Baghdad

Pakistani broker fuels Iraqi Kurdistan oil exports

Businessman helps fledging state to become a leading exporter

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Anjli Raval in London OCTOBER 30 2015

Few regions lamented the collapse in oil prices this year like Iraqi Kurdistan, where dwindling investment and irregular crude sales undermined long-held ambitions for independence from Baghdad and a do-or-die fight against Isis along its borders.

But over the past 18 months the fledgling state has emerged as a major oil exporter, propelled by the sale of hundreds of millions of barrels outside official channels using a shadowy network of fixers and businessmen to help fulfil the government's regional ambitions.

Helping to orchestrate these oil sales stands Pakistani oil broker Murtaza Lakhani, a one-time Glencore agent in Iraq, who has become the go-to fixer for the Kurdistan Regional Government that controls the semi-autonomous enclave in the country's north.

From arranging pipeline shipments into Turkey to liaising with international traders seeking to bypass Baghdad's attempts to block sales of Kurdish oil, Mr Lakhani's involvement has been vital in transforming piecemeal deliveries into an international enterprise.

"I get my hands dirty," the 53-year-old said in London, where he splits his time with Erbil and Vancouver.

"I've been in the Iraq region for 16 years and in Kurdistan long before anyone else. I'm keeping the KRG's oil sales business operationally running."

Mr Lakhani's contacts were cemented years before Iraqi Kurdistan began exporting almost 500,000 barrels a day, up from almost zero at the start of last year. After setting up base in the regional capital of Erbil just months following the 2003 US-led invasion, Mr Lakhani established himself as a one-stop-shop for those looking to exploit one of the world's last great untapped reserves of easy-to-access oil.

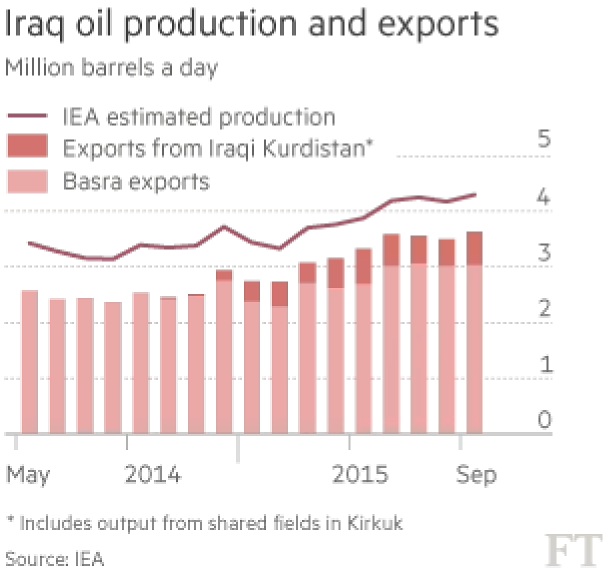
"Whatever you wanted, Murtaza was your man," said one government adviser.

Parties at Mr Lakhani's Erbil home were champagne-drenched affairs for those eager to get a foothold in the industry. Guests were served seafood flown in from Dubai and could view his Salvador Dalí artwork.

Softly spoken and dressed in a two-toned shirt and sockless loafers, he described his upbringing.

Born in Karachi, he was raised in London before a change in fortune took him to Vancouver. "I made something out of myself from nothing. I started out cleaning the sulphur docks of Canada," he said.

Mr Lakhani's family was close to the powerful Bhutto clan in Pakistan and Marc Rich, the swashbuckling oil trader who founded the company that ultimately became Glencore.



As Glencore's "man in Baghdad" in the early 2000s, Mr Lakhani was involved in the complex scheme to acquire Iraqi oil by gaming restrictions imposed by the UN's oil-for-food programme after the first Gulf war. But neither he nor Glencore were charged with any violations.

Designed to allow Baghdad to acquire food and medicine at a time of international sanctions, Iraq began generating hundreds of millions of dollars in illicit income by requiring buyers of crude to pay "surcharges".

Mr Lakhani disclosed to the Independent Inquiry Committee investigating the programme, that he received healthy commissions for payments on behalf of the trader. Glencore said the investigation was closed "due to no evidence of wrongdoing on Glencore's side".

Since May 2014, when the KRG started moving large-scale oil shipments via pipelines through Turkey, Mr Lakhani has had a contract with the Ministry of Natural Resources to help run its logistics operations.

This mostly involves managing the crude oil-loading schedule from the Turkish port of Ceyhan, monitoring storage tanks and liaising with shipowners, inspectors, the ministry and Turkey's state pipeline and trading company. He is described by corporate investigators as an influential adviser to Ashti Hawrami, the head of the Natural Resources ministry.

Amid the budget crisis in Erbil, Mr Lakhani claims his annual fee of $1m has been reduced to $250,000 for a job he jokingly describes as "a glorified port agent". Like many companies operating in the region, Mr Lakhani said he is awaiting payment.

But as the KRG faces a budget crisis and political fissures intensify, the ruling Kurdistan Democratic party has been criticised by rival politicians and energy sector executives for the opacity around oil revenues. This has brought scrutiny upon Mr Lakhani's role.

"There are speculations of Murtaza's involvement with these [oil] deals, and he is known to have business links to the leadership of the [ruling] KDP," said Ali Hama Salih, an opposition member of parliament who sits on the oil and gas committee. "We are adamant to work for better transparency."

The KDP has alleged Mr Salih has sought personal gains from his oil industry connections, a charge that he denies.

Although Mr Lakhani says he has in the past represented the ministry in a joint venture with foreign companies, he has no current business links with the ruling KDP. Since 2006 he has had a company that provides equipment storage facilities for international majors operating in the region, which is his priority, he says.

"I have a lot of money and time invested in my business. This is why I'm advising the government," he said.

KRG officials say they can account for every oil dollar received and say individuals such as Mr Lakhani are necessary when trying to quickly establish an international business.

A breakdown in relations with Baghdad, which deems the KRG's oil sales illegal and has threatened legal action against buyers, explains the lack of transparency, KRG officials say.

Last year, Baghdad withheld funds from the national budget after the dispute over oil export rights, leaving the KRG reliant on crude revenues to fund civil servant salaries and its Peshmerga army.

“We are fighting a war with IS while enduring an economic war against Kurdistan Region started by Baghdad,” said one KRG official. “Our priority is to get oil out and generate revenues to pay our people and fight terror.”

Mr Lakhani said he has met with the big international oil traders, including Vitol and Trafigura who are assisting the KRG with the sales, directly or through brokers. But he said all contract negotiations are handled by the resources ministry.

“How these guys get paid, what price is set for the oil, this is not up to me,” he said. “I get the copy of the contract and then get asked by the [ministry]: ‘Is this [logistically] possible?’”

Mr Lakhani maintains he “has no particular influence” over Mr Hawrami, but says he interacts daily with the ministry’s trade counsellor and has vetoed deals in the past.

“I’m vital to this operation today, but things change,” said Mr Lakhani, who prefers the term “consultant” to middleman. “In six to seven months the KRG will not need me any more, once things stabilise and they build their own logistics department.”

He added: “I’m trying to get to Iran next.”

Additional reporting by David Sheppard