marketing Company (SOMO), Public Company

In accordance with public companies law No. 22 of 1997, aligned with the authorities affiliated to SOMO in the internal statute that consented by H.E. the Minister of Oil. SOMO is set to have the oil sector integrated in the national economy by way of maximizing the economic revenues of the country, through exporting crude oil, products & gas outside Iraq, besides, supplying the domestic refineries and power plants with crude oil.

To achieve this goal, SOMO has adopted a set of clear and transparent criteria, standards and mechanisms as indicated below:

1- Allocation criteria of crude oil volumes available for export

The main criteria that used by SOMO for contracting with qualified companies, summarized as follow:

- International oil companies (IOCs), Majors & medium sized governmental and independent integrated companies that handle all activities in the oil industry like exploration, production, transportation and distribution. Furthermore, these companies ranked to be amongst the best in the oil industry as well as they possess hefty refining capacity and huge distribution networks in many parts of the world.
- Companies specialized in the downstream activities, production and distribution of refined products.
- National oil companies (NOCs), and/or Entities, authorized by its respective governments to enter into contracts for purchasing crude oil for their countries' refineries as in China and Japan.

2- Allocation procedure of exportable crude oil

SOMO undergoes a set of processes upon considering allocations of crude oil volumes to the qualified companies, as follow:

- Marketing all exportable volumes of crude oil to global markets based on international pricing formula through adopting marketing policies to maximize as much as possible oil revenues.
- Priorities in allocating oil quantities is given to companies with substantial refining capacities because of its capabilities to absorb sudden price volatility as well as maintaining its long-term requirements for Iraqi crude oil.
- Consolidating and expanding the presence of Iraqi crude oil in the main international markets (America, Europe and Asia).

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SOMO enters into contracts bi-annually, annually or longer, with qualified companies as per the following process:

A- Contracting mechanism

1- SOMO sends direct invitation letters to International Oil Companies (IOCs) that are having valid contracts together with the other newly qualified companies to submit their requirements of Iraqi crude oil for the subsequent contracting period.

2- Requests that only sent through E-mail directly to SOMO by companies interested in purchasing Iraqi crude, are to be considered as SOMO normally disregards hand-submitted requests and also those submitted through agents, intermediaries, international organizations or any of the foreign diplomatic missions operating in Iraq. However, allocations of Iraqi crude oil usually offered to qualified companies according to the adopted criteria.

3- Electronically e-mailed purchasing requests from companies, intermediaries, agents and international organizations; showing interest in buying Iraqi crude oil, received by SOMO throughout the year. These requests are dealt with in light of the norms and standards adopted by SOMO's Technical Committee that formed by an administrative order and consists of a group of experts. The formed committee undertakes the following measures:

- Examining the activities of each company or organization in order to determine the extent of its compatibility with the adopted criteria, through searching in several reputed web sites and reliable sources in the field to decide whether the applicant company/ organization is qualified or not?.

- Unqualified companies are disregarded and reasons for disqualification are disclosed to the applicant companies and they will be tagged as "unqualified" in the tables compiled for this purpose. In turn, qualified companies will be categorizing as "new companies" in the set tables.

- These tables will be presented to the Board of Directors and then to the Ministerial Commission for consenting the Technical Committee's recommendations.

4- Upon the sanction of H.E. the Minister of oil on the crude oil allocations, each eligible company will be informed of its allotment accordingly. Contracts will be finalized after the receipt of the eligible companies acceptance of the terms and conditions of SOMO's standard crude oil sales contract.

B- Implementation procedures

1- The execution of the contract commences when crude shipping and commercial financial divisions notified of the contract practical details. This notification will enable the two divisions to implement and follow-up the subject contract that usually starts- up when the buying company (i.e. buyer) submits a request, within a reasonable period, to SOMO specifying its first nomination date to load a cargo of Iraqi crude oil subject to contract clauses.

2- SOMO, on its part, will fix a loading date and inform the buyer accordingly who will, in turn, nominates in writing a vessel for cargo loading at the fixed date. SOMO, however, will maintain its option of either accepts or rejects the nominated vessel in light of her specifications and the requirements of the loading terminal.

3- The buyer shall open an irrevocable documentary letter of credit (L/C) in a reputed bank accepted by the central bank of Iraq (CBI) within a period of not less than (7) seven days in prior of the vessel nomination acceptance date. The L/C amount should not in any case be less than the amount estimated to cover the cargo's value. Subsequently, SOMO will instruct the loading terminal to load the respective vessel with crude oil provided that destination should not change after the opening of the related L/C.

4- After loading completion of a vessel with the required volume, the respective loading port will produce shipping documents that show loaded quantity, API gravity, Bill of Lading (B/L) date and the final destination of shipment together with any other documents related to the loaded cargo.

5- As from the B/L date, and after elapsing of the contractually specified period, SOMO calculates and notifies the respective client company of the final unit price of the cargo (i.e. U.S Dollar per Barrel). In turn, the respective client company will settle the value of the cargo within period of not more than (30) days from the B/L date.

6- The Iraqi crude oil is like other producible and exportable crudes that not sold at a fixed price, discount or premium. In fact, it is determined according to a unified pricing mechanism internationally known as the Official Selling Price (OSP) applicable to client companies and for each of the international markets.

In light of the above, SOMO does emphasize that no negotiations have had ever been taken place with any party whether it is a company, intermediary, agent, international organization or any diplomatic mission on the subject of allocations of crude oil or the official sale prices. It is also worth to stress here that no commissions or discounts have had ever been offered to any of the Buyers because the mechanism adopted in crude oil allocation and pricing is simply applicable to all companies without exception. However, this mechanism, as formerly outlined, embarks with the issuance of an administrative order calling for the formation of a Technical Committee where the legal and auditing authorities being represented therein.

The decision of the formed committee is normally reviewed and discussed by SOMO's Board of Directors. However, the Board of Directors, on their part, submits the final recommendation to the Ministerial Commission headed by H.E. Minister of oil and senior deputy minister together with the directors general of the concerned offices at the ministry of oil, such as economics, studies, technical and internal supervision offices, as members.

In the same context, SOMO always endeavors to distance itself from any fictitious contracts that appear on some websites of the internet or those circulated outside the aforementioned legal parameters. Consequently, SOMO has high confidence in cooperation of the public whom expected to promptly reporting any findings of swindles, noticeable forgery or circulation of fake contracts to the concerned Surveillance Authorities. Such reporting will assist the concerned Authorities to locate the perpetrators of these criminal acts, and hence, enabling SOMO to go ahead with the legal proceedings against them in order to safeguard and preserve the integrity and the sound reputation of both the Ministry of Oil and SOMO.

With best regards,

Dr. Falah J. Alamri
Director General
And
Chairman of
Board of Directors