



## **Iraqi Kurds Halt Oil Exports In Dispute With Baghdad**

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(RFE/RL) -- Oil fields in the autonomous Kurdish region of northern Iraq have been pumping oil into Iraq's national pipeline system for export to the world market since June.

But this week, the Kurdistan regional government (KRG) announced that it would no longer contribute oil to Iraq's export program until a long-standing dispute with Baghdad is resolved.

That dispute is over who -- Baghdad or the KRG -- is responsible for paying the foreign oil companies extracting the oil in the northern Kurdish region.

The disagreement is the latest, and possibly most serious, problem to emerge from Iraq's years-long failure to pass a badly needed oil law. An oil law is essential for deciding how Iraq's regions share oil revenues, the country's main source of income.

"The central government, particularly the Oil Ministry, has a very centrist agenda. The Iraqi oil minister, Hussein Shahrstani, is a political ally of the prime minister, Nuri al-Maliki, and Maliki now is running on a ticket of law and order and a very strong centrist state," says Samira Kavar, Middle East editor for "Petroleum Argus," a weekly oil-trade magazine based in London.

"On the other hand, the KRG are pushing for a very loose form of federalism," Kavar adds. "Now oil is at the very heart of that conflict and how the oil revenues get shared out is one aspect of that dispute and another is who controls the upstream [the exploration and drilling of oil] and the award of upstream contracts."

### Revenue-Sharing Standoff

In the absence of an oil law, the KRG has awarded more than 30 contracts to oil companies during the past few years to explore and drill fields in northern Iraq.

The KRG and the companies have invested millions of dollars in the effort, and output is estimated today at around 40,000 barrels per day (bpd) to a maximum of 50,000 bpd. Analysts say output could increase to as much as 100,000 barrels per day in the coming year to year and a half.

But Baghdad, which claims the sole right to award oil contracts in the country, has never recognized the KRG's activities. And now, as the KRG finds it difficult to pay the international companies for their work, the problem has come to a head.

The KRG, whose seat of government is in Irbil, says that it is unable to pay because the revenue from all oil exported from Iraq goes directly to Baghdad. The central government controls the national pipeline that transports oil from northern Iraq, including the Kurdish-administered area, to the port of Ceyhan in Turkey.

Baghdad counters that because the central government does not recognize the KRG contracts, it is the KRG's sole responsibility to pay the foreign companies. Oil Minister al-Shahrstani says the KRG should do so from the 17 percent of Iraq's oil revenues that it receives under the current revenue-sharing agreement that exists in the absence of a detailed oil law.

All this brings the two sides to a standoff that each can ill-afford to lose.

### Bargaining Chip

Kavar says the KRG has put itself in a difficult financial position by rushing to issue contracts when it knows that the current 17 percent revenue-sharing accord cannot cover both the KRG's own budget needs and the companies' high start-up costs:

"Obviously the KRG knows that eventually the way in which the DNO [Norwegian oil-exploration company] and other companies producing in the KRG area are going to get paid is from oil sales and not from its share of the revenue," Kavar says.

"But it was trying to score a point by saying, 'Look, while Baghdad has not managed to increase output in the rest of Iraq, we have started

to export."

But for the Iraqi government, the stakes are equally pressing. Kwar says that Kurdish members of Iraq's federal parliament are "holding up" passage of the oil law, as a "bargaining chip," and there are "all sorts of wider political issues that need to be resolved as well, not least of which is Iraq's election law.

"So this is part and parcel of a much larger set of issues that need to be resolved between Baghdad and Irbil and the KRG knows this and so it can wait."

Kwar adds that the Kurds will sell the oil on the domestic market in the Kurdish region, "maybe not as much as 30,000 barrels a day. I doubt there is enough demand."

The amount of oil that the KRG area can presently export is small compared to Iraq's total oil exports of some 2 million bpd.

But the issue is politically volatile enough that while Iraq can easily survive economically without resolving what to do with KRG oil, it probably cannot survive as a stable future state without doing so.

By Charles Recknagel

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