



US TROOPS: NO AGREEMENT YET ON WITHDRAWAL TERMS

Bombings and militias imperil US troop withdrawal

The coordinated wave of terrorist bombings that claimed more than 80 lives in mid-August has magnified concerns that prime minister **Nouri Al-Maliki**'s government may not be able to retain order after the withdrawal of US forces in December.

The administration is under pressure both from the recent apparently **Al-Qa'ida**-orchestrated attacks and also from the threat posed by increasingly restless Shia militias on the other side of the sectarian divide. (See below for articles examining the sectarian squeeze being placed on the administration from Tehran-backed Shia militias on one hand and the **Al-Qa'ida** bombings on the other, including their likely impact on the US withdrawal.)

The precise terms of the US military withdrawal have yet to be approved. An informal deadline to decide how many, if any, troops stay behind and in precisely what capacity passes this month. During July, the fractured political blocs in parliament indefinitely postponed two meetings at which the US withdrawal was supposed to be discussed. MPs were unable to resolve their differences, despite Al-Maliki instructing his cabinet that a decision was needed in August.

Formally, the US administration has not set any date by when it would like a decision. But American officials have nevertheless been urging Iraqi leaders to make up their minds quickly, if only to ease the logistical challenge ahead. If the end-of-year deadline for full

withdrawal is to be met, the US military needs to begin dismantling its huge infrastructure in Iraq this summer. US army Major General **Jeffrey Buchanan** told **CNN** that "it becomes less feasible to support a new request once we begin reposturing our troops" and that it would be in Iraq's benefit to ask for help now, "while we have troops here and infrastructure here".

By the end of the first week of August, Iraqi leaders had agreed to start negotiations with Washington on extending the mission of US forces, but had not settled on a final extension agreement and had refrained from formally requesting or denying that troops might stay beyond December. Given that the political blocs are not able to reach a consensus and that the

majority of the Iraqi population favour a troop withdrawal, the most likely scenario is that the US will be asked to supply several thousand civilian security personnel to train the Iraqi military. These trainers will not be active-duty military personnel but soldiers and police contracted to the US government.

An estimate of 2,000-3,000 trainers is predicted, but as these personnel would need security, technical and logistic support, the total number of contractors could be about 5,000. Washington has offered to supply up to 10,000 training troops. Al-Maliki has previously said that Iraq "has bought US weapons, tanks, planes and will buy fighter jets", and therefore he considers trainers for the equipment as a necessary >>>

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add-on. As acting defence and security minister, he recently announced his government would buy 36 F-16 fighters from the US, double the number it had initially planned to buy. However, it is not necessary for Iraq to employ American trainers, as other countries such as Russia may also offer technological supplies to Iraq, possibly at a lower price than the US.

This key difference between requesting extra troops or additional trainers is important to Al-Maliki. Taking the middle ground by not extending a US armed presence but nevertheless ensuring Iraqi security forces continue to receive adequate training from American specialists may be his best bet in quelling factional tensions.

Al-Maliki initially hoped that such a step would allow him to bypass parliament - where it would be difficult to secure a majority to authorise the continuing presence of US trainers - and instead have his ministries sign an agreement with Washington. However, US officials are insisting on assurance of legal immunity from prosecution for all US personnel, including soldiers and trainers. As this implies non-implementation of Iraqi law for US troops, the exemption would have to be approved by parliament. Local politicians and party leaders are apprehensive about Washington's request for immunity, as it leads them to suspect that

the remaining trainers could engage in combat operations and may continue to interfere in Iraqi internal affairs.

Iranian-backed violence increases

While the question of withdrawal remains unclear, there has been a rising incidence of attacks against the 44,000 US troops still stationed in Iraq. On 30 July Special Inspector General for Iraq Reconstruction (SIGIR) **Stuart W Bowen** released his 30th quarterly report under the rubric 'A Summer of Uncertainty'. In his introduction, Bowen stated that "Iraq remains an extraordinarily dangerous place to work. It is less safe, in my judgment, than 12 months ago." He described June as "the deadliest month for US troops in more than two years". The killing of 15 soldiers that month was the largest loss of life among US troops since 2008. He blamed Shia militias - "possibly armed and trained by Iran" - for some lethal attacks, possibly including an increase in indirect fire on the International Zone.

Fears are growing of a possible increase in violent insurgency as Iranian-backed Shia militias are believed to be equipping themselves for a major campaign against the Al-Maliki government. On 26 July, US Army chief of staff General **Martin Dempsey** (whom President **Barack Obama** has picked as the next chairman of the Joint Chiefs of Staff) told the Senate

Armed Services Committee that Iran's support for Shia militias in Iraq was designed to trigger a "Beirut-like moment", such as the 1983 suicide bombing of a Marine Corps barracks in Lebanon, which killed 241 servicemen, ultimately driving the US out of the country. He said Tehran might "make a serious miscalculation of US resolve".

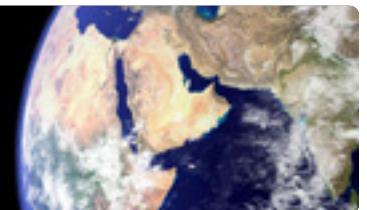
US military commander in Iraq General **Ray Odierno** stated that Iran continues to fund and train its proxies in Iraq, "specifically going after the remnants of our US presence". These concerns are focused on the role played by the **Al-Quds Force**, the elite unit of the **Revolutionary Guard Corps** led by **Qassem Suleimani**, who personally wields considerable influence on Iranian policy towards Iraq. Washington's fears of Iran increasingly controlling the future of Iraq are heightened by the prospect of troop withdrawal leading to a change of power dynamics in the region - contributing to the possibility of Iran taking advantage of Iraq's vulnerability. General Buchanan told a forum with the Pentagon Press Association on 16 August that because the Al-Quds Force directly supports Shia militias within Iraq, "they represent a greater existential threat to the Iraqi government than Al-Qaeda".

