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ERBIL, BAGHDAD, ANKARA AND WASHINGTON: THE COMPLEX POLITICS OF KURDISH OIL

Oil in the Kurdish region of Iraq is attracting the interest of major oil companies and complicating the politics of the region by exacerbating existing sectarian and ethnic tensions. Iraq's vast oil reserves gives its long-suffering citizens the opportunity to recover from the effects of the American invasion and ensuing civil war, but it could also be the catalyst for further internal quarrels and strife as well as external tensions.

At 143 billion barrels, Iraq's proven oil reserves are the third largest in the world. It also has probable reserves in the order of 214 billion barrels. In addition it has huge gas reserves. It is seeking to more than double its oil output by 2015, thus overtaking Iran as OPEC's second largest producer by the end of the year as sanctions continue to hobble crude production in its Persian Gulf neighbor.

About 70 percent of Iraq's oil reserves are concentrated in the southern Iraqi oil fields with 20-25 percent in the north (ANNEX C). While it has fewer resources than the south, the northern region of Iraq, mostly under the control of the Kurdistan Regional Government (KRG) with Erbil as its capital, is hydrocarbon-rich with estimated reserves of 45 billion barrels of oil. The level of daily oil exports from the region in 2011 was 100,000 barrels but the KRG has set an ambitious daily oil production goal of one million barrels for 2015.

The world's biggest oil companies are always eager for new sources and, led by ExxonMobil and Chevron, a number of them have signed exploration and production contracts with the KRG. This has angered the Iraqi central government, which claims that the KRG has no right to make such deals according to the Iraqi constitution. The dispute between Erbil and Baghdad on this important issue seems set to continue and has the potential to escalate into a major dispute with serious implications for Ankara and Washington.

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ERBIL

Massoud Barzani, the President of the KRG, has defined the main parameters of Kurdish policy on the oil and gas resources in northern Iraq. After noting that the passage of the Kurdistan Oil and Gas Law in 2007 was a crucial step for the region and Iraq, he said “Our law is, in full harmony with the Iraq’s federal constitution, creating an investment friendly and transparent legal framework for the oil industry in Kurdistan.” He further emphasized that the law was a constitutionally valid statute, endorsed and ratified by a democratically elected legislative body, recognized in the country’s federal constitution. Barzani referred to Article 111 of the Iraqi Constitution which states that “oil and gas are owned by all the people of Iraq in all the regions and governorates.” He also cited Article 115 which states that “all powers that are not exclusively federal competences belong to the regions, and that where competences are shared and there is a clash, then the regional laws prevail.” In his view, article 115 allocates any power which is not reserved exclusively for the federal government to the regional or governorate governments, and gives priority to regional or governorate laws where there are jurisdictional disputes over power-sharing.

His nephew, Nechirvan Barzani, Prime Minister of the KRG, commented: “Of course, there are some tensions between the KRG and certain officials in Baghdad who think that only they have the right to control and manage oil and gas. But the federal constitution says otherwise. After 2005, we spent much effort in trying to agree on a federal hydrocarbons law, but this has proved elusive. Our people demand that we press on development. We passed our own hydrocarbons law in 2007. This was our undoubted right, fully in line with the constitution, and I am very happy with the results so far.” KRG Natural Resources Minister Ashti Hawrami followed up by confirming the Iraqi Kurds’ intention build pipelines to the Turkish border to export their oil “even if there is no consensus with Baghdad.”

It is clear that hydrocarbon resources are seen by the leaders of the KRG as the key element in buttressing their autonomy and perhaps laying the foundations for eventual independence, if and when they choose to exercise that option. If the KRG is able to demonstrate de facto sovereignty over the exploitation of its resources and if that sovereignty is respected, implicitly or explicitly, by external actors – states and companies alike – it would immeasurably strengthen the KRG vis-à-vis the Iraqi central government.

