

GSN Risk Grade – D5: Growing tensions with Baghdad over oil law, Hashemi

Political and social developments

Overview: The Kurdistan region of Iraq continues to enjoy a remarkable financial and economic resurgence, to which recent developments in the oil exploration sector will add further impetus. Largely insulated from conflict in the rest of Iraq, the region has prospered; trade and construction have seen massive growth, and infrastructure has improved considerably. But long-standing political tensions between the Kurdistan Regional Government (KRG) and Baghdad have escalated in recent months, putting the Kurds at the centre of Iraqi politics: issues at stake include the presence on Kurdish soil of fugitive vice president Tariq Al-Hashemi, wanted by Baghdad, and a dispute over oil contracts which shows no signs of resolution.

Internal politics: Head of the Kurdistan Democratic Party (KDP) Nechirvan Barzani stepped back into the role of prime minister in 2012, taking over from the Patriotic Union of Kurdistan (PUK)'s Barham Salih, under an agreement whereby the two dominant Kurdish factions alternate leadership of the KRG every two years. The PUK leadership had hoped Salih's term might be extended, and the fact it wasn't has been seen as a sign that protests in Sulaymaniyah in 2011 weakened the PUK. With Barzani back at the helm, the KDP is firmly dominant in Kurdish politics. It also represents a personal coup for Barzani, whose uncle KRG president Massoud Barzani would have preferred to see his son Masrour as prime minister.

Fugitive Hashemi: Hashemi, accused by Baghdad of involvement in assassinations, has taken refuge in the KRG region, and is apparently living in a guesthouse in Sulaymaniyah province belonging to Iraqi President Jalal Talabani, himself a Kurd. Baghdad issued an arrest warrant for Hashemi in December, and wants the KRG to send him to Baghdad for trial, but the KRG says Baghdad should comply with Hashemi's wish to be tried outside the capital – either in the Kurdish zone, or in Kirkuk – where he believes he has a better chance of a fair hearing.

Oil law: A disputed hydrocarbons law is still at the top of the political agenda. The legislation has been held up for years by disagreements between the federal government and the KRG, mostly over how much authority should be centralised or devolved. A committee headed by Adnan Al-Janabi is trying to get a draft before the federal parliament, but there are still five contentious articles that elude agreement. The problematic articles deal with the definition of competent authorities, the composition of the federal oil and gas council, the role of the ministry of oil, contractual and licensing procedures, and resolving existing KRG contracts.

Islamist movement: In early December 2011, there were riots in Zakho, in northern Dohuk governorate, after Islamist preacher Ismail Osman urged jihad against liquor stores and massage parlours. Rioters burned down more than 30 liquor stores, four massage parlours and three hotels. The riots have become a bone of contention for Kurdish political elites – some opposition groups suspect the KDP has ties with the Kurdistan Islamic Union, to which Osman is said to be linked.

Economic and commercial outlook

Overview: With the oil law still unresolved, Baghdad is furious that the KRG has signed agreements with international oil companies, most notably ExxonMobil, which signed a contract for six exploration blocks in November. Baghdad says it does not recognise the agreements, and has threatened to blacklist Exxon – and anyone else entering into contracts with the KRG – from projects elsewhere in Iraq. The federal government has also said it will exclude companies which have entered into production-sharing agreements in the KRG region from a fourth round of auctions for licences, due to take place in May. But while there are greater reserves in the rest of Iraq, more favourable operating conditions in the KRG region mean oil companies are unlikely to be put off by Baghdad.

ExxonMobil: It is still not clear whether Exxon will escape unpunished. At risk is Exxon's service contract for the West Qurna-1 field outside Basra, although analysts say there is no legal basis for Baghdad to follow through on its threat to confiscate that contract, let alone the logistical difficulties of extracting the major and finding a replacement. While Baghdad has said it will not allow Exxon to participate in May's fourth round of licence auctions, the official line is also that it is still awaiting a full response from the major over its plan for the KRG contracts. Exxon broke its silence over the controversy in an annual report filed on 24 February, but stopped short of commenting on the tension with Baghdad. The report said: "Exploration and production activities in the Kurdistan region of Iraq are governed by production-sharing contracts negotiated with the regional government of Kurdistan in 2011. The exploration term is for five years with the possibility of two-year extensions. The production period is 20 years with the right to extend for five years."

Total: Exxon's was not the first high-profile investment in Kurdish explorations – foreign firms have sealed more than 40 production-sharing contracts with Erbil – and it does not look likely to be the last. France's Total has expressed increasing interest in entering into contracts with the KRG, despite the political daggers drawn between the KRG and the federal government. Total chief executive Christophe de Margerie said on 20 February that the fourth bidding round did not look particularly attractive. "The interest in Kurdistan is that there are plenty of gas and oil reserves there and contractual conditions are better," he told a news conference. In southern Iraq, Total has only a minority stake in the Halfaya oilfield, though it is looking to expand its presence by capturing and using gas produced from all of the oilfields in Missan.

SK Innovation pulls out: South Korea's SK Innovation has sold its stake in the KRG region's Bazian Block and will therefore be allowed to participate in Baghdad's May licence auction, according to *Reuters*. The private company transferred its share to Korea National Oil Corporation, which has already been barred from the auction after securing Kurdish exploration rights in 2007.

IRAQI KURDISTAN: Selected economic indicators

	2007	2008	2009
GDP growth (%)	-	1.5	4.3
GDP per capita (\$)	3,200	3,500	4,500
Oil production	-	-	100,000 b/d (est)
Oil proved reserves	-	-	45bn bbls (est)
Gas production	-	-	1.88bcm/d (est)
Gas reserves	-	-	3tcm (est)
GDP by sector (%)			
Industry	22.0		
Housing	20.6		
Tourism	19.3		
Trade	14.5		
Agriculture	6.8		
Services	1.4		

Source: KRG, Ministry of Finance, University of Salahadin

IRAQI KURDISTAN: Refugees from Syria

SYRIA CONFLICT: Iraqi Kurdish officials are expecting a considerable influx of people fleeing the Syrian conflict. Officials told news agencies they were preparing a camp in Dohuk province to accommodate another 1,000 Syrian families. They say they do not know how many people have arrived since the Syrian crisis began, as many refugees stay with family and do not register. There are already several thousand Kurdish refugees living in camps in the area – more than 5,000 Turkish Kurds, 1,000 Syrian Kurds and a small number of Iranian Kurds, according to a November report by the Institute for War and Peace Reporting.

REFUGEE STATUS: The KRG has given refugee status to 30 Kurdish Syrian troops who defected from President Bashar Al-Assad's forces, according to *AFP*. A 27 February report said the authorities would not hand back the soldiers. "We received them for humanitarian reasons, and they are under our protection and we gave them refugee status," said Anwar Haji Othman, Kurdish deputy minister for the local Peshmerga security forces. Othman said they crossed at the common border point between Dohuk province and Syria, having run "away from the Syrian army".