No consensus on Shia threat

SIGIR's conclusions were not universally welcomed in Washington. Some senior US >>>

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officials, including outgoing chairman of the joint chiefs of staff Admiral **Mike Mullen** speedily put forward a different analysis. Mullen told a news conference at a military camp in Baghdad on 2 August that there had been a significant decline in attacks carried out by Iran-backed Shia militias after June. Without giving specific figures, Mullen said that “we have seen a dramatic reduction in these deadly attacks”. **Al-Jazeera** commented that this was “news to a lot of Iraqis”, especially since July’s death toll was the second highest of the year, with 259 Iraqis killed. Mullen’s demands for a quick decision on troop withdrawal suggested that his perhaps overly rosy view of security was intended to bolster the case for US troops leaving Iraq on time and as agreed.

Disagreeing with Mullen’s security assessment, US Republican senator **John McCain** called for 13,000 US troops to remain stationed in Iraq into 2012 – putting him at odds with growing calls from within the **Republican Party** for the troops to return. He said this was necessary to ensure peace around “hot spots” such as the disputed oil region of Kirkuk and argued that this was in America’s economic and security interests in the region.

The Sadr quandary

The figure who most potently encapsulates the quandary facing both US and Iraqi strategists as

they consider the vying security and political concerns around the issue of withdrawal is **Sadr Movement** leader **Muqtada al-Sadr**. The cleric, whose political party controls 39 seats in parliament and which is still a somewhat reluctant supporter of the government, has vowed to escalate protests and reconstitute his militia if the US military does not withdraw as scheduled. He has placed himself in direct opposition to any compromise on this issue, warning that military trainers will also be attacked if they stay beyond the end of the year. “Whoever stays in Iraq will be treated as an unjust invader and should be opposed with military resistance,” Sadr said in a statement published on a pro-Sadr website on 7 August.

But while a speedy withdrawal would remove Sadr’s motivation for greater militia activity, it would also significantly weaken the government’s ability to withstand an Iran-backed militia threat.

Sadr demobilised his **Mahdi Army** militia in 2008 following Al-Maliki’s Charge of the Knights crackdown on criminal gangs and armed groups in and around Basra. Since then it has splintered into dozens of criminal groups – some now probably beyond his control. Additionally, some tribal leaders loyal to Sadr have set up tents in eastern Baghdad, preparing to battle the American ‘occupiers’.

In addition to this dynamic, the Sadrists are increasingly mobilising politically instead of militarily, stepping up local organisation and establishing strongholds in various provinces. This has created a conflict between the movement’s role as a resistance force and a political organisation.

Next Century Foundation Iraq senior analyst **Ranj Alaaldin** told **Iraq Focus** that, while the “Mahdi Army does retain the capacity to undermine the security situation in Iraq”, the “question is whether they are willing to do so”. Over the past years they have gained some political ascendancy which would be lost if they were to revert to being a guerrilla organisation. To stage an insurgency would lead to their being “accused of igniting another civil war and would be attacking fellow Iraqis”, their organisation would lose popular support and suffer politically as a result, he argued. It may therefore remain within the government agitating for withdrawal, claiming each successive draw-down as a victory.

At the heart of the issue surrounding troop withdrawal is the question of whether the Iraqi armed and security forces are capable of handling both internal and border security on their own. Alaaldin noted that over the years the “Iraqi security forces have become much more organised and effective”, adding that “armed

groups are no longer able to challenge them in a sustainable manner”. However, as there remain “hostile elements” within the country, US assistance would be needed to supply intelligence capabilities that could be “combined with a small group of forces as a contingency in the event things get out of hand”.

It is equally arguable that the presence of US troops on Iraqi soil makes life even harder for the Iraqi government to maintain security. Vice president **Tarek Al-Hashemi** has argued that the withdrawal will lead to an improvement in the security situation by calming neighbouring countries which feel threatened by American combat forces. Some analysts argue that a civilian-led mission would be better equipped to counter Iranian attempts at gaining dominance in the region than a military force. In a recently published analysis in **Foreign Affairs**, **Council on Foreign Relations** fellow **Micah Zenko** argued there is no reason to believe that a permanent deployment of US troops would be able to shut down the Iranian weapons pipeline to insurgents, seeing as this has already proved impossible over the past decade.

The Kurdish factor

Besides violent encounters between Iranian-backed Shia militias and Sunni forces in southern Iraq, the tension between the Arabs and Kurds in the north of the country could also lead to trouble after the withdrawal. A majority of the inhabitants of Iraqi Kurdistan seem to favour an extension of the troops’ presence. They fear that federal forces are not ready to ensure internal security. Minister **Falah Mustafa Bakir**, who leads the Kurdistan Regional Government Department of Foreign >>>

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Relations, told independent Kurdish online newspaper *Rudaw* that “Iraqi security forces need more time to gain the experience required to defend Iraq”, adding that the presence of US troops “has been the key to keeping the peace between religious and ethnic groups”.

