MERIA

ASSESSING IRAQ'S OIL INDUSTRY

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This article provides an overview of Iraq's oil and gas industry, focusing in particular on its history since 2003 under the Coalition Provisional Authority and the sovereign Iraqi government. It also examines the relationship between the development of natural gas reserves and local autonomy, as well as the controversy surrounding ExxonMobil's dealings with the Kurdistan Regional Government. Finally, the article considers how the oil and gas industry relates to the wider economy both now and for the future.

INTRODUCTION

Contributing 60 percent of GDP, 99 percent of exports, and over 90 percent of government revenue, the oil industry is by far the most vital sector of the Iraqi economy, with proven petroleum reserves of 143 billion barrels and a potential to recover and refine a further 200 billion barrels.[1] The existence of substantial oil reserves in the area of Mesopotamia has been known since at least the end of the nineteenth century, with the monopoly of oil exploration and production originally lying in the hands of the Iraq Petroleum Company (IPC), which was owned by a consortium of foreign oil companies until the Ba'th government completely nationalized the IPC in 1972. It should be emphasized that since that time, the oil industry *has remained a state-run enterprise* in Iraq.

In the run-up to and in the aftermath of the U.S. invasion in March 2003, a common theory among critics of the war has been that the coalition forces invaded the country to take over its oil reserves. This speculation was fuelled in 2011 by a report in the *Independent* on UK government memos that had been obtained through a Freedom of Information request. According to this report, in October 2002, the petroleum firms BP, Shell, and BG had a meeting with Baroness Symons, who was Trade Minister in the British government at the time, and agreed to lobby the Bush administration on BP's behalf.[2]

BP officials also met with the Foreign Office the following month, discussing opportunities in Iraq "post regime change."[3] The meeting was summarized as follows: "Iraq is the big oil prospect. BP is desperate to get in there and anxious that political deals should not deny them the opportunity."[4] BP's concern in particular was that Washington would not annul the contract that the French company Total had signed with Saddam Hussein's regime, thereby allowing Total to become, in BP's view, the world's largest oil company.[5]

However, what those memos revealed was merely a self-evident truth: that foreign oil companies would naturally take an interest in developing Iraq's oil reserves. The idea of privatizing the oil industry was entertained among some quarters of the Bush administration, but this policy proposal was certainly not a consensus among government officials. In fact, it never became a matter of U.S. policy, even during the period of governance under the Coalition Provisional Authority (CPA), which lasted until June 2004. This was because the CPA under Paul Bremer justifiably feared that privatizing the oil industry would provoke resentment among the Iraqi population.

Furthermore, at an OPEC meeting on March 31, 2004, it was decided that global oil prices should be kept high by a 4 percent reduction in petroleum production. This equated to approximately one million barrels per day. As Daniel Pipes noted, "Not surprisingly, this Saudi-led step met with disapproval in Washington,"[6] but then Iraqi oil minister Ibrahim Bahr al-Ulum, who was representing occupied Iraq at the Vienna-based meeting, came out in favor of the OPEC initiative.[7]

It was not until August 2008 that the first oil deal was signed between the Iraqi government and a foreign company, in this case the China National Petroleum Corporation (CNPC), which is run by the Chinese government. As Joel Wing points out, this agreement was a reworking of a 1997 contract that Saddam had signed with the corporation and is to be classed as a "Technical Services Agreement," which entails a fixed payment to the corporation in addition to a set fee per barrel for every extra barrel of oil produced.[8] For this particular agreement, the fixed payment was $3 billion, and $3 per extra barrel.[9] These terms were intended to work to the government's advantage, and the fuel produced from the Ahdab oil field in Wasit province as part of this deal cannot be sold by the company, but must be used exclusively for domestic purposes.[10]

Yet there was an angry response in May 2009 from local farmers in Wasit, fearing that the government would confiscate their agricultural lands. Further, as one anonymous farmer told the news outlet *al-Zaman*, "The Chinese have entered our land without permission, and extended their cables. The work has destroyed our farms."[11] Thus, the farmers attacked the cables and pipelines the CNPC had extended over the farms, thereby preventing the Chinese from beginning work.[12] Eventually, the CNPC was able to resume activity on the Ahdab oil field.

