

IRAQ: GOING BACK AND FORTH

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INTRODUCTION

When a foreigner looks at Iraq, he/she may only see war, destruction and chaos. It may be true to speak desperate words about country's future but still its past should be well determined before criticizing today and future. Iraq has been living extraordinary events within the last decades. Tyranny, two Gulf Wars, internal conflicts, ISIS terrorism and Kurdish independence acts. All these scenes negatively affected Iraq's destiny and its performance on being a strong country.

After Second Gulf War had started in 2003, Iraq fell into pieces. Lack of unifying governments and failure of nationalism ramped up the tension between different partitions of country. This brought the people to the edge of civil war and then, triggered ISIS terrorism. We should be looking into Iraq's future in energy in the light of these cases.

HOW IS IRAQ DOING RIGHT NOW?

Iraq has increased its oil production more than 100% compared to 2006 rates. Although it seems like Iraq is doing well in oil production we can easily say it is not even close to its potential. Iraq produced 4.4 million barrel/day average in 2016 and now producing between 4.5 – 4.6 million barrel/day in 2017. Most of its production is being done in southern fields (around Basra) and directly being sold via Basra port to international markets. Around 600 – 650 thousand barrel/day production of self-autonomous Kurdish region is included in these numbers.

The reasons for expressing “not even close to its potential” are that many proven fields waiting for tenders/investment, western section of country barely explored, Kurdish area not being invested sufficiently and of course low oil prices. High oil prices encouraged oil companies and countries relying on oil revenues in recent years. But sudden decrease in same, took many of those in descent ways. Iraq is no exception for those who had dreamed of making more money with high oil prices. This fallen dream hinders country's planned investments.

Because of that Iraq cabinet choses Technical Service Contract (TSC) type instead of Production Share Contract (PSC) to sign with IOCs Iraqi government should always have strong budget to pay IOCs their bills. To clarify the difference between a TSC and PSC; in TSC the IOC accepts getting fixed fee per barrel from Iraq's NOC, making it a "contractor" actually, where in PSC both sides (NOC and IOC) become equal partners (proportional to their stakes) and share oil sale revenues between each other. Picking TSC was logical for Iraq to have more authority on reserves and making more profit from sales but dropping prices undermined this plan and forced Iraqi government to revise the contracts.

Iraq's debt to IOCs was 20 billion in 2015. In 2017 budget Iraqi government announced that \$85.2 billion expenditure is planned although \$67 billion revenue is expected (according to \$42 per barrel average oil price expected). This will cause more than \$18 billion deficit which will for sure hinder payments to IOCs. The government offered IOCs to extend their contracts to balance the negative effects of low oil prices on federal budget and IOCs. It was announced that some companies accepted this offer.

Another hindering issue for Iraq is ISIS terrorism. As per all countries fighting with terrorism Iraq spending lots of money to fund its troops and buy weapons/ammunition. Since ISIS invaded Mosul in 2014 a tremendous fight is being given against this bloody terrorist organization. Billions of dollars spent on war instead of investments, make Iraq more dependent on external funds and aids. In 2017 budget government was relying on \$4.7 billion of foreign and domestic loans. It is really difficult for Iraq to stand still with this kind of economic problems.

In addition to these economic problems Iraq is facing with a unity issue raised by Kurds living in the northern sections. Kurds were fighting for their independency for many years and they gained self-autonomy after First Gulf War with support of U.S.A. ISIS fight which was weakening power of Iraqi federal government, helped Kurdish government to level up their voice about independency. Using their fight against ISIS Kurdish government received almost infinite military and political support from many countries. This support encouraged them to talk on their independence from Iraq and they decided to conduct a referendum on September 25th, 2017.

All above listed reasons make Iraq more and more dependent to other countries. For example, Iraq is dependent to Turkey for agricultural and industrial products, dependent to Iran for natural gas, dependent to U.S.A. and other funding countries for external loans. This makes it fragile internally and externally. All these dependences cause Iraqi government make concessions to these countries. But two of these countries step forward to influence Iraq, Iran and U.S.A.

The invasion of Iraq in 2003 by U.S.A. ended up with global giant's defacto supremacy in the country. The chaos generated by the invasion cause more dependency to the invader which we can also call this an addiction. U.S.A. achieved its goals by getting Iraq's oil market open to IOCs, creating pseudo chaos in Middle East and settling there permanently with military bases.