Ramadan massacres blamed on Al-Qa’ida

The series of bomb attacks on 15 August killed 65–80 people and wounded upwards of 265, according to various estimates. The seemingly coordinated attacks were carried out across the country, targeting mainly Shia areas.

Iraq was hit by a similar outbreak of violence last year during the holy month of Ramadan, which like these was blamed on the **Al-Qa’ida in Mesopotamia** (AQIM) organisation.

No groups have claimed responsibility. But in the week before the attacks a recording was posted on an extremist website announcing that AQIM was preparing for a wide-scale strike. The spokesman in the recording said, “Do not worry, the days of Zarqawi are going to return soon, we have men who have divorced themselves from life and love death more than you love life, and killing is one of their wishes.”

Prime minister **Nouri Al-Maliki** condemned the attacks in a statement to the **National Iraqi News Agency** (NINA), saying that “these criminals conducting such a crime in this holy month of Ramadan assert once again that they are void of any religious or human restraints, they will not get away with these crimes and

they will be hunted down by the security forces and they will be punished”.

Officials said that the attacks, which took place following a period of relative calm, were an attempt to destabilise the country and undermine confidence in the security forces. In an interview with **Reuters**, Major General **Qassim Al-Moussawi**, a spokesman for Baghdad security operations, said that “these attacks ... are trying to influence the security situation and undermine confidence in the security forces”.

Some commentators believe that AQIM may even be attempting to ensure that some US troops remain after December, to provide an ongoing justification for its campaign of violence. **Hamid Fhadil**, a political science professor from Baghdad University, told the *New York Times* that “If the Americans leave, Al-Qa’ida will no longer have an excuse to operate throughout the country. Al-Qa’ida wants Americans to stay here so they will have Iraq as a battlefield to fight the Americans.”

A number of the attacks targeted the police and security forces across the country. In the centre of Tikrit, two suicide bombers wearing military uniform launched attacks on the Counterterrorism Directorate. A bomb detonated at an army check point in Baquba and an IED in Ramadi targeted a police patrol. Kurdish MP and member of the security committee **Shawn Mohammed Taha** told the *New York Times* that “Our forces are supposed to have the intelligence capabilities to prevent these types of breaches. The fact is, the insurgents have acted like our security forces don’t even exist.” >>>

Violent attacks in Iraq, 14–16 August

LOCATION	TYPE OF ATTACK	DEAD/WOUNDED	
Baghdad			
Ali’lam, south-west Baghdad	IED	1/7	
Ghazaliya, west Baghdad	bomb	-/3	
Al-Ameerat Street, Mansour, west Baghdad	road-side bomb	-/5	
Antar Square, Adhamiya, north Baghdad	2 IEDs	1 lieutenant/6	
Karkh, west Baghdad	bomb	-/-	
Police Checkpoint, Taij, north of Baghdad	2 suicide car bombers	1/9	
Yusifiya, south of Baghdad	shootings	7/-	
Diyala province			
Army checkpoint, Baquba	bomb	4 soldiers/-	
Muqyadiya, north-east of Baquba	car bomb	-/10	10
Bani Saad, south of Baquba	car bomb	20 dead and wounded	
Galbiya, north-west of Baquba	IED attached to car	-/1	1
North-west of Baquba	roadside bomb	-/2	
Al Tahrir neighbourhood, Baquba	roadside bomb	-/2	
Buhriz, south of Baquba	shooting	2/-	
Karbala			
Al Hindiya district	car bomb	2/30	
Kirkuk*			
Khadra neighbourhood, West Kirkuk	shooting	1/2 policemen	
Near to a church in city centre	car bomb	-/-	
<i>*Three other bombs defused</i>			
Kut			
Al-Abasiya	motorcycle bomb	34/64	
Mosul			
Hatra, north-east Mosul	IED	1 policeman/3	
Najaf			
City centre	2 car bombs	11/5	
Ramadi			
City centre	IED	3 policemen/2	
Salah al-Din			
Tikrit Counterterrorism Directorate	2 suicide bombers	2/8	
Abo Safeh, near Tikrit	IED	-/police chief, 2 civilians	
Balad, south of Tikrit	IED	-/6	

Source: National Iraqi News Agency

The city of Kut in central Iraq suffered the deadliest attack. A motorcycle bomb exploded during the morning rush hour in the Al-Abasiya district near a number of repair shops for electrical equipment. The bomb killed 34 and injured 64 people as well as causing significant damage to nearby shops. According to NINA, local police responded with a curfew “to reorganise security operations and deny terrorists the opportunity to carry out more attacks against citizens”.

The holy Shia cities of Najaf and Karbala were both hit by car bombs. A local official told the government news agency he believed the attacks to carry the hallmark of Al-Qa’ida. Baghdad was struck by several bombs. In addition, seven members of the Sahwa (Awakening) Movement were shot during prayers in Yusifia. Armed men in dressed in military uniforms entered the Tawab Mosque, called out their names from a list and then led the men outside and executed them. The gunmen left a piece of paper by the bodies with ‘Al-Qa’ida in Mesopotamia’ written on it.

Politics and security

Government restructuring incomplete

Prime minister **Nouri Al-Maliki** cut the number of ministers from 43 to 31 in late July in an attempt to streamline the cabinet. Seven of the abolished positions were for ministers without

portfolio. Three of them belonged to **Iraqiya**, while just one was from the **State of Law Alliance**. Several of the smallest parties in the government lost representatives.