The Iraqi government's deal with the CNPC should be understood in light of a wider trend toward economic cooperation between China and Iraq. For instance, in a visit to Shanghai in 2011, Iraqi Prime Minister Nouri al-Maliki affirmed that he was willing to invite more Chinese companies to Iraq to assist in reconstruction, "pointing to what he saw as China's advanced experience in technology and infrastructure building,"[13] especially as regards the construction of harbors, airports, and railways, inter alia. Among Iraqi politicians more generally, there is an appreciation for the fact that China not only forgave all Iraqi debt but also helped remove Iraq from the authority of Article 41 of the United Nations Charter, which had been invoked to impose economic sanctions on Iraq in the years prior to the removal of Saddam Hussein's regime.[14]

In any case, 2009 saw two rounds of bidding for the country's major oil fields among foreign companies. These corporations came from a wide variety of nations. For example, in October 2009, as part of the first round of bidding, it was agreed that a consortium of Eni (Italy), Occidental Petroleum (U.S.) and Korea Gas Corporation (South Korea) should work on the Zubayr Oil Field in the Basra area, which has oil reserves of approximately 6.5 billion barrels. As with the August 2008 deal with the CNPC, the terms were calculated to favor the Iraqi government, such that the remuneration fee was set at only $2 per barrel for extra oil production. Of the group managing the project, Eni controls almost 33 percent, Iraq's Missan Oil Company almost 25 percent, Occidental Petroleum 23 percent, and Korea Gas Corporation almost 19 percent.[15] In a similar vein, during the second round of bidding in December 2009, the giant Majnoon (Arabic for "mad/crazy") oil field with reserves of roughly 12.58 billion barrels was won by a joint venture, consisting of Anglo-Dutch Shell and PETRONAS, which is a Malaysian state-run oil and gas company, with a fee per barrel of just $1.39.[16]

The same year, BP won a joint venture contract with CNPC to develop the South Rumaila Oil Field in the Basra area, with estimated reserves of 17.8 billion barrels. The consortium is led by BP with a 38 percent share, followed by CNPC with a 37 percent share, and the State Oil Marketing Organization (SOMO)--representing the Iraqi government--with a 25 percent share. The aim is to nearly triple the oil field's output to around 2.85 million barrels a day by 2015.[17]

To accomplish this goal, BP and CNPC are to invest around $15 billion over the 20-year lifetime of the contract. It is notable that it took BP several years to get into Iraq, despite its lobbying efforts.

The rounds of bidding in 2009 and the involvement of foreign companies were big topics of discussion within Iraq itself. While it is not uncommon to find Iraqis who believe that the driving force behind the invasion was an American desire to control the country's oil reserves and that the contracts signed between the Iraqi government and foreign oil companies were the fulfillment of this objective, the fact is that by mid-2009, the country's oil industry was unable to expand any further, producing around 1.9 million barrels of oil per day with profits of around $4 billion a month.[18]

The oil capacity was already overstretched and required much investment just to maintain the levels of production at the time, something that could not be achieved without the know-how offered by foreign petroleum firms. Foreign investment though is not the same thing as privatizing the oil industry. In any event, it was only in January 2011 that export statistics reached their pre-2003 levels,[19] and even before the invasion, the United States and other Western countries were buying oil from Saddam's Iraq in spite of the economic sanctions. As Daniel Pipes noted, invading Iraq in the hope of controlling and profiting from the country's oil reserves amounts to financial absurdity.[20]

In short, therefore, the slogan of "No blood for oil!" which was widespread among critics of the U.S. invasion, overlooks what actually transpired in Iraq after 2003, wrongly assumes monolithic consensus among the Bush administration, and diverts attention from the real role that oil probably played behind the decisionmaking in the lead-up to the invasion: namely, that Saddam Hussein, through his alleged possession of WMDs, would in the long-term pose a threat to the free flow of oil through the Persian Gulf.