BAGHDAD

Understandably, Iraqi Prime Minister Nouri al-Maliki has shown little tolerance for actions that would take the management of the oil resources of northern Iraq out of his control. Not only would this substantially decrease the pool of resources available for the rest of Iraq, it could also hasten the disintegration of his fragile state.

In October 2011 Iraq’s Deputy Prime Minister Hussein al Shahristani warned that oil contracts signed by the KRG had to be rewritten. “The contracts as they stand will have to be presented to the government and brought into line with our other contracts”. However, the direct negotiations between the KRG and ExxonMobil led to a deal just a week later on six oil and gas tracts in northern Iraq, one of which was in the disputed region around Kirkuk. Baghdad promptly escalated its campaign on this issue. Iraqi Oil Minister Abdul Karim Luaibi reiterated that the Kurds could not undertake independent negotiations with foreign oil companies. He then threatened to exclude ExxonMobil from the next round of bidding for new oil and gas fields if the company did not cancel its deal while demanding that ExxonMobil decide between working in southern Iraq on the West Qurna Phase 1 and Iraqi Kurdistan. Shahristani added that deals concluded without consulting the central government were not valid.

Maliki then revealed that he met with ExxonMobil during his visit to Washington for a meeting with President Obama in December 2011. As he flew back to Iraq, he said “We had a meeting with Exxon in Washington and we discussed the contracts, some of which are located in disputed areas. They promised to reconsider their decision.” However, in February 2012 ExxonMobil confirmed its agreement with the KRG. Although, the Iraqi Oil Ministry retaliated by proceeding to remove ExxonMobil from the list of qualified international bidders for the country’s fourth energy licensing auction, the American giant’s example was followed by Total and GazpromNeft as well as Chevron.

On 23 July 2012, Iraqi army units were deployed in a show of force at the Rabia border crossing with Syria in northern Iraq. In response, the KRG sent a force of peshmerga who barred the Iraqi troops from access to the border area after a tense stand-off between the two forces. Maliki accused the KRG of “violating the constitution” by not yielding control of the border post to the Iraqi army. Just like the management of hydrocarbon resources, Maliki said that “protecting the sovereignty of the country and its borders is exclusive to the central government, not to regional or provincial governments.”

The incident was important not only because the Rabia border post is adjacent to areas of northern Syria which have fallen under the control of Syrian Kurds but also because it is located in the Nineveh governorate, home to one of the oil fields included in the KRG-ExxonMobil deal. Atheel al-Nujaifi, governor of Nineveh, warned that it had to be part of any deal and claimed the same rights as the KRG. Since his comments, the situation has become even more complex as the oil-rich province of Basra announced that it might also seek to become a federal region and semi-autonomous from the central government in Baghdad along the lines of the KRG.

For Baghdad, the fight is obviously about much more than oil or even Kurdish autonomy. If the central government cannot ensure some degree of authority over northern resources, other regions may well follow the Kurdish model leading to a greatly weakened Iraqi state and even partition. Consequently, the escalating dispute with the KRG is both a key element of, and a proxy for the broader political battle over the county’s unity and the authority of the central government.

WASHINGTON

The Obama administration, which has inevitably been dragged into the issue, is caught between its desire to secure Iraq’s stability and unity by supporting Maliki and its close relationship with the Iraqi Kurds.

Having opposed the Iraq war as a candidate and committed himself to withdrawal as president, Obama had invited Maliki to Washington just before the 31 December 2011 deadline for all American soldiers to leave of Iraq. In June, Maliki sent a letter to Obama asking him to prevent ExxonMobil from proceeding with its deal with the KRG and warning that the company’s actions would have dire consequences for the Iraq’s stability. On July 19, 2012, Maliki revealed that he had received a reply in which he claimed that Obama had acknowledged Baghdad’s concerns over the ExxonMobil deal while reaffirming respect for the Iraqi Constitution and its laws. However, the statement was made just as Chevron, a second major US oil company, was confirming its purchase of a majority share in two oilfields in the KRG.