Meanwhile, Al-Maliki has continued personally to hold the position of both acting defence and interior minister as political consensus about appointments to these positions remains elusive. Iraqiya has agreed to present three candidates for the post of minister of defence, but has not put forward any names yet. Press reports on 12 August speculated that former interior minister **Jawad Al-Bulani** might be recommended as defence minister and that the **Islamic Supreme Council of Iraq (ISCI)** has expressed support for his nomination. Bulani led the **Unity of Iraq** coalition which recently merged with Iraqiya (see below). He is a secular Shia and so would be an interesting compromise candidate for Iraqiya, which broadly represents Sunni interests, although its leader **Ayad Allawi** is also Shia. The defence post was widely expected to go to a Sunni, while the interior minister position was to be filled by a Shia. Another possible candidate for defence minister is current culture minister **Sadun Al-Dulaymi**.

A number of mergers and splits over the past months have left the main political groups increasingly polarised on secular grounds.

On 2 August, *Al-Sumaria* reported that the **Al-Wassat (Centre) Alliance** bloc, which has about 10 MPs, joined the Iraqiya bloc. This means that Iraqiya now controls 92 seats in parliament. Bulani’s secular Unity of Iraq bloc, which is mostly supported by Sunnis, merged with Iraqiya in July. Iraqiya had previously lost about

Party control over institutions and ministries

State of Law

Khudair Al-Khizajj Vice-president
Nouri Al-Maliki Prime minister and acting defence and security minister
Hussein Al-Shahristani Deputy prime minister responsible for energy
Abd Al-Karim Luaibi Oil
Jasmin Muhammad Jafaar Sports
Muhammad Shiya al-Sudani of Maysan Human rights
Ali Al-Adib Higher education
Amir Al-Khuzai National dialogue
Safa Al-Din Al-Safi Minister of state for parliamentary affairs
Ibtihal Jasid Minister of state for women’s affairs

Iraqiya

Tarek Al-Hashemi Vice-president
Saleh Al-Mutlak Deputy premier
Rafi Al-Eisawi Finance
Izz Al-Din Al-Dawla Agriculture
Muhammad Tamim Education
Abd Al-Karim Al-Samarraie Science and technology
Muhammad Allawi Communications
Ahmad Al-Karbuli Industry
Raad Shalal Al-Ani Electricity (dismissed on 6 August)
Unity of Iraq (now as part of Iraqiya)
Sadun Al-Dulaymi Culture

Sadrists

Nassar Al-Rubayie Labour
Muhammad Al-Darraji Housing and development
Adil Mahudar Portfolio of municipalities
Ali Yusuf Abd Al-Nabi Planning
Liwaa Semeism Tourism
Mohammed Al-Saadi Water

Fadhila

Hasan Al-Shammari Justice

ISCI

Hadi Al-Amiri Transport

Kurdistan Democratic Party

Hoshiyar Zebari Foreign affairs
Khairalla Hasan Trade

Kurdistan Islamic Union

Dindar Najman Displacement and migration

Patriotic Union of Kurdistan

Jalal Talabani President
Majeed Hamad Amin Health

Assyrian Democratic Movement

Sargon Lazon Silwah Environment

Turkomen Front (close to Iraqiya)

Turhan Al-Mufti Minister of state for provincial affairs

eight seats after the Shia-dominated **White Iraqiya** left the main party because it felt Allawi was monopolising decision-making.

Although it is the largest single party, Iraqiya plays a junior role in the governing coalition as it was unable to pull together a majority >>>

Which parties have lost which ministers?

State of Law

Ali Al-Dabbagh Minister of state (government spokesman)

Amir Al-Khuzaje Minister of state for national reconciliation

Iraqiya

Salah Al-Jibburi Minister of state without portfolio

Jamil Al-Batikh Tribal affairs

Ali-Al-Sajri Minister of state for foreign affairs

Sadrists

Abd Al-Mahdi Al-Mutayri Minister of state without portfolio

Diya Al-Asadi Minister of state without portfolio

Fadhila

Bushra Hussein Minister of state without portfolio

ISCI

Hasan Radhi Minister of state without portfolio

Yasin Hasan Muhammad Minister of state without portfolio

Kurdistan Alliance

Dakhil Qassim Hassoun Minister of state for civil society

under its own leadership during the lengthy government-forming negotiations. As a concession, Allawi was awarded the leadership position of the yet to be formed **National Council for Strategic Policies**. Parliament has finally voted in principle to establish this still nebulous body, which is not defined by the constitution, but is intended to curb Al-Maliki's influence in the security sector and to draw up long-term policies.

Norwegian Institute of International Affairs research fellow **Reidar Visser**, who runs the historiae.org blog, described the council as a parallel government in everything but name, except that it will not be based on ministerial inputs. Its existence will be underpinned by an ordinary law rather than by a constitutional-type basic law. The council will include the president and his deputies, the prime minister and his deputies, and the parliament's speaker. Additionally, the Kurdistan regional president, the head of the federal supreme court and two representatives from each of the four major parliamentary blocs will also be represented.

It remains to be seen how much policy it is allowed to formulate. The State of Law Alliance wishes to see it as essentially a consultative body; Iraqiya hopes it will wield executive power when decisions are carried by 80% of the members' votes. Given Iraq's track record,

however, it is doubtful whether an 80% majority on any issue can be produced. Its formation means that it is most likely to replicate stalemates already existing between the blocs, rather than introducing any fresh dynamic to solve parliamentary impasses. It is therefore likely to be as ineffective as the current oversized parliament, and will probably mainly strengthen the stature of Allawi, as its proposed leader.