NATURAL GAS AND AUTONOMY

Besides the large oil reserves, Iraq is home to huge quantities of natural gas, with known reserves of around 110 trillion cubic feet and another 150 trillion cubic feet in probable reserves.[21] However, owing to a lack of development of the gas industry in Iraq, around 70 percent of the natural gas that has been recovered from oil fields during the process of extracting petroleum has gone to waste, amounting to losses of more than 874 million cubic feet per day.[22] This wastage through burning off the natural gas is known as "flaring," and is thought to cost the country around $5 million a day in lost fuel.[23]

It is also true, as Simon Bowers notes, that the "capture and use" of natural gas "in power stations has been billed as the answer to Iraq's domestic power shortages."[24] Indeed, since 2003, electricity generation and output have failed to keep up with exponential increase in demand. This surge in demand is partly due to the fact that import tariffs were lifted by the Coalition Provisional Authority, meaning that cheap consumer goods from Iran, Turkey, and China flooded the country.

Yet as for power generation itself, Dr. Nimrod Raphaeli has highlighted the massive extent of problems of corruption in the power sector. In 2011, the Ministry of Electricity signed a $1.2 billion contract with a Canadian company going by the name of CAPGENT, and a $650 million contract with a German company called Maschinerbrau Halberstadt.[25] Both of these firms turned out to be non-existent, and the execution of these contracts was only narrowly averted by Jawad Hashim, a resident of Vancouver who had been a minister of planning in Iraq during the early years of the Ba'th regime.[26] Even so, natural gas that is currently captured and transported by truck to local power stations is frequently stolen by people working in tandem with some officials in the Electricity Ministry, according to Ala'a Muhiddin, the Inspector General of the Ministry of Electricity.[27] The stealing of natural gas is thought to lead to losses of around 300-400 megawatts of electricity generation every day.[28]

In September 2008, Iraq's Oil Ministry entered into preliminary negotiations with

Royal Dutch Shell on capturing natural gas from the oil fields in Basra province. However, the negotiations came under criticism from a member of the Iraqi Parliament's Oil and Gas Committee, who saw any deal with Shell on natural gas capture as a "long-term monopoly" for the foreign company on the country's gas industry.[29] Furthermore, Jabir Khalifa Jabir, another member of the Oil and Gas Committee and a member of the Shi'i Fadhila Party, stressed the need for local government to be included in the decisionmaking regarding the negotiations.[30]

Conflict thus emerged between the Oil Ministry--which believed that only cabinet approval was required for a deal with Shell (something that was granted at the time)--and the parliament--which saw itself as having a right to participate in the negotiations--with some political factions deeply suspicious of any foreign involvement in planned development of the gas industry.[31] It is therefore unsurprising that negotiations stalled. Besides the political disputes, questions regarding specific terms of the proposed deal were left unanswered. For example, the proposed contract with Shell did not specify how much gas was to be used for domestic consumption as opposed to exportation.

In addition, as Walid Khadduri pointed out:

> The agreement also stipulates that Iraq would sell natural gas to Shell at international prices, which the company would then sell back to Iraq at international prices as well. This means that petrochemical products, whether industrial or agricultural (using fertilizers), in Iraq will not be able to compete with similar products in neighbouring countries, where the state subsidizes the price of natural gas for local industries.[32]

No mention was made in the provisional agreement as to whether there had been consideration on subsidizing the gas for domestic purposes.