While the White House has declined to comment on the content of Obama’s response, it has provided an insight into Washington’s discomfort with the current impasse. “We advise American energy companies doing business in Iraq to consider the legal risks involved in signing deals with a region, against Baghdad’s wishes, and are concerned that such deals could be destabilizing,” a senior administration official commented. However, he coupled this comment supportive of Maliki by saying: “That said, in our economic system, private companies make their own business decisions, largely beyond the reach of government control."

ANKARA

On 21 May 2012, Turkish Energy Minister Taner Yıldız and Hawrami jointly announced in Erbil that a one million barrel-a-day capacity oil pipeline would be built to carry Kurdish oil to Turkey by August 2013. Immediately afterwards, Maliki's adviser Ali Moussawi, stated that "any deal had to abide by the constitution and laws that govern relations between Baghdad and the Kurdish north." Following a specific warning by Shahristani, Baghdad then cut diesel supplies to power generators in the KRG. Erbil responded by proceeding with a deal with Ankara involving the refining of its crude oil in Turkey in return for diesel. Iraqi government spokesman Ali Dabbagh branded the transaction as "illegal and illegitimate" on the grounds that oil and gas were "the property of all Iraqis." In fact, long before this deal, Turkey's Genel Energy was one of the first foreign oil companies to begin operations in the KRG and had emerged as one of the main players in the region. The company's profile in northern Iraq increased after its merger in 2011 with the British firm Vallares, headed by former BP CEO Tony Hayward.

The oil dispute has exacerbated existing tensions between Ankara and Baghdad on a range of issues. On 17 July 2012, Iraq warned Turkey against violating Iraqi airspace and territory as Maliki issued a warning to neighboring countries stating that Iraq would not remain silent in the event that a neighboring state violates Iraqi airspace. Maliki has also expressed resentment over the fact that Turkey was sheltering fugitive Vice-President Tariq al-Hashemi, the most senior Sunni Arab politician in Iraq, who had escaped to Erbil after having been accused by Maliki of financing death squads. Baghdad's Shia controlled government has been accusing Ankara of "fanning sectarianism in Iraq by supporting the country's Sunnis" and threatening to cut trade with Turkey. The visit of Turkish Foreign Minister Ahmet Davutoğlu to Kirkuk on 2 August, following a visit to Erbil, has increased tensions. The Iraqi Foreign Ministry issued a statement claiming that Davutoğlu's visit to Kirkuk was "not appropriate" and constituted "interference in the internal affairs of Iraq."

LOOKING AHEAD

Tension is rising in the Erbil-Baghdad-Ankara triangle and political disagreements are being heightened by disputes over energy resources. The legal aspect of the issue is already complex, and will become even more so as the oil rush in the KRG is increasingly internationalized. While the dispute between Erbil and Baghdad should be resolved by normal parliamentary or judicial action, given the stakes involved and international interest in the outcome, a solution is unfortunately not in sight. The entry of American firms into the KRG has created an additional challenge for Washington and threatens to undermine the Obama Administration's efforts to maintain stability in Iraq prior to the American presidential election in November. Given the already volatile state of the region, a new conflict in the Middle East is the last thing that anyone should want.

APPENDIX A

MAP OF KURDISTAN REGIONAL GOVERNMENT

Source: National Geographic

APPENDIX B

MAP OF KRG OIL AND GAS CONCESSIONS WITH LEAD OPERATORS

This map has been adapted by the International Crisis Group from a map made available by the U.S. Government. It is a modified version of a similar map appearing in Crisis Group Middle East Report N°88, *Iraq and the Kurds: Trouble Along the Trigger Line* (8 July 2009). Oil concession boundaries and lead operators with contracts with the KRG as of April 2012 have been added. The location of all features is approximate.

Source: ICG, Map of KRG Oil and Gas Concessions with Lead Operators, and Green Line;" Iraq and the Kurds: The High-Stakes Hydrocarbons Gambit", Middle East Report N 120- 19 April 2012

APPENDIX C

OIL FIELD AND FACILITIES

Source: KRG Ministry of Natural Resources Production Sharing Contracts