Official corruption impedes development and investment

Iraq may have lost nearly \$59 billion through financial corruption since the fall of the **Saddam Hussein** regime. Sectors where corruption is most prevalent include oil, electricity supply, weapons procurement and food distribution, according to an MP serving on Iraq's Integrity Committee cited by independent Kurdish newspaper *Rudaw*.

Corruption allegations against officials, including some ministers, have steadily increased over the past years. Most recently, electricity minister **Raad Shalal Al-Ani** was alleged to have signed improper deals. The truth of the accusations made against him has yet to be established (see

Energy industry, page 8). The electricity sector is particularly vulnerable to allegations of graft and theft as so much money has been spent with so little return. In most neighbourhoods power is till only available at best for six hours a day. It is rumoured that natural gas shipments destined for power stations are frequently stolen in collusion with officials.

In recent times, a trends of 'accidental' fires in government ministries has also been tied to the possibility that officials have resorted to arson to destroy documents and hide evidence of corruption. The Iraqi commission on integrity, an independent body working on uncovering corruption within the Iraq government, has reported a rise in small fires in governmental and ministerial buildings since 2009, when prime minister **Nouri Al-Maliki** announced a national anti-corruption campaign. Documents generally do not exist in digital form, making them easy to destroy in this way. On 30 June this year a fire broke out in the Interior Ministry and on 4 July a blaze started in the certificates office of the Ministry of Higher Education. Both incidents were blamed on electrical short circuits.

Alongside poor security and difficult logistics, bureaucracy and corruption rank amongst the highest barriers to entry for foreign investors hoping to do business in the country. >>>

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Registering and licensing a business in Iraq takes up to eight months – compared to a week in Dubai. **Transparency International's** corruption perceptions index ranks Iraq among the world's most corrupt nations – just behind Somalia, Afghanistan and Myanmar.

The KRG

Big players move into Kurdish oil

The Kurdistan region's oil sector has turned a significant corner. Although it is still some way from being officially recognised as legitimate by Baghdad, it has signed up a number of substantial international oil companies. The fact that major players such as London Stock Exchange-listed **Afren**, US independent **Hess** and Spain's leading oil company **Repsol** have all committed to Kurdistan Regional Government (KRG) production-sharing agreements is the strongest indication so far that Erbil is likely to get its way on the autonomous management of its resources.

It is also noticeable that the KRG now requires a significantly higher calibre of company to sign up for exploration than it did just a few years ago, when a number of previously unheard-of companies were able to sign up for fairly promising blocks. Many of these small

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independents must now be hopefully waiting for more senior players either to farm in to their assets or to buy them out completely.

At the end of July, London-listed oil exploration company Afren invested \$588.2 million in two KRG production-sharing contracts – Barda Rash and Ain Sifni. The licence periods run until 2023. This is Afren's first major acquisition outside Africa and the company expects to produce 75,000 b/d from the Barda Rash field by 2017.

Hess has also signed PSCs with the KRG for the previously unlicensed Dinarta and Shakrok blocks north of Erbil. It will operate both blocks, holding a 64% participating interest. Dublin Stock Exchange-listed **Petroceltic International** (previously known for a highly successful discovery in Algeria) holds a 16% interest. The KRG retains a 20% stake. Repsol has signed contracts for two previously unlicensed Kurdistan blocks – Piramagrün and Qala Dze – but did not release details of planned investments or the size of the signature bonus.

Gulf Keystone, the London AIM-listed independent oil and gas exploration and production company with operations solely in Kurdistan, found its second oil discovery near Erbil, one of the largest discoveries to date.

The Sheikh Adi discovery is estimated to contain between 1 billion and 3 billion barrels of oil, while its other discovery in 2009 at Shaikan, a neighbouring block, contains about 5 billion–11 billion barrels of oil. The Sheikh Adi discovery boosted the company's share price by 12%. Gulf Keystone holds an 80% interest in the Sheikh Adi block and the KRG the other 20%.

Erbil-Baghdad divide continues

The Green Line border which divides Iraqi Kurdistan from the rest of the country is still a fundamental dividing line for oil companies. None of the majors or other international contenders for technical service agreements at fields offered by the federal Ministry of Oil have ventured north. Although its stance has softened over the past six months, the ministry still regards KRG contracts as illegal. It announced it would blacklist companies which have signed Erbil's PSCs, excluding them from participation in the fourth licensing round.

But while the formal refusal to accept the legality of the KRG's deals persists, a more pragmatic approach is allowing those companies already able to export oil to get paid for it. Beneficiaries of this compromise include Norway's **DNO**, which operates the Tawke field, and **Sinopec** subsidiary **Addax**, which operates the Taq Taq field in joint venture with Turkey's **Genel Energy**.

A deal negotiated in February entitles Kurdistan to about half of the gross export revenue, which is collected by the **State Oil Marketing Organisation** in Baghdad. This is used to reimburse the production costs of the international companies. In May, Somo returned \$243 million to the KRG for cost recovery on more than 5 million barrels exported in the previous two months. The KRG is, in any case, entitled to 17% of Iraq's net oil revenues.

The region holds some 45 billion barrels of oil and around 100 trillion–200 trillion cubic feet of gas, according to estimates by KRG natural resources minister **Ashti Hawrami**.

Kirkuk – security and oil

US troops are withdrawing from some of Iraq's disputed territories that border the Kurdistan region, leaving a joint Arab-Kurdish force – known as the Golden Lions security unit – to man checkpoints and protect the volatile areas. Both the Kurdish authorities and the government in Baghdad claim land in Ninewa, Diyala and Kirkuk provinces.