These lacunae in the terms of negotiation, as well as a series of announcements, objections, and counter-objections, led to an impasse for more than three years, with extensions given periodically to negotiations that also came to involve the company Mitsubishi. For instance, in April 2010, it was revealed that the national government did not have the financial means to fund its proposed 51 percent share of the natural gas venture with Shell, and foreign oil companies that had already signed development deals with Baghdad expressed reluctance to provide the project with any natural gas produced from the oil fields they were working on, pointing to the fact that they needed to reinject this gas into the oil reservoirs in order to meet the ambitious production targets set by Baghdad.[33] For these reasons, a six-month extension was granted to talks. Then, in February 2011, the Deputy Oil Minister Ahmad al-Shamma'a noted that there was a conflict of interest, for under the oil and gas law established in the Saddam Hussein era, only SOMO had the right to export gas or crude oil, a right that would understandably be claimed by Shell as part of the proposed deal.[34]

Finally, in November 2011, with billions of cubic feet of natural gas wasted since negotiations first began, a $17 billion contract between Iraq, Shell, and Mitsubishi was approved for the capture of natural gas from three oil-fields in the south: Rumailah, Zubayr, and West Qurna. The divisions of the stakes were as follows: Iraq with 51 percent, Shell 44 percent, and the remainder for Mitsubishi. The contract's duration is 25 years, and the aim is to collect more than 2 billion cubic feet of natural gas per day from the three oil-fields.[35] The agreement was then finalized on November 24, 2011.[36]

However, officials in Basra objected to the deal even after its signing. On November 25, 2011, officials from the Basra Provincial Council filed a lawsuit against the Iraqi Oil Ministry and called for the agreement to be cancelled.[37] As Sabah al-Bazouni, head of the provincial council, put it in an interview with Reuters, "In principle, we don't have any problem with developing the gas but when the contract is signed, there has to be an article that shows the provincial council has agreed.... Unfortunately, we did not know anything about this contract.'[38] Even more revealing, he added that "Basra is the most suitable province to become an autonomous region."[39]

For observers of local politics in Basra, al-Bazouni's remarks linking economic problems for the city with the lack of autonomy do not come as a surprise. For years, a pro-federal trend has been apparent in Basra and the surrounding area. The concept of autonomy and federalism is endorsed in Basra by the Fadhila party, many local tribes, independent Shi'i politicians, and some lower-rank members of Nouri al-Maliki's Da'wa party.[40] Yet the Prime Minister himself and the Sadrists are hostile to the idea, favoring instead a strong, centralized government in Baghdad. So far, all bids for autonomy in Basra have been unsuccessful. A case-in-point was the failed attempt in 2010, when a formal request for autonomy was sent by Basra province to Baghdad with no response subsequently coming from the latter.

Basra's grievances against the central government are numerous and not without basis in reality. A notable example concerns a law passed in January 2010 regarding the distribution of oil revenues. According to this law, "each Iraqi province is entitled to $1 of each barrel of oil it produces and refines."[41] Under these terms, Basra province is due around $90 million a month, but the governor of Basra, Khalid Abd al-Samad, complained in November 2011 that the government had not implemented this law and was deliberately depriving the province of its fair share of oil revenues.[42]

The autonomist leanings in Basra are therefore easy to understand, given that autonomy would allow the local government more control over revenues. As Joel Wing put it in December 2011, "All the revenues Basra produces from its petroleum… go to Baghdad, with only a fraction being sent back in the form of the provincial budget. Basra's officials fear that this will be repeated with the new gas deal."[43]

Nevertheless, local objections to the Oil Ministry's deal with Shell and Mitsubishi have had little impact. In March 2012, Shell announced that it had awarded a $63 million contract to the Swiss engineering firm ABB Ltd. in order to build two 25 megawatt power plants at Khor Zubair in the south of Iraq.[44] These power plants are to be fuelled with natural gas produced and captured by Shell as part of its agreement with the central government. Thus, just as Baghdad has brushed aside attempts in Basra to push towards autonomy, so the central government has easily disregarded--without fear of consequence--local concerns about the natural gas deal. The problem is that Basra has not pressured Baghdad forcefully enough with its demands.

