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# Iraq: Here's how Kurdistan will play its cards

## FULL BRIEFING

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While the lightning assault of the Islamic State of Iraq and the Levant (ISIS) in northern Iraq might eventually lead to the creation of a looser federation of Iraqi states or even the breakup of the country, in the short term it creates an opportunity for the Kurdish Regional Government (KRG) to expand its territory over disputed areas, cement its energy independence, and increase its budgetary autonomy.

### Territorial expansion

On June 26, Masoud Barzani, the president of Iraq's Kurdistan region, said the KRG would "protect Kirkuk," which harbors the Kirkuk oil field that once accounted for the bulk of northern Iraq's crude exports, and make the city "an example of coexistence." Mr. Barzani's words came just days after US Secretary of State John Kerry traveled to Erbil for talks with Kurdish officials.

"The boundaries have changed and almost all disputed areas that were under federal rule are now under Kurdish control," Jamal Ameen, a senior adviser to the KRG's Minister of Planning, tells Monitor Global Outlook. "Baghdad must accept those realities."

Since the start of ISIS' offensive against Iraq and the fall of the country's second-largest city, Mosul, the KRG has been under severe pressure from both the United States and Iran to actively engage against ISIS militants, according to analysts based in the region.

## SIGNIFICANCE

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As Iraq's central government continues to struggle in its fight against ISIS jihadists, the Kurdistan Regional Government (KRG) will cement its hold over oil-rich Kirkuk and look to expand its share and control over Kurdish oil revenues. A demand for reparations, in exchange for damages suffered by Iraqi Kurds in the years preceding Saddam Hussein's 2003 overthrow, will most likely play a role in future KRG negotiations for more oil money from Baghdad.

## IMPACTS

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**Business** The KRG will continue to boost its independent oil sales to gain leverage in future negotiations with Baghdad.

**Political** The KRG needs Baghdad's cooperation in order to be able to export oil from Kirkuk.

**Social** The KRG will have to strike a delicate balance in some of the disputed areas

However, the Kurdish peshmerga forces, which are officially part of the national Iraqi army, have maintained a defensive posture. While they have vowed to protect KRG-administered regions, as well as Kirkuk, they have not actively joined the rest of Iraq's military in the fight against ISIS.

it has taken over to avoid alienating local Sunni communities.

Instead, the KRG has focused inward, looking to cement its hold over Kirkuk and any associated pipelines and energy facilities. "The Peshmarga forces [will remain and protect] the areas that are currently under their control. They will not retreat to pre-Mosul lines," says Mr. Ameen. **Energy independence**

Key to the KRG's plans to strengthen its economic independence are oil exports it began to sell independently in May. Baghdad, which says Iraq's central government must maintain control over all oil revenue, has equated the sales to "smuggling" and filed a lawsuit against the Turkish government, which has received, stored, and allowed shipments of the KRG's oil since February.

"The KRG needed to prove to the world that its energy industry ... can produce, export, and monetize its oil. With [these sales], the KRG has passed a milestone," says Bilal Wahab, a specialist in Iraqi energy policy with the American University of Iraq, Sulaimani. "The Kurds are creating facts on the ground that will be very hard to roll back."

The KRG is currently pumping 120,000 barrels of crude a day to the Turkish port of Ceyhan, with an additional 100,000 barrels a day trucked through Iran and Turkey, according to Mr. Wahab.

Israel accepted delivery of oil from Iraqi Kurdistan on June 20, Reuters reported. The KRG received about \$100 million for the sale, government officials said June 23.

The same day, Turkey's Energy Minister Taner Yldz said the KRG had transported and sold three crude shipments via Turkey's Ceyhan pipeline, with a fourth oil shipment being prepared for transport. An estimated \$93 million has been deposited in KRG-held accounts at Turkey's Halkbank as partial payment for the first 1 million barrels sold, according to Turkish media reports.

The new revenues will allow the Kurdish government to replenish its budget and pay a backlog of public salaries it hadn't been able to pay since January, after Baghdad reduced fiscal transfers to the KRG as punishment for trying to export oil outside of Iraq's purview.

### **Budgetary autonomy**

With Iraq's military in disarray and Iraqi Prime Minister Nouri al-Maliki's government at its weakest, analysts say the KRG will not only keep boosting its oil exports but also insist on controlling payments for those sales.

Under current Iraqi law, Kurdish oil revenues should flow to central government coffers before a portion of them is allocated back to the KRG. The constitution limits Kurdistan's share of fiscal transfers from Baghdad, whose budget is made up almost entirely by oil revenues, to 17 percent.

Erbil is likely to demand the ability to both receive funds for its oil sales directly and retain a higher portion of those revenues before remitting the rest to Baghdad. It does not intend, however, to challenge the entire arrangement and seek to keep 100 percent of its oil revenues.

The KRG needs Baghdad's collaboration in order to export Kirkuk's oil through its own pipeline network, since Kirkuk production and shipping contracts were signed with Baghdad. The two have been holding talks on the issue since March, after the 600,000 barrels-per-day Kirkuk pipeline went offline due to repeated attacks, Wahab tells MGO.

In order to push the central government on budgetary issues, the KRG is also likely to use a demand for Kuwait-style reparations, according to Wahab. Currently, Iraq remits 5 percent of its oil revenues to Kuwait in reparation for damages inflicted during the first Gulf War.

A Kurdish government report, which received little attention when first released last July, estimates Kurdish areas suffered roughly \$385 billion in damages between 1923 and the ousting of Mr. Hussein in 2003. Erbil will probably ask to retain 17 percent of oil revenues plus reparations, Wahab says.

"Especially with Kurdish control of the Kirkuk oilfields and the [associated] pipeline, it is quite possible the tables will be reversed. The KRG now has the upper hand vis-a-vis Baghdad when it comes to oil," Mr. Wahab tells MGO. "It's only a matter of time before these things become legalized. With Baghdad getting so weak, [the KRG's moves] have gained momentum."