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[OPINION]

EU-Iraq Energy Co-operation: Missing the Point?

by Edward Burke*

In a meeting last year with MEPs in Brussels, Staffan de Mistura, the UN Special Representative of the Secretary General (SRSG) to Iraq called the current lull in fighting the "magic moment" to build a democratic government in Iraq that uses its energy revenues transparently and efficiently.[1] Europe would do well to heed his advice.

In January 2008, European Commissioner for External Relations, Benita Ferrero-Waldner observed that "Iraq is a natural energy partner for the EU, both as a producer of oil and gas and as a transit country for hydrocarbon resources from the Middle East and the Gulf to the EU" and proposed a new "EU-Iraq energy partnership" to develop Iraq's energy governance and infrastructure in order to increase its exports to European markets.[2] These statements have not been followed up by formalising a regular high-level political and energy dialogue with Iraq and the signing of a Memorandum of Understanding (MoU) on energy with Iraq has been delayed by the long process of negotiating a bi-lateral Trade and Cooperation Agreement (TCA). The EU has also not adequately invested in providing bi-lateral technical assistance to improve the governance of Iraq's energy sector, key to Iraq's future stability and of obvious interest to a European market short of reliable supplies of oil and gas.

Iraq's energy potential:

Iraq currently has the world's third-largest petroleum reserves and the lowest reserve to production ratio of all major oil-producing countries. The country's oil output at 2 million barrels (bbl/d) per day is well below its production capacity, hampered by a lack of a skilled workforce and technical know-how, creaking infrastructure and political instability. Loss of revenue due to gas flaring and damage to reservoirs can also be counted in billions of Euros. Iraq's gas is similarly under-exploited – its proven reserves, at 112 trillion cubic feet, are presently among the world's greatest, but probable reserves are estimated at being up to three times this figure due to chronic under-exploration.[3]

Over 90 % of the Iraqi national budget is derived from hydrocarbon revenues – in 2008 alone this income is believed to have reached approximately EUR 50 billion. The government's capacity to spend this revenue efficiently remains weak – in 2007 the Ministry of Oil was allocated USD 2.38 billion, less than half of the ministry's own estimated maintenance and growth needs.[4] Compounding this inability to spend the national budget is the overwhelming level of corruption that plagues Iraq, rendering it the third most corrupt country in the world after Somalia and Myanmar according to Transparency International.[5]

Managing Iraq's energy revenues: A test of nationhood

In 2007, a package of four laws was introduced to regulate Iraq's energy sector and the distribution of its reve-

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1. European Parliament, "Minutes of the meeting of the Ad hoc delegation for relations with Iraq", Brussels: 10 April 2008
2. Commission of the European Communities, "EU and Iraq discuss ways of energy cooperation", Brussels: 2 January 2008
3. Energy Information Administration, "Iraq Energy Data Statistics and Analysis – Oil, Gas, Electricity and Coal", Washington DC: US Department of Energy, 2008
4. US Department of Defense, "Measuring Stability and Security in Iraq", Washington DC: Report to Congress, June 2007, pp. 11–12
5. Transparency International, "2008 Corruption Perception Index", www.transparency.org/news_room/in_focus/2008/cpi2008/cpi_2008_table

nues. The proposed legislation established a Federal Oil and Gas Council (FOGC) that would be representative of Iraq's population but negotiations collapsed over the division of ethnic quotas. Persistent deadlock over the passage of such legislation is part of a broader struggle over the division of power at the federal and provincial level.[6] Provincial energy interests are also mixed with sectarian mistrust, evidenced in the dispute over the fate of the oil-rich province of Kirkuk, long claimed by Kurdish leaders as part of the Kurdistan Regional Government (KRG). The opposition of the KRG presents the greatest obstacle to the passage of new federal hydrocarbons legislation. Kurdish leaders argue that their current allocation from the national budget is inadequate and that the law does not clearly guarantee the level and timing of these payments from the federal government. Instead the KRG proposes to transfer energy revenues to the federal government rather than rely upon the latter for its own allocation. The KRG has also drafted its own oil legislation and signed a number of exploration agreements with international oil companies (IOCs), prompting the Ministry of Oil to blacklist the offending IOCs including several European companies. The resolution of this impasse between the federal government and the KRG would offer the prospect of a significant boost in energy supplies to Europe, including the prospect of export through Turkey.

Ways for Europe to Engage

EU-Iraq energy co-operation is lagging behind that between Iraq and other major energy consumers – last June the Japanese government announced that it would invest EUR 1.6 billion towards improving Iraq's energy infrastructure and providing training for Iraqi officials working in the energy sector.[7] The delay in upgrading the EU-Iraq energy dialogue has been blamed on the lack of a new hydrocarbons law and the desire to move in stages – a MoU on energy will follow the successful conclusion of a Trade and Cooperation Agreement (TCA). Both the MoU and the TCA offer little in the way of concrete advantage to Iraq in securing access to European markets however and Iraq will not enjoy the preferential treatment shown to the members of the Union for the Mediterranean (UfM). This should be rethought given the importance of Iraq to Europe's political and economic security. The EU should also provide the expertise and, if necessary, the funding to link Iraq to regional pipelines, ensuring the extension of the Arab Gas pipeline but also the repair and maintenance of the Iraq-Syria-Lebanon oil pipeline (ISLP). The 2004 EU strategy for engagement in Iraq is now sorely outdated. The situation has changed considerably: Iraq now has a democratically elected government, an emerging security capacity and recently negotiated a timetable for a US military withdrawal. In 2009 the EU should commit to a programme of bi-lateral capacity building in Iraq (more cost-effective than previous crisis funding of UN activities during the worst years of violence) and, in co-operation with Turkey, to an enhanced diplomatic role to broker compromise between the federal government and the provinces. Such a strategy, implemented by a newly-appointed EU Special Representative, would be an overdue recognition of European interests in Iraq.

Conclusion

Energy wealth is both the greatest asset and threat to Iraq's development. Iraq's government faces three key tests if it is to harness its hydrocarbon resources for the benefit of the Iraqi population: 1) Passing a hydrocarbons law which provides a workable compromise between federal and provincial control over energy resources; 2) Balancing the need to urgently upgrade energy infrastructure by working with International Oil Companies (IOCs) while allaying entrenched suspicions over external investment in the energy sector and; 3) Increasing government capacity to efficiently execute the national budget. These are stern tests for Iraq's future – by moving to introduce a bi-lateral capacity building programme in Iraq the EU can significantly improve the likelihood of Iraq finding and implementing the necessary solutions.

6. Y. Said, "Political dynamics in Iraq within the context of the surge", Washington DC: Submission to the Unties States' Senate Foreign Relations Committee, 2 April 2008
7. Oil and Gas Journal, "Japan to aid Iraq in rebuilding oil, gas industry", 28 June 2008

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