Indeed, a case worthy of comparison is that of Anbar province, where in October 2010, the Oil Ministry successfully auctioned off the Akkas natural gas field to a consortium consisting of the South Korean firm KOGAS and the Kazakh firm known as KazMunai Gas.[45] On the day of the auction, however, local politicians in Anbar staged a protest, with demands that the province should have control over Akkas and that gas produced be used for nearby power plants.[46] They also threatened to withdraw all security protection for the field and stir up a revolt (besides plans to sue the Oil Ministry) if their demands were not met.[47]

Fearing local anger, KOGAS and KazMunai Gas refused to finalize the deal until Baghdad addressed the demands of Anbar politicians and residents. The delay dragged on for a year, with the Kazakh firm subsequently withdrawing from the agreement, but in the end the central government was able to confirm the deal with KOGAS with promises to locals of building a new electricity plant in Akkas and constructing a natural gas pipeline from the field to supply power plants in Anbar.[48] Hence, unless Basra tries to follow Anbar's example, it will achieve nothing in forwarding its grievances.

Even so, it is questionable whether the central government will act on its promises towards the Sunni-dominated western province. At the end of February 2012, various officials in citizens in Anbar reaffirmed a desire for autonomy, citing a failure on the part of the central government to address the concerns raised in the previous three months.[49] In particular, Muzhir al-Mulla, a local council official, complained that improper allocation of revenues to the province has meant that Anbar even lacks funds to set up an investment or service project in the electricity and energy sectors.[50]

In light of all this evidence, one cannot help noticing how similar the central government's policies here are to the outlook of the Roman Republic towards its provinces outside Italy. Namely, the provinces were viewed as estates designed to be exploited for the benefit of the Roman people, and thus local grievances were overlooked by the central state, whatever verbal promises officials might have made in response to complaints and threats of revolt.[51]

While Baghdad may have its way over Anbar and Basra on issues of oil and gas in the coming years, there is an underlying risk of stirring up widespread provincial unrest in the long-term, perhaps even triggering a "periphery against center" conflict analogous to the beginnings and development of the revolt against Asad's regime in Syria.[52] That said, it should be borne in mind that Anbar is weary of provoking the central government too far, especially in light of the disastrous outcome of the 2006-2007 sectarian civil war for Sunni Arabs.[53]

BAGHDAD, KURDISTAN, AND EXXONMOBIL

More problematic for the central government has been its relationship with Kurdistan on oil and gas issues. By 2011, eight years after the invasion, the Kurdistan Regional Government (KRG) had signed a total of 37 production-sharing contracts, hosting 41 companies from 17 nations.[54] Many of these deals involve exploration rights, and while much of the oil that is produced is consumed for domestic purposes, some of it is also smuggled to Iran, whether in crude form or in the form of refined products through fractional distillation. KRG officials have made public statements promising to crack down on illegal oil exports, but as Joel Wing notes, these affirmations have only ever referred to stopping the outflow of crude oil, and not refined products, "so they [the KRG] are using that as a loophole."[55] Not only does this smuggling bring in lucrative profits for the two ruling parties of the KRG coalition--namely, the Patriotic Union of Kurdistan (PUK) and the Kurdistan Democratic Party (KDP), both of which have used their leverage over finances to punish opposition parties that were perceived as supporting the 2011 protests that were subject to a decisive crackdown at the end of April of that year[56]--but also allows the Kurdistan region to assert autonomy to the chagrin of Baghdad.

Until ExxonMobil signed a deal with the KRG on October 18, 2011, the contracts--all negotiated by the KRG without Baghdad's permission--had involved only minor oil companies. While the central government regards all these agreements as illegal--invoking Article 112 of the Iraqi Constitution to justify its belief that Baghdad must oversee all contracts with foreign petroleum firms--and has accordingly blacklisted oil companies that have signed deals with the KRG and barred them from working elsewhere in Iraq, these measures have not prevented those very firms from operating in Iraqi Kurdistan. One month after the signing of the deal with ExxonMobil, public disclosure unsurprisingly caused a furor.

