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# The Oil Shipping Sector in Iraq and its Economic Dimensions

**Al-Jazaery HH***

Iraqi Oil Tanker Company, Iraq

***Corresponding author:** Hussein H Al-Jazaery, Iraqi Oil Tanker Company, Basrah, Iraq, Email: hussainalgazaaryh@yahoo.com

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## Introduction

Crude oil, refined oil products and gas are the most important and prominent in terms of value and quantity in maritime transport, as multiple types of crude oil, petroleum and chemical products are transported on board tankers that are specially designed for this purpose, and tanker markets have witnessed several developments in this field, so It has become imperative for the oil producing and exporting countries to keep pace with them in order to be able to penetrate and remain stable in the global oil transport markets. Some OPEC countries, such as Kuwait and Saudi Arabia, have been able to keep pace with developments in the maritime transport of oil, as they diversified their tankers and increased their numbers in order to integrate their oil industry, being one of the producing and exporting countries. Oil is of great importance in the global oil market.

## Tanker Markets

The oil tanker market, which means transporting oil by sea from the producing countries in the Arab Gulf region and West Africa to the consuming countries in Asia, Europe and the United States of America, which are separated by seas and oceans from the producing countries.

This market, like the rest of the markets, is affected by supply and demand factors. The high demand for crude oil is the main driver of the increase in demand for charter tankers, and then leads to the rise in transportation wages (Rates Freight) to relatively high levels due to the inability of the transportation capacity to meet demand, which leads to a recovery The oil transportation market, raising the performance of marine companies and increasing their profits. These profits encourage tanker owners to invest in building new tankers. But it must be taken into consideration that the transport market is fraught with risks, including that the market is subject to sharp fluctuations, which are attributed to several reasons, including the unexpected international economic and political crises, and the imbalance between the demand and supply sides of tankers, which leads to an excess of supply and demand over freight rates, which obliges marine companies To adopt a solid strategy to overcome crises and market stagnation and take the necessary measures and precautions to avoid collapse and bankruptcy and which would help it to withstand in the international transport market, which is characterized by intense competition among other global maritime companies.

## Factors Affecting the Tanker Market

### Operating Costs

These costs include (the salaries of the tanker crew, repairs and maintenance, catering and spare materials, insurance costs for the tanker, port wages and transit fees, as well as the cost of tanker fuel and represent a large percentage of the total operating cost of the trip and this percentage increases with the increase in the number of sailing days and higher fuel prices).

### Transportation Cost

The transportation cost is determined by several factors, as follows:-

- The distance between the port of loading and the port of discharge: the greater the maritime distance between the oil-producing countries and the countries consuming it, the higher the costs of transportation and insurance.
- The method of leasing: including (leasing for one trip) or (time leasing), and leasing for one trip is more exposed to fluctuation in leasing prices in light of volatile markets, unlike time leasing, which is characterized by stability under contracts extending from 6 months to 5 years, which guarantees prices More stable leasing that achieves a certain revenue for the tanker owner during

the contract term, as well as reducing the tanker's downtime waiting for leasing opportunities.

- The type of shipment carried by the tanker: such as a shipment of liquid gas, chemicals, or crude oil, so transportation and insurance fees rise with the increase in the value and danger of the shipment.
- The age of the tanker: The age of the tanker loses many leasing opportunities due to the reluctance of the tenants to rent the old tankers, for not ensuring the safety of the arrival of their shipments, in addition to the fact that most international ports refuse to enter these tankers to their ports because they do not meet the requirements of international maritime laws, so the price The rental of these tankers is low compared to modern tankers.
- The type and specifications of tankers: The prices for chartering tankers vary according to their types and sizes. The medium-sized tanker's charter prices differ from the large-sized tanker, and modern tankers whose technical specifications apply with the legislation and requirements issued by international maritime organizations have higher rental prices than traditional non-traditional tankers. that meet the required conditions. Therefore, these factors greatly affect the trade of services provided in the oil tanker market and are directly reflected in the development or deterioration of the services sector and the economic activities associated with it. Therefore, in order to avoid crises in the leasing market and achieve revenues from the process of transporting exported oil, some state oil tanker companies Al-Arabiya and other oil-producing countries neighboring Iraq prefer diversification in owning multiple sizes of tankers, as well as diversifying the lease contracts if required.

## International Shipping Agreements

### F.O.B (Free On Board) Transfer

It is a pricing condition that indicates that the price includes the price of the shipment loaded on the board of the tanker at the agreed port of loading. And the dangers that may befall the shipment from crossing the ship's rail (VESSEL'S rail).

**Transportation by C.I.F (Cost, Insurance & Freight) method:** It is a pricing condition that indicates that the price includes the cost of the shipment, insurance and transportation costs, and that the ownership of the shipment is transferred from the seller to the buyer from the time of the shipment. Responsibility until the shipment reaches the destination port chosen by the buyer (Port Destination).