Kirkuk is an extremely sensitive region as the disputed border city sits on top of 4% of the world's oil reserves. Consequently the desire to bring Kirkuk into Kurdistan is not just about administering territory but increasingly about controlling huge oil revenues. Although overall Kirkuk has witnessed less violence than the rest of the country, a recent series of bombings and assassinations in the province instigated fears that the situation might deteriorate as the joint security forces taking over are suspected to exhibit too little neutrality. Citizens fear that local forces are not able to provide security guarantees and stability.

Sirwan Ahmed, a Kurdish lawmaker in the Iraqi parliament, was quoted by the *Kurdish Globe* saying the region's and indeed the country's continuous chaos and instability are mainly due to the disunity among Iraqi political blocs. "If there were a real political determination, Iran could not shell our borders," Ahmed said. The lack of coordination among Kirkuk's security forces intensifies the level of violence. Both the **Kurdistan Democratic Party** and **Patriotic Union of Kurdistan** deploy their own intelligence forces in the city. Ahmed said the unification of the two forces would be a >>>

first step toward stabilising the city's security situation.

Housing prices rise

Erbil, the capital of Iraqi Kurdistan, is undergoing a building boom as developments rise at around the same rate as real-estate prices rise. The city's authorities say that over the past 11 years more than 100,000 pieces of land were sold or given to builders.

In 2006, the KRG passed a law to encourage regional investments by treating foreign and local investors and capital equally. A third of the subsequent investment projects were for housing. Yet, despite all the construction and low-cost housing subsidies, the city suffers from a housing shortage and Erbil's poorer citizens cannot afford the escalating prices.

Foreign companies investing in Iraq tend to see the semi-autonomous region of Iraqi Kurdistan as the best base for their operations in the country. This influx of foreigners is driving real estate prices upwards as incomers are prepared to pay more for housing.

Energy industry

Corruption allegations intensify electricity crisis

Iraq's power sector remains mired in chaos and depressingly resistant to attempts to increase electricity supply to households from more than a few hours a day.

Elements of an emergency programme to construct several thousand megawatts of generation capacity in various parts of the country were recently placed in doubt after prime minister **Nouri Al-Maliki** dismissed electricity minister **Raad Shalal Al-Ani** on 6 August. The minister has been accused of corruption in relation to a pair of large procurement contracts. His dismissal will have to be approved by parliament in the coming weeks and until then he is continuing to carry out his daily tasks. The furore - which also has political undertones - could complicate efforts to attract further investors into the sector.

Following the accusations against Al-Ani, the government cancelled a \$1.2 billion contract with privately-owned Vancouver-based **Canadian Alliance for Power Generation Equipment** (Cagpent) to install 10 100MW diesel generators in Anbar and Salahaddin provinces. It also cancelled a \$623 million deal with Germany's **Maschinerbau Halberstadt** (MBH) to build five power plants in Ninewa province. These contracts were part of an emergency programme to build 50 small generation units over the whole country.

Electricity Ministry spokesman **Musa'ab Al-Mudaris** announced the award of both contracts at the beginning of July. Soon afterwards a former government minister now based in Canada contacted the prime minister's office claiming that neither company was an acceptable contractor, and that they had presented misleading information regarding both their legal and financial status and technical ability. The deputy prime minister responsible for energy, **Hussein Al-Shahristani**, said at a press conference in Baghdad that the Canadian company was "a company on paper only" and that MBH had announced its bankruptcy in February 2011.

Track records examined

The truth of these allegations has yet to be established. In the case of MBH, the main charge has already been demonstrated to be imprecise. The company was established in 1951 and claims to have designed and installed more than 15 co-generation power plants in Germany, and other projects in Chad, Indonesia and India.

It appears to have run into financial problems about a year ago, but according to a 13 May statement from Magdeburg-based insolvency lawyer **Müller & Rautmann** the business was "saved" and its liabilities met in full by Lebanon-based **Sakr Power Group** (SPG), which was already involved in the company. According to its website, SPG has been involved in Iraq since 1998, and in recent years has supplied power generation units to both the Kurdistan regional ministry of electricity and the federal ministry. It also provided generators to the **Pepsi** plant in Baghdad.

Cagpent has a less convincing track record. Its website cites the involvement of its principals in a number of power generation projects without identifying any of them. It says that its services include: "consultations, feasibility and >>>

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technical studies, financing and construction works". On 7 July, Capgent said that its managing director **Muhannad Samara** had signed a final binding agreement with **Unatrac** manager of electric power projects **Islam Tag el-Din** to supply it with 230 **Caterpillar** 3616 HFO-operated generators. Unatrac is a subsidiary of **Mantrac Group**, whose **Iratrac** subsidiary is Caterpillar's sole dealer in Iraq. Mantrac is itself part of the Cairo-based trading multinational **Mansour Group**.

Complex political undertones

The political context to Al-Ani's dismissal is also complex. It appears that Al-Maliki sacked him after he failed to offer any adequate defence of his ministry's position on these two contracts. The minister was nominated to his position less than six months ago by the 'Solutions' faction from within the **Iraqiya** block, which has already accused Al-Maliki of not honouring his side of the governmental power-sharing agreement.

Al-Ani's defenders have pointed out that the contracts now under question were discussed in an Al-Shahristani-led energy committee.

National Alliance MP **Ahmad Al-Jabali** also accused the Ministry of Oil of having secretly rewritten the texts of the contracts with the two companies in question. Al-Shahristani denied these allegations and threatened to sue Al-Jabali, charging him with intending to achieve 'cheap' political goals, Iraqi network **Al-Sumaria** reported on 9 August.