In particular, the central government was enraged over the fact that the agreement granted ExxonMobil exploration rights for oil and gas in six areas, at least two of which are considered to be "disputed territories."[57] The most interesting case here is that of Bashiqa (in Ninawa province), whose population is largely a mix of Yazidis, Assyrians, and Sunni Arabs. Although the Yazidis speak Kurdish, they do not identify ethnically as Kurds, and there has been much dispute over the fact that the KRG constitution does not recognize the Yazidis as a separate ethnic group.

Both the Yazidis and the Sunni Arabs in Bashiqa are generally opposed to being incorporated within the jurisdiction of the KRG. The only significant pro-KRG sentiment that exists there is to be found within Bashiqa's Christian community, which is itself deeply divided over whether to join the KRG--fearing the risk of attacks at the hands of Sunni Arab militants--or push for the Assyrian Democratic Movement's goal of an autonomous province for Christians in the Nineveh plains, centered around Christian towns like Alqush.[58] As Reidar Visser points out, "It is not unlikely that Bashiqa and its oil will end up remaining outside the final KRG borders and hence outside Kurdish jurisdiction."[59]

Upon learning of ExxonMobil's deal with the KRG, the Oil Ministry immediately declared the contract to be illegal and issued rhetorical statements effectively declaring an ultimatum for ExxonMobil: either cancel the deal with the KRG and continue to work on the West Qurna Phase One (WQP-1) oil-field in the south, which ExxonMobil won in an auction in 2009 as part of a consortium with Shell and which is home to approximately 9 billion barrels of petroleum reserves,[60] or proceed with the agreement, risk losing the right to continue working on WQP-1, and face exclusion from the fourth round of bidding for oil and gas fields in 2012. The last threat has already been implemented, and Baghdad's rhetoric and actions deterred other major oil companies from dealing with the KRG.

The central government was not alone in denouncing the KRG agreement with ExxonMobil. The Governor of Ninawa Province, Atheel Nujaifi, expressed similar sentiments, and the provincial council even went so far as to vote for troops to be called in by the central government to prevent ExxonMobil from working in the areas designated for the company to explore and develop.[61] Ninawa's objections should only have been expected. After all, the prominent Nujaifi family in Mosul (including the speaker of the Parliament Osama al-Nujaifi, a senior Sunni-Arab politician) is currently spearheading the campaign to keep Bashiqa out of KRG jurisdiction.[62]

However, it would appear that after initially stumbling, ExxonMobil got the better of Baghdad. This is because there were additional complications regarding relations between the two parties. Specifically, Baghdad owed ExxonMobil millions of dollars in unpaid work since it began developing WQP-1, with regular payments not made on account of the inefficiencies of the Iraqi bureaucratic system. This led to protracted negotiations that were finally resolved on March 12, 2012, when Iraq agreed to pay ExxonMobil in crude oil rather than cash payments. This was despite the fact that the week before, the Chief Executive of Exxon, Rex Tillerson, affirmed that the petroleum company was pressing ahead with plans to work in the Kurdistan area and with its existing work in the oil-fields awarded to it by Baghdad for development.[63] The next day, the French oil giant Total SA announced that it was in talks with the KRG, despite being previously deterred from dealing with the autonomous Kurdish government on account of Baghdad's objections.[64]

Indeed, the situation as of June 2012 suggests that in practice ExxonMobil has been able to have its cake and eat it, for though the central government barred the firm from the fourth round of bidding for energy exploration rights,[65] Baghdad has not cancelled the company's contract to continue its important work on the WQP-1 field. On June 19, an aide to Nouri al-Maliki told Reuters that a letter had been sent to Obama to seek his intervention and stop Exxon from working in the Kurdistan region, even as the KRG put a halt to its oil exports in April amid a payment dispute with the central government.[66]

However, the KRG remained defiant, with natural resources minister Ashti Hawrami making it clear that "in the next few months, we expect to see another two or three major companies coming and working in Kurdistan…We expect more discoveries this year to bring us to our new target of 2 million barrels per day by 2019."[67] Given the fact that U.S. influence has been on the wane in Iraq for some time now and that the preferred approach among policymakers in Washington and the U.S. embassy in Baghdad is currently one of 'hands-off,' it seems unlikely that Maliki's letter will translate to any mediation on the part of the United States.

