



Iraq Oil & Gas Production: Geopolitical Compromises and Kurdish Autonomy

Posted by [Robert Rapier](#) on January 15, 2010 - 9:15am

Topic: [Supply/Production](#)

Tags: [geopolitics](#), [globalization](#), [guest post](#), [iraq](#), [kurdistan](#) [[list all tags](#)]

The following guest essay is by [Kevin Kane](#). Kevin is a market analyst, economist, Asia political affairs strategist, and Korean language linguist living in Seoul, South Korea. Kevin previously published [American Freedom from Oil: A Bipartisan Pipedream](#).

As Royal Dutch Shell and other *majors* increase their investments in Iraq, some oil market analysts argue that Iraq could export over 12 mb/d (million barrels per day) within a decade, significantly shifting global production closer to 100 mb/d from the present 83.5 mb/d inventory supply. Are Iraqi oil production estimates too ambitious or perhaps, not optimistic enough?

The northern Kurdish-governed territory of Iraq situated between Iran, Turkey, and Arab-Iraq is of particular importance to these expected Iraqi oil production estimates. The Kurdistan Regional Government (KRG) publicly claims to possess oil reserves greater than half the cumulative value of all the oil reserves within the Organization of Economic Cooperation and Development (OECD) community. Kurdish-Iraqi production may reach 250,000 b/d by the middle of this year and up to one mb/d before 2012.

As American forces draw down as a part of the U.S. exit strategy, many oil and gas uncertainties remain. Specifically, the KRG possess few incentives to accurately report *proved* reserves or encourage oil investment while the U.S. hands over political and military control to the Iraqi people—meaning that Kurdish-Iraq could possess even greater reserves than publicly stated.

Kurdistan Sovereignty over Oil Reserves

When some in the U.S. were encouraging partitioning Iraq several years ago, one could only imagine that the Iraqi-Kurds were not exactly disappointed at the prospect of having sovereign control over the future of their nation, including its oil reserves. Thus, one would be rational to assume that many Iraqi-Kurds had little intention and few incentives to cooperate with the Iraqi Central Government after liberation in 2003 from Saddam Hussein's control of Kurdish territory Iraq.

After 2003, 7.5 million Iraqi-Kurds immediately secured their own perimeter within Iraq and set up a visa system requiring Arab-Iraqis to obtain permission to enter KRG-governed territory. The KRG then asserted themselves as an autonomous international power by establishing diplomatic channels with a number of countries including the US, UK, Germany, France, Russia, and Italy via consulates and representative offices independent of Baghdad. The KRG simultaneously took control of their oil fields and signed Exploration and Production (E&P)

contracts with Hunt Oil, Det Norske Oljeselskap AS, SK Energy, and countless other oil companies to explore, develop, produce, and export oil without intending to share profits with the Iraqi Central Government.

The KRG only began to take a real interest in working with the Iraqi Central Government after the U.S. started to focus on stabilizing Iraq, which included the surge as well as encouraging sectarian cooperation and parliamentary coherence. Following the success of the U.S. troop surge in 2007 and the stabilization of Iraq's political affairs in 2008, the Iraqi Central Government, now more organized and confident, ruled in June 2009 that all foreign investment oil contracts made directly with the KRG are illegal.

The Iraqi Central Government now takes 83% of all oil export revenue from Kurdish territory. Because the U.S. is drawing down its forces and turning internal conflict matters over to Iraq, the world should expect the KRG to ignore central government authority and revenue-sharing agreements after the U.S. is gone.

Once the Iraqi Central Government is unable to enforce their legal authority over the KRG after the U.S. exits Iraq, the KRG will likely encourage more *wildcat* drilling, draw soil samples, and collect the data necessary to potentially transition reserve classifications from *possible* and *probable* to *proved* reserves (U.S. Reserve Classification System). The Iraqi-Kurds will then both claim all, or most, of the potential oil profits and potentially increase their commercially recoverable *proved* reserves estimates.

Geopolitics, Intervention, and Energy Supply Compromises

Some analysts argue that the official establishment of a Kurdistan state could create a domino for anywhere from 21 to 28 million other Kurds to stand up and demand autonomy in Kurdish-dominated regions across the Middle East. Therefore, these analysts argue that Turkey and Iran might take military action to prevent the KRG from asserting autonomy over Kurdish territory in Iraq in order to prevent the dominos from falling. However, it is unlikely Turkey and Iran would undertake such military action for fear of a blowback from Kurds within their own border regions, an outcome that would only emboldened regional Kurdish solidarity. What is more, Turkey and Iran would also be wary of taking responsibility for nation building in Iraq given the very costly U.S. experience. Thus, it is unlikely any outside forces will forcefully intervene in the Kurdish pursuit of sovereign control over northern Iraq.

Moving past the domino fear, economics proves to be the true ruler of Kurdish regional relations. Insofar, Turkey and Iran appear to prioritize investment over fear of this domino theory as both countries continue to send millions of dollars in Foreign Direct Investment (FDI) into Kurdish-Iraq due the neo-liberal nature of the KRG's economy. In fact, in June 2009, a Turkish oil company investing in Kurdish-Iraq began exporting 40,000 b/d of oil back to Turkey through an agreement with the KRG: an estimated one billion dollars worth of oil per year at \$80 per barrel.

In addition to potentially becoming a significant oil import source for Turkey and the rest of the Western world, the KRG also controls strategically located natural gas reserves that could become increasingly valuable to Europe's diversification strategy. With almost 89% of Iraq's natural gas reserves within Kurdish territory—an estimated 2.83 Trillion Cubic Meters (TCM)—the European Union will likely pressure Turkey to work with the KRG—even should it become sovereign—to bring this gas to European consumers.

The KRG may be able to support some of Europe's greater strategic needs to diversify their gas import sources and supply their fastest growing energy input source—natural gas—over the next

two to three decades, particularly due to the increasing use of combined cycle gas turbines to generate electricity. Thus, if the KRG asserts itself as a sovereign country by ignoring Iraqi Central Government authority, Turkey will not cease oil and gas imports from Kurdish-Iraq out of fear of a Kurdish autonomy domino theory, whether this be by dint of personal economic interest or foreign pressure. In fact, such an outcome may induce Turkish leaders to work more closely to resolve internal conflicts with Kurds living in Turkey.

With foreign investment coming into the KRG from all over the world, these nations are sending a subtle message to the KRG: "Our governments prioritize economic development and energy security over politics." Although regional leaders make speeches discouraging a sovereign Kurdish-Iraq, their investment actions juxtapose their rhetoric, particularly in the case of Turkey. More important than the words in a leader's speeches are the measurable actions of their government.

Kurdish Nationalism, Oil, and Power

Like Israel after 1945, the KRG have not wasted anytime to ensure they are powerful enough to never be dominated by an occupying culture or military force, including by Arab-Iraqis that once forced on Kurds their language, culture, and rule of law. The Iraqi-Kurds are securing support from the international business community, tapping into economic integration, organizing a loyal and professional military, and developing close ties with liberal nations that prioritize development over ideology.

While Kurdish-Iraq could hold one of the keys to increasing or decreasing the expected Iraqi oil production over the next 10 years, we must remember that asking the Kurds in northern Iraq to remain unified with the rest of Iraq would be like asking Koreans after 1945 to remain unified with their previous Japanese occupiers. Thus, Iraq will not be unified should the Iraqi-Kurds have their day to decide for themselves, and that day may be coming soon.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](http://creativecommons.org/licenses/by-sa/3.0/).