The government says it has not lost any money as both companies were only going to be paid once they had completed their contracts. But the decision to entrust major strategic

infrastructure projects in the socially and politically sensitive electric power sector to such companies, at least one of which appears to have no serious track record, is hard to defend. The financial structure of the deal means that the contractors were required to make substantial up-front investments in facilities, yet these were to be financed by entities without substantial credibility.

This latest false start further postpones the implementation of stop-gap measures to bring generation capacity up to where it should be. According to one estimate, current installed capacity is about 9,000MW. Domestic electricity production and imports from Syria and Iran amount to around 7,000MW, while peak load in the height of summer is about 14,000MW.

Iraq's power infrastructure was damaged during the First Gulf War in 1991. The subsequent economic sanctions made repairs difficult. Further damage to the system resulted from attacks during the 2003 US-led invasion. The cumulative damage has yet to be fixed.

The government's power sector development plan involves investing about \$4 billion a year to triple installed capacity in four years. However, out of the \$27 billion spent on the sector over the past seven years only \$7 billion was invested in facilities.

With temperatures as high as 50°C this summer, Iraqis have been protesting about the poor power supplies which allow the population just a few hours of electricity a day. Those protests led to the resignation of **Karim Wahid** as electricity minister, and now, after only six

months in the job, new minister Al-Ani looks about to follow him out of the door.

Energy deals with Iran

Iranian company **Ego** has agreed with the Electricity Ministry to construct 10 power generation plants in the southern Iraqi province of Diwaniyah. Iran will thereby increase its overall supply of electric power for Iraq by nearly a third – rising from the current 800MW to about 1,250MW.

Iraq has recently been boosting its energy cooperation with Iran as the two contracted further significant deals such as the construction of a 5,600km pipeline to transit Iranian gas from the country's South Pars gas field to Iraq, Syria and Lebanon before it is being pumped to Europe. The estimated \$10 billion agreement between Iraq, Iran and Syria is the first step to an official agreement on the export and transit of natural gas between the three countries. Construction is expected to take three to five years and the pipeline will pump 110 million cubic metres a day of natural gas.

Apart from these gas deals, prime minister **Nouri Al-Maliki** also signed agreements to cooperate with Iran in the areas of culture, science, technology and transportation. Some Iraqis are hesitant about such increased business links with Iran, reflecting lingering concerns about Iranian dominance over their country. It is feared that Iran wants to increase trade with Iraq to circumvent international trade sanctions, imposed above all by the US. Some experts have voiced concerns that Iranian gas

will pass through Sunni majority areas and that if Iran feels the need to secure its pipelines it may send Iranian troops to protect its interests, which in turn would ignite tensions and violence between the two sectarian factions.

41 prequalify for fourth licensing round

Forty one international oil companies have pre-qualified to compete in Iraq's fourth international exploration licensing round in January. These include most of the companies that competed in earlier licensing rounds, including supermajors such as **Royal Dutch Shell**, **BP** and **ExxonMobil**. Some earlier contenders have been dropped. These include Dublin-based AIM-listed independent oil exploration company **Petrel Resources**, which was among eight smaller independent companies axed from the list of applicants. Petrel's shares fell by 18% as a result.

The Irish company had one of the longest track records of continuous involvement in post-Saddam Iraq of any oil company. It teamed up with **Makman Oil and Gas**, a subsidiary of the Kurdish business conglomerate **Kar Group**, in December 2005 to develop the Subba and Luhais fields in Basra governorate in the first oil field development deal agreed in post-liberation Iraq. Described as a \$197 million development services contract, it committed the company to developing minimum capacity of 200,000 b/d oil and 120mcf/d of associated gas from the fields.

The company did not find the project easy going, although compared to many other >>>

businesses attempting to gain traction in the oil sector at that time it was relatively successful in keeping its position. Petrel eventually took a back seat in the project in 2009, exchanging its operator role for that of financial partner in a major contractual reorganisation with its joint venture partner. Although it had other potential Iraq projects in its sights this strategic retreat probably marked the end of its small but leading role in the development of Iraqi oil and gas.

The fourth licensing round blocks are expected to add about 29 trillion cubic feet of natural gas to Iraq's current 126.7 trillion feet in gas reserves, as well as a further 10 billion barrels of oil to Iraq's current reserves of 143 billion barrels. Iraq badly needs to boost gas production to increase its power output.

Shell gas deal set for approval - at last

The Iraqi parliament is expected to ratify the **Shell/Mitsubishi \$13 billion Basra Gas Company (BGC)** joint venture with the **South Gas Company (SGC)** in coming weeks.

The 25-year agreement involves BGC gathering gas from the West Qurna 1, Rumaila and Zubair, and transferring it free of charge to SGC. BGC will purchase and process the raw gas before exporting it or selling it back to SGC for the domestic market where it would be sold at international prices.

The deal represents a victory for Shell, as the Iraqi government would have preferred the domestic market to obtain gas at a discount.

The first aim of the project is to speed up the development of domestic gas-fired power generation in order to alleviate the continued lack of electricity throughout the country and in turn reduce gas imports from Iran. It may also lead to new liquefied natural gas exports. It will involve the modernisation of energy facilities in Basra province and includes a gas-to-liquids project.

The controversial deal has been bitterly resisted by opposition within both the oil and gas sector and the parliament for about two years. The chief objection to the deal was that it would give Shell a monopoly position over southern Iraqi gas developments.

