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IRAQI KURDISTAN'S OIL ODYSSEY

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One century ago, the victorious imperial powers in World War I drew borders on sands of West Asia and the modern state of Iraq was founded. Six years later, the fate of Kurds was also decided as the League of Nations appended some Kurdish areas to Iraq (Cook, 2014)[1].Since then, Kurds in Iraq exist as a nation within a nation.

Kurds – an ethnic group culturally aligned with Arabs and religiously similar to Sunni Muslims– are a crucial part of Iraq's political makeup (Izady, 1993). The semi-autonomous province of Iraqi Kurdistan [2] has been at loggerheads with the central government for an independent identity. The latest manifestation of Erbil's conflict with Baghdad is country's richest natural resource – Oil.

With 143.1 billion barrels of proven oil reserves, Iraq has the world's fifth largest proven oil reserves (British Petroleum, 2016) and Kurdistan region alone holds 45 billion barrels of oil reserves[3] (Kurdistan Board of Investment, 2012; Ministry of Natural Resources, 2013).Banking on its oil wealth, the Kurdistan Regional Government (KRG) has adopted an increasingly unilateral approach in managing its oil reserves, surpassing Baghdad since 2013. These developments led scholars to view Kurdistan's oil trade as an "economic platform from which an independent Kurdish state could potentially be launched" (Klich, 2014, p. 62, Hacauglu, 2014).

From investment to trade: 2003-2013

On the eve of the US invasion in 2003, Kurdish region was a virgin territory. The ensuing violence in central and Southern Iraq pushed investors northwards in the relatively stable Kurdish areas. In June 2004, Oslo-based DNO (Det Norske Oljeselskap) was the first international oil company to start exploration in Kurdistan region and after the first oil drill in Tawke-1 oil field in 2005, the KRG started courting international companies, which worried Baghdad (Wikileaks, 2006; Reed, 2012).While Kurdish provinces were becoming the geographical epicentre of investments, the ultimate authority over Kurdish oil deals remained with the central government in principle. In 2007, the president of the region – Masoud Barzani threatened that the KRG would keep for itself revenues from the extracted oil because "they [Baghdad] often use it [oil revenue] against us [the Kurds]" (Baker, 2009). Even though revenue sharing continued to be a major irritant in Erbil-Baghdad relations, investments were not seen as a major threat. Baghdad's threat perception changed when KRG started striking independent oil export deals with foreign governments, without consulting the central government.

Iran, Turkey and KRG oil nexus

In 2013, Kurdistan Regional Government (KRG) started independent oil export deals with sanction-hit Iran (which has been seeking new partnerships in the neighbourhood to revive its fractured economy). In 2013, KRG started trucking crude from Kurdish fields to Iran's Bandar Imam Khomeini (BIK) export terminal and the three border gates of Haji Umran, Bashamakh and Broyzkhan were the main land routes to transport oil (Shafaaq, 2014).While Erbil acknowledges its dealings with Iran (Iraq Business News, 2013), the latter officially denies any claim of Kurdish oil being "smuggled" into Iran (Rudaw, 2014). Lately, in a meeting between KRG's Ministry of Natural Resources and Iran's Ministry of Oil in March 2016, a new pipeline-plan was discussed (Mawji, 2016; Rudaw, 2016b; Mamouri, 2017). However, in January Iran proposed to involve Baghdad in the pipeline deliberations. Thus, while Iran has been an important part of KRG's oil equation, Iran's loyalty towards KRG remains questionable.

In 2014, KRG's northern conduit for oil trade also got activated through TaqTaq-Khurmala-Fish Khabur pipeline that connects the Taq Taq oil field in Kirkuk to the entry point for the Kirkuk-Ceyhan pipeline (Turkey). With 6,00,000 barrels oil per day (bopd) flowing to Ceyhan from Iraq's Kurdish areas, this pipeline has been the main functional source of export for Kurdish oil and Turkey's state-owned Halkbank manages the financial transactions(Unal, 2014). However, Turkey's support for the Kurdish community in Iraq was ironic, given its internal resistance against Kurds. There can be two possible explanations for Turkey's behaviour:

Firstly, this partnership ensures easy movement of low priced Kurdish oil to oil deprived Turkey. KRG's use of (oil) price discounts gave Turkey a reason to consider controversial oil dealings. Kurds lowered the oil price to USD 56 per barrel (pb) in June 2014 against market price of USD 112 pb (Hacaoglu et al, 2014). However, when market prices plummeted to USD 31 per barrel in December 2015, KRG's economic health deteriorated and in the face of mounting debts, KRG offered to sell its oil fields to Turkey for USD 5 billion (without Baghdad's consent) (Ekurd Daily, 2016).

Secondly, Turkey is aware that landlocked Kurdish regions must depend on Turkish infrastructure for economic sustenance (95 per cent budget is based on oil revenues). This suggests that by becoming an irreplaceable stakeholder in Kurdistan's economic development, Ankara perhaps aims to check KRG's political support to Turkish Kurds. Thus Turkey is buying both Kurdish oil and Kurdish assurance in return for its economic aid.

Conclusion:

In the words of Maria van der Hoeven, executive director of the International Energy Agency, "...the upside of easy oil (from Kurdistan) outweighs the risks of upsetting Baghdad, for large and smaller producers alike." (Swint, 2013) This was true for a long time when investors from across the globe rushed towards KRG, including India's Reliance Industries which signed production sharing contracts covering Rovi and Sarta blocks in 2007 and divested in 2012,owing to pressure from Baghdad (Kurdistan Regional Government, 2007; Smith, 2009; Bhadrakumar, 2012; Petzet, 2012).Thus, while KRG has succeeded in striking deals in its neighbourhood and attracting foreign investments, with falling oil prices, changing geopolitical interests and dwindling loyalties, Iraqi Kurdistan's dream of economic independence seems to be a mirage.

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Notes

[1]Besides Iraq, Kurds are scattered across Turkey (15 million), Iran (10 million) and Syria (3 million). Fondation-Institutkurde de Paris (2016)

[2]According to KRG official website Iraq has 3-5.2 million Kurds. However, according to Fondation-Institutkurde de Paris report (2016), Iraq has 8 million Kurds.

Iraqi Kurdistan comprises less than a tenth of Iraq's territory and includes three provinces, namely, Erbil (capital), Dohuk and Sulaymaniyah

[3] According to International Energy Agency (2012, p. 53), the Iraqi Kurdistan Region has 4 billion barrels of proved reserves, while The KRG estimates that it holds 45 billion barrels