It might seem crazy when we call Iran has one of the biggest influence on Iraq because two countries fought for 8 years (1980-1988) and hundreds of thousands of people

died from both sides. But Iran cleverly sneaked into Iraqi diplomacy by using anti-Sunni regime raised by U.S.A. Having the majority of Iraqi citizens as Shia originated, Iran got easily influenced into Iraqi governments and bureaucracy. By doing this, also with the help of released sanctions previously applied by international organizations, Iran now can sell natural gas to Iraq for its power plants, buy oil from Iraq for itself and threaten Iraqi governments via pro-Iranian groups.

KURDISH INDEPENDENCE, IS IT REALISTIC?

It's been bright as the sun that Kurds in Iraq are willing to gain their independence for many decades. But it was impossible for them to realize this until Saddam Hussein was overthrown from country's leadership. Federalization in Iraqi constitution dated 2005 let them have legal rights to act more freely and work on their independence. When ISIS attacked on Kurds many depressing and brutal scenes occurred. But IKRG (Iraq Kurdish Regional Government) stepped forward to fight against ISIS and start to collect trophies for this. They received state-of-the-art weapons and ammunitions from many countries all over the world. Not only the weapons they received but also the political support they gained was priceless for them.

Relying on the political support they have Kurdish president Mesud Barzani announced that they will conduct an independence referendum on September 25th, 2017. Many different comments expressed for the referendum from different parts of the world. Iraq (federal government), Turkey, Iran and U.S.A. announced that they are not supporting any independence action in Iraq. There are also some opponent voices came up from these countries, supporting this desire. On the other side, there is one country giving full support to Kurdish independence, Israel. Israel supports Kurds in the light of their policy, having small and weak neighbors. Splitting up Iraq into two or more parts will surely weaken its military and political strength. Differently from these states Russia and some European countries like Germany and France do not make any comment on this issue. This should be interpreted as they will watch the action on field and act accordingly.

Russia is stepping forward in this group with its recent activities. Russian oil companies are active in both IKRG and federal government's areas. A major Russian operator company recently kicked off investments in Kurdish area including exploration and transportation projects. This can be a silent investment to independence of Kurds.

We all know that independence won't stand long without having money. This is why IKRG is selling crude oil to international markets since 2012 without permission of Iraqi federal government. Many European and Middle Eastern countries are in the list of customers for this oil. The main reasons for this are that IKRG is selling its oil cheaper than the market values to find customers easier and also it desperately needs every cent it can get. Although billions of dollars earned from this trade, heavy corruption in Kurdish region and unbalanced financial payload on Kurdish government (caused by officer salary payments and fight against ISIS costs) blocks the way of economic independence. IKRG borrowed hundreds of millions of dollars from foreign countries like Turkey and U.S.A. But the deficit in the budget sucks all money borrowed like a black hole.

In the light of mentioned factors; even though the independence referendum is conducted (with an expected “Yes” result) the outcome is hard to be applied. It can be used to force federal Iraqi government to acquire more legal power. Even if Kurds insist on being independent they may face up with closed borders in each side of their “New Country”. Because of this they may prefer being more autonomous and more powerful but still a part of Iraq.

WHAT IS NEXT FOR IRAQ?

Iraq has the highest potential for affecting oil related balances in Middle East. By stabilizing its political and economic situation it can change its own destiny and become a wealthy state. But to be like this it has miles of distance to go and lots of things to do.

To brighten the potential let's look at some numbers:

- Iraq has 9% of proven oil reserves of world (more than Libya, Russia, Nigeria and U.A.E.) which is equal to 153 billion barrels
- Iraq is producing only 4.8% of oil produced (4.5 million barrels per day)
- Iraq has 2% of proven natural gas reserves of world (3.7 trillion m³)
- Iraq is producing less than 0.05% of gas produced (1.1 billion m³)
- Almost 50% of the country was explored for hydrocarbons, rest is awaiting

First of all, Iraq has to unify its citizens no matter what. Arabs, Kurds, Turkmens, Shias, Sunnis, Christians shall unite to make Iraq stronger for internal and external interventions. After unification Iraq should win the fight with terrorism and maintain security. Parallel to these actions an economic revolution should be run to minimize corruption and to maximize all kind of investments.

Unless these actions are taken, Iraq will fell in parts or most likely become a “Satellite State” to other countries. It will be neo-colonized by powerful states, like by its neighbors or global super-powers.

Turkey should help Iraq and co-operate with it for its needs. Both countries can mutually take advantage of each other's necessities. Turkey can help Iraq to build its infrastructures and superstructures in today's technology and Iraq can help Turkey to purchase hydrocarbons more profitable. Turkey can be an irreplaceable partner of Iraq in its future.