The problem for the central government is that the KRG tends to offer more friendly terms for foreign corporations and can be expected to be more reliable in paying them as the KRG economy is more liberalized and less impeded by bureaucracy. Thus, even if the Oil Ministry in Baghdad threatens sanctions, it is probable that more oil firms will come to express an interest in negotiating with the KRG. Yet what has so far allowed the central government to hold more sway is the fact that most of the country's oil is located well outside the KRG areas (though that could change if exploration yields further significant reserves in Iraqi Kurdistan), with the pipelines and export routes for petroleum also under the control of the central government.

Lacking immediate access to the sea, the Kurds can only transport oil to the international market via Basra. Hence, the KRG engages in oil smuggling with Iran. Alternatively, the Kurds could work toward obtaining a pipeline route via the Turkish Mediterranean port of Ceyhan, but this would require the KRG to persevere with Massoud Barzani's conciliatory approach toward Turkey, even as relations could periodically sour because of Turkish bombings of PKK hideouts in northern Iraq.[68] More recently, there has been speculation on the construction of direct pipelines to Turkey by which the KRG can export its oil and gas. On June 19, 2012, Ankara signaled that it was ready to begin low-level importation of oil from Kurdistan, with plans to exchange crude oil by tanker truck for Turkish refined oil products such as diesel and kerosene, which Kurdistan currently lacks owing to the fact that it receives only 15,000 barrels per day of fuel from the south of Iraq.[69] As for the talk of direct pipelines to Turkey, the aim here would be to have two independent routes, one for oil and one for gas, to export said resources directly to Turkey.

Nonetheless, there are certain factors to consider regarding whether the independent pipeline hopes will come to realization. With a pipeline route not relying on Baghdad, the KRG could break its dependence on Baghdad for revenue: In fact, the central government currently provides for 95 percent of the KRG's annual budget.[70] Escaping from this dependence would prove a significant step on the road to Kurdish independence. Yet it remains to be seen how much new petroleum will be discovered in Kurdistan. First, it should be stressed, in light of confusion in numerous media reports,[71] that the talk of independent routes remains just that: talk. There has been no formal agreement, and Turkey has made it clear it will not accept any pipeline deals without the approval of the Oil Ministry in Baghdad.[72] Further, would Turkey itself tolerate the prospect of an independent Kurdistan in what is currently the KRG area, at risk of considerable unrest and perhaps even a revolt in the Kurdish areas of southeastern Turkey?

At least half of the geographic region known as Kurdistan is located in Turkey. In light of these points, it is plausible that any Turkish and Iraqi Kurdish talk of an independent pipeline deal is merely rhetorical posturing against Baghdad. Relations between the central Iraqi government and Turkey have been on the decline since Maliki issued an arrest warrant against Vice President Tariq al-Hashimi in December 2011. Hashimi has taken refuge in Turkey, with Ankara and Baghdad hurling accusations of sectarianism at each other.[73] Thus, Turkey may simply be aiming to persuade the Iraqi government to drop the charges against Hashimi.

CONCLUSION: OIL, THE FUTURE, AND THE WIDER ECONOMY

There is no doubt that Iraq's oil industry and exports will continue to expand. On March 13, 2012, the first of four planned oil terminals off the southern coast was opened.[74] This terminal immediately increased Iraq's export capacity by 300,000 barrels per day. Ultimately, it is expected that each of the four terminals will boost export capacity by

850,000 barrels per day.[75] Along with the deals agreed with foreign oil companies, the long-term (i.e. within the next seven years) goal is to achieve an output of around 12 million barrels per day.[76] This is an unrealistic goal, primarily because of problems of infrastructure--damaged by sanctions and subject to disruption at the hands of insurgent attacks and smuggling as well as inclement weather conditions--that cannot be overcome so quickly, even when foreign investment is taken into account.