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Therefore, the sale under (FOB) is in agreement with the sale by the CIF method) in that the transfer of ownership of the freight to the buyer takes place at the port of shipment, and the decisive difference between them is the point of determining responsibility and transferring responsibility from the seller to the buyer. The port of loading and the buyer is the one who chooses the carrier that transports his shipment. As for the CIF agreement, the seller is the one who chooses the carrier that transports the shipment and bears the costs and assumes the responsibility until the shipment reaches the port of destination chosen by the buyer in return for the latter's obligation to pay the agreed amount, which includes the price of the shipment, freight and insurance.

## Advantages of CIF Transfer

Several advantages can be achieved with the CIF method, including:

1. Shipping on the basis of CIF provides a job opportunity by leasing tankers owned or leased that are managed by national maritime companies to transport part of the exported oil quantities, which leads to the achievement of revenue for these companies, which has a positive impact on the budget of those companies in particular and on the budget the state in general.
2. The contracts concluded under the system (CIF) will lead to the optimal use of the tankers by reducing the lost time resulting from stopping those tankers waiting for a charter opportunity in light of the volatile and unstable market.
3. That the freight (CIF) allows the cargo carrier the opportunity to enter the global markets as a lessor as well as build a good reputation with customers in the international transport market.
4. Selling under the CIF system allows the seller to sell directly to the buyer without the need for traders and intermediaries, and this will save the seller commission costs, which are net amounts added to the revenues generated from this activity.
5. Selling according to the CIF system allows the conclusion of annual or semi-annual contracts with a fixed rate of price to avoid and protect the seller and the buyer from the huge booms, ups and downs, whether for the price of a barrel of exported oil or shipping prices.
6. The CIF method necessitates the occurrence of the responsibility of scheduling tankers at the ports of loading, and that providing scheduling can avoid the problems of delays in delivering the shipment at the

required time.

7. It can also be said that one of the main reasons for the establishment of a national marine fleet in a country and the transportation by CIF method is the amount of this fleet achieving a surplus in the balance of payments for this country compared to the costs of relying on foreign fleets and paying foreign currency to transport the same quantities of cargo.

In view of the advantages achieved by oil transportation on the basis of the CIF system, it has become necessary to support the Iraqi Oil Tanker Company by giving it an opportunity to transport part of the Iraqi exported crude oil with the aim of upgrading the company and enabling it to carry out the main activity for which it was founded, which is the transportation of crude oil and strengthening its position in the The global oil transport markets, as it is not reasonable to find the neighboring countries and the Gulf and Arab oil producing and exporting countries rushing to develop their naval fleets, support their national companies and give them priority to transfer their oil, and Iraq remains lagging behind in this field after it was at the forefront of the countries in the region. As we know that the oil-producing country, if it owns a number of oil tankers for use in transporting its crude oil from the shipping and export ports to the sales markets and according to the destinations of oil demand (Destination port), then it can control in one way or another the serial oil operations of the production Shipping, export, transport and marketing, in other words, be more capable and stable in the global oil markets.

As Iraq still owns (4) small-sized oil product tankers (Small Handy) with a total tonnage of (53) thousand tons only, while we find that the National Iranian Oil Company currently owns (64) tankers and its fleet includes the following categories (47) tankers Oil (VLCC)), (9) SUEZEMAX type tankers, (5) AFRAMAX type tankers, and (3) Handy type tankers. The fleet of the Kuwait Oil Tankers Company currently includes (24) tankers distributed in the following categories: (10) VLCC tankers, (10) oil product tankers, two liquefied gas tankers and two fuel tankers. As for the Saudi National Shipping Company (Bahri), its marine fleet includes (82) tankers according to the following categories: (46) VLCC tankers and (36) chemical and oil products tankers.

The Iranian Oil Tanker Company transported approximately (40%) of the exported Iranian crude oil through its tankers in 2018, while the Kuwait Oil Tanker Company leases its entire fleet to the Kuwait Petroleum Corporation for annual rental prices, even as it transported about 35% of the oil. Kuwaiti exported crude even recorded an operating rate of 98% for its entire fleet in 2017. As for the Saudi Oil Tanker Company (Bahri), it transports crude oil produced to Aramco at a rate of (15% - 30%) on a sale basis (CIF), and it is the only national carrier For Saudi Aramco.

These countries achieved huge revenues through the process of oil transportation on the basis of sale (CIF) in 2017, for example, the Saudi Oil Tanker Company (Bahri) achieved revenues of (1.208) billion dollars, while the Kuwait Oil Tankers Company achieved revenues of (417) Million dollars .

It is clear from the foregoing that Iraq loses a lot of money because it does not practice this activity, so it is necessary to plan to give the Iraqi Tanker Company a job opportunity to be able to transport part of the exported crude oil according to the CIF method at a rate of (15% - 30%) of the exported Iraqi crude oil and its support to rebuild the fleet of crude oil tankers.