

Viewpoints
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Iraq's Kurdistan Takes a Giant Step Toward Independence

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Iraq's Kurdistan has signed multiple energy agreements with neighboring Turkey and is about to become an independent oil and gas exporter in defiance of Baghdad and Washington. This will provide Kurdistan, already an autonomous region within Iraq, with the financial and economic basis for its possible eventual independence. Turkey strongly opposes this and even limited autonomy for its own Kurds but has succumbed to its voracious appetite for new energy sources.

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Erbil – The Kurds of northern Iraq are about to take a giant step toward making possible an independent homeland by becoming an exporter of Iraqi oil and gas on their own in defiance of the central government in Baghdad. The move, also strongly opposed by the United States, depends on crucial logistical, economic, and financial support from neighboring Turkey, which has decided to forge an energy alliance with Kurdistan even at the risk of encouraging its breakaway from the rest of Iraq.

Within the next month, landlocked Kurdistan will begin exporting 150,000 barrels of oil a day to the international market. The oil will flow first through a new Kurdish-built pipeline and then a Turkish-controlled one, bypassing other Iraqi pipelines under Baghdad's supervision. Kurdistan plans to increase its oil exports to 300,000 barrels a day by mid-2014 and then to one million barrels by the end of 2015.

Once Kurdistan's oil exports reach around 450,000 barrels a day, its earnings will equal the roughly \$12 billion handed over by the Baghdad central government to Erbil this year, according to Kurdistan officials' calculations. At that point, Kurdistan would no longer be dependent financially on Baghdad.

American oil companies, including ExxonMobil and Chevron, have played a key role in turning Kurdistan into what industry sources are heralding as "one of the world's last great onshore oil plays." These companies have also defied Baghdad and Washington to sign multiple exploration and production deals directly with the regional Kurdistan government.

Turkey's deputy energy minister, Hasan Murat Mercan, said in an interview in Ankara that his government hoped its various oil and gas deals in the making with Kurdistan would lead to economic interdependence between Turkey and all of Iraq, "producing peace for all parties involved." However, he conceded there were "a lot of factors and risks" and that they could serve like a "bull in a china shop" to worsen the conflict between Baghdad and Erbil.

In fact, Iraq's deputy prime minister for energy, Hussein Shahrastani, re-asserted on December 2 Baghdad's longstanding position that "no oil extraction or exports shall be done without the approval of the federal government."

Kurdistan also intends to break Baghdad's stranglehold over how its earnings from oil sales abroad are distributed, which is now becoming a highly contentious issue between the two sides. Turkey has agreed to allow Kurdistan to put those earnings into a special Turkish state bank account. The Kurdish regional government will then withdraw what it regards as its fair share before turning over the remainder to Baghdad, according to Turkish and Kurdish officials.

Mercan confirmed that his government has agreed to oversee "the modalities" for distributing money from the account and said it would be based on the revenue-sharing formula already agreed upon by the two sides. This provides for Kurdistan to receive 17 percent of national oil revenues based on its population of 4.7 million, though Kurdish authorities assert they have

been seriously short-changed for years, with Baghdad handing over effectively only 11 to 12 percent.

However, Kurdish authorities said they also intend to first deduct what Kurdistan owes to foreign oil companies for their costs and past investments plus arrears from oil sales owed by Baghdad to Kurdistan, which Kurdish energy officials calculate to be \$27 billion since 2005.

The new Turkish-Kurdistan energy alliance was cemented on November 27 in Ankara when Turkish Prime Minister Recep Tayyip Erdogan and his Kurdish regional government counterpart, Nechirvan Barzani, signed agreements providing for the building of one new pipeline to carry a million barrels a day of Kurdish oil across Turkey to the international market and another allowing export of Kurdish gas to Turkey. The Turks pledged to purchase initially 10 billion cubic meters of gas annually and to double that amount eventually.

Turkey is gambling that its new policy toward Kurdistan will actually head off its independence by making it so heavily dependent on Ankara that it cannot afford to go against Turkish opposition to its breakaway from Iraq. The Turks are dead set against autonomy for their own minority Kurdish population of at least 14 million as well as that for the 1.6 million Kurds in Syria. In fact the Erdogan government is working doggedly to integrate Turkey's Kurds and voiced strong opposition to the recent proclamation of self-rule by separatist-minded Kurds in war-ravaged Syria.

Pursuit of these seemingly contradictory objectives largely explains the frenzied Turkish diplomatic activity since September that has seen Turkish, Iraqi, and Kurdistan officials exchanging multiple visits at an ever higher level. Turkish Prime Minister Erdogan visited Iraq in mid-November to offer expanded economic and political cooperation with Baghdad and invited Iraqi Prime Minister Nouri al-Maliki to come to Ankara for further discussions.

However, the most extraordinary example of Turkish diplomatic acrobatics took place November 16-17, when Erdogan hosted Kurdistan's President Masoud Barzani for a weekend of festivities in Diyarbakir, the capital of the Kurdish heartland in southeastern Turkey. Barzani gave his full support to Erdogan's efforts to reach a peace agreement with Turkey's Kurdish separatists; the Turkish prime minister uttered the word "Kurdistan" for the first time in referring to northern Iraq, and together they denounced the bid of Syria's Kurds to establish an autonomous government.

Turkey's attitude toward Kurdistan changed dramatically with the discovery of sizeable oil and gas deposits in Kurdistan, which has touched off a scramble among foreign companies for a stake. First to arrive in the early 2000s were small, high risk-taking ones like Genel Energy followed since 2011 by the cautious "super majors" like ExxonMobil, Chevron, Total, and Gazprom. Kurdistan's proven oil reserves are estimated now at 45 billion barrels, close to one-third of Iraq's 143 billion barrels, the world's fifth largest.

There are presently seven American oil companies exploring for, or already producing, oil in Kurdistan. In addition to Exxon and Chevron, they include Marathon, Hunt, Murphy, Hess, and HKN Energy. Altogether, the Kurds have enticed dozens of foreign companies to come explore for oil and gas in 57 designed exploration blocks by offering them a 20 to 25 percent

share of production. By contrast, Baghdad has signed service contracts only giving foreign companies one to two dollars per new barrel of produced oil.

The Obama administration, like the Bush one before, has vehemently opposed U.S. companies' involvement in Kurdistan, pointing out the legal risks of doing so without the agreement of Baghdad and the potential impact of encouraging the northern region's secession. However, Turkish Deputy Energy Minister Mercan said that U.S. protests had become muted since April and that recently he had "heard nothing. I don't know why."

Though Baghdad has vehemently opposed Kurdistan making separate agreements with foreign energy companies, it has proven helpless to stop them. A decision by ExxonMobil in October 2011 to explore for oil and gas in Kurdistan even at the risk of losing its stake in the huge West Qurna field in southern Iraq (43 billion barrels of oil), was the "game changer," according to one Turkish industry source. Baghdad never carried through with its threats to throw ExxonMobil out, though the American super major is selling off much of its 60 percent share in the West Qurna project.

A second major turning point occurred in April this year when Genel Energy managed to transport by truck 240,000 barrels of oil from Kurdistan to Turkey's Mediterranean port of Mersin and sell it to a German company for \$22 million. Genel has since continued selling oil abroad despite Baghdad's contention that it is illegal.



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