Nonetheless, it is clear that Iraq is set to play a much bigger role in OPEC as its output and exports increase, and in turn hold much more influence in the global energy market. In its 2011 report, the International Energy Agency (IEA) predicted that Iraq would become the largest contributor to growth in global oil production over the next 25 years,[77] and in any case, Iraq was not expected to reach peak oil until at least 2036.[78] Peak oil is the point at which a given oil-well or oil-producing country achieves maximum output and then enters into terminal decline. The IEA's chief economist, Fatah Birol, further predicts that Iraq could produce 6.5 million barrels per day by 2015 and around 8 million barrels per day within the next 20 years, warning that "if this 8 million bpd--which as I said is the highest growth among all the producing countries--doesn't take place, we will definitely be in difficulty... in terms of tightness in global oil markets."[79]

How might this growth in the energy sector affect Iraq's economy and the general quality of life? Indeed, high hopes have been pinned on the projected and potentially dramatic increase in oil revenues for an improvement in living standards across the country. Yet such optimism is mistaken.

One of the chief hindrances to reconstruction efforts in Iraq is the legacy of the centralized command economy system inherited from the days of Saddam Hussein. The bureaucracy is modeled on the Soviet system, and issues of "red tape" have constantly delayed building and repair projects. While Iraqi politicians have talked for years about the need for an expansion of the private sector, such words have proven to be little more than empty rhetoric. Since the oil industry is not labor-intensive, the government compensates for the lack of employment opportunities available in the industry simply by using revenues to create more bureaucratic jobs.

Such a trend is particularly evident in Iraq, where the public sector has effectively doubled in size since 2005, "employs 43% of all workers," and "provides almost 60% of full-time work"[80]; in addition, some "70% of income in the country is linked to the government."[81] This not only makes it harder to begin breaking away from the heavy top-down management of the economy, but also perpetuates corruption in government; and with so much revenue coming in from the production and exportation of petroleum, Baghdad feels no need to diversify the economy. Corruption is important to mention, because it means that any potential benefits from oil wealth are unlikely to trickle down to the population at large. The situation is thus more analogous to Nigeria rather than, say, Saudi Arabia, which was able to use its oil wealth to create a reliable welfare system for its population.[82]

While analysts such as Joel Wing have expressed hope[83] that the development of natural gas reserves can shift the country to a more diversified economy, there is no reason to think that revenues from natural gas will make the government think beyond the energy sector on which it has become so dependent for income. In short, the expansion of the oil industry-- together with the coming development of natural gas resources--is only creating a vicious cycle in terms of over-dependence on revenues from the energy sector and problems with liberalizing and diversifying the economy. This should be contrasted with the economic situation in Iraqi Kurdistan, where, for example, the construction boom in Irbil has often been counterpointed with the vast areas of Mosul that are still in ruins and badly in need of reconstruction.[84]

Another problem, noted by Joel Wing, is that oil revenues have increased the Iraqi dinar's exchange rate, such that exporting products not related to the petroleum industry becomes a more difficult task because they become more expensive, while the cost of importing goods is reduced.[85] This development, along with the fact that import tariffs were lifted in the aftermath of the invasion, has contributed to the flood of cheap consumer goods from China, Turkey, and Iran since 2003--something that has naturally had a negative impact on Iraqi businesses and hindered job creation outside bureaucracy.[86]

In conclusion, therefore, the growth of the oil industry is unlikely to lead to any considerable reductions in poverty among the Iraqi population and is only helping to entrench the problematic, centralized command system of the economy. Ironically, it seems that the Iraqi government's approach to the energy sector and the wider economy is guilty of the very thing that laissez-faire capitalism is accused of fostering: namely, short-termism, in which the focus is on maximizing revenue in the short-term. If general recommendations be appropriate here, there is a need for planning for the long-term and appreciating that Iraq must move beyond dependence on one source of income.

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NOTES

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