While the deal made its slow progress towards ratification, developments at the three main supergiant southern fields for which **ExxonMobil**, **Eni** and Shell signed service contracts in the first licensing round meant that volumes of flared gas have increased substantially. The international companies working with **South Oil Company** to develop those fields, have no right or incentive to utilise associated gas from their oil production. Iraq currently flares approximately 874 million cubic feet a day.

Chinese start work at Ahdab field

China National Petroleum Corporation (CNPC) signed a contract on 23 July for the Al-Ahdab field in the central Wasit province, situated about 160km south of Baghdad. The contract allows the Chinese company to develop the field

for 23 years. CNPC will charge a service fee of \$6 a barrel, decreasing it eventually to \$3. Production is expected to reach 120,000 b/d before the end of the year.

Al-Ahdab's crude reserves are estimated at 3 billion barrels, which could produce revenue of over \$40 billion.

China is one of the main players in Iraq's oil sector. In 2009 CNPC, together with **BP**, concluded a deal to increase production at Rumaila, Iraq's largest oil field with reserves estimated at 17.7 billion barrels. CNPC has since signed up to develop the southern Halfaya oil fields and also secured a deal to upgrade the Missan oil fields.

Business environment

Kuwait challenges Iraq with port investment

Kuwait has challenged Iraq's plans to become a transport hub at the northern end of the Gulf, with the announcement of the huge Mubarak Grand Port development on Bubiyan island which sits directly opposite Umm Qasr, the location of what is currently Iraq's largest port. The Gulf kingdom says that the port development will be completed in 2016 and will include container docks, deeper water harbours, a free trade zone, rail network and a residential area. The project's initial phases will cost \$2 billion, but it promises competitive advantages in technical and administrative terms.

The announcement has alarmed the Iraqi government, which has been talking up the possibility of developing its own deep water port at the tip of the Al-Faw peninsula for some years. Faw is currently nothing more than a small fishing village located just 20km away from where the Mubarak Grand Port is planned. Baghdad announced plans to create a new shipping centre there in 2005 as part of a multi-billion-dollar project designed to revitalise trade links. A new train connection linking the port to Turkey and Iran was also mooted.

But this ambitious idea has not proceeded beyond proposals and outlines, as Baghdad is still discussing how the project could be financed. The port itself is expected to cost €4.4 billion (\$6.28 billion). Domestic corruption and political turmoil have caused delays to the project, paving the way for Kuwaitis to move into a potentially lucrative empty space.

It is hard to imagine that both port projects can be viable. Given the lack of progress and disorganisation of Iraq's transport development plans, Kuwait has a good chance of completing its project first. Baghdad fears that Kuwait's port will not only inhibit the prospects for its planned Faw development, but may also impede its access to the Gulf more generally, which is the main export outlet for its oil shipments. Fears have also been raised over possible infringement of Iraq's territorial waters, prompting some political groups to claim that Kuwait is aiming to undermine Iraq's sovereignty.

For these reasons, the Iraqi government wants Kuwait to halt construction until it is >>>

established that the port will not negatively affect Iraq's maritime economy. Kuwait however is not willing to pause building work.

Cross-border relations at a new low

Bilateral relations between the neighbouring countries reached their lowest since the aftermath of the first Gulf war at the 2 August meeting between Kuwait's deputy prime minister Sheikh **Mohammad Sabah Al-Salem Al-Sabah** and Iraqi ambassador **Mohammad Hussein Bahrulum**. The latter ignited an old dispute, bringing up historical accusations that Kuwait is stealing oil by drilling slantwise into Iraqi territory. This and the ports dispute are particularly sensitive as the twin issues of access to Kuwait's shoreline and accusations over oil theft were amongst the main pretexts for **Saddam Hussein's** invasion of Kuwait in 1990.

In mid-August, Iraq decided to send a committee to Kuwait to examine the Mubarak Grand Port plans and to conduct a field study for the Iraqi cabinet on its potential effects. If the report concludes that the project will infringe Iraq's maritime rights or strangle its shipping lanes, it will take the case to the United Nations. According to prime minister **Nouri Al-Maliki**, UN regulations stipulate that Iraq should be entitled benefit from the Mubarak port. Iraq could take

legal action if Kuwait does not comply with these regulations.

Kuwait's defence ministry has taken security precautions against a possible threat from Iraq, mobilising coast guards and border security around Bubiyan island to protect the port's construction. The Kuwaiti forces were instructed to increase sea and land patrols and to "deal firmly with any target that may attempt to infiltrate Kuwait's borders", AFP news agency reported on 14 August. This development indicates that Kuwait has no intention to suspending the accelerating construction process.

Iraq is still paying 5% of its oil revenue into a UN war reparations fund for Kuwait. On 27 July, it paid out a further \$1.06 billion, taking the total paid so far to \$33.3 billion. University of Exeter professor of Gulf studies **Gerd Nonneman** said the construction of the port indicated Kuwait's growing self-confidence in the post-Saddam era.

The fact that the majority of inhabitants in the port city of Basra are Shia plays a further role in the dispute. On the one hand Iraqi Shia politicians are using the port as a foreign policy issue to unite their community. On the other hand, Kuwaitis appear frightened of an apparent Iranian-backed Shia expansion in the Gulf. "The

new Iraq is seen as threatening, and fear of Shiism is feeding Kuwait," Nonneman said.

There is an alternative, even it appears unlikely to get anywhere at present. If the two countries were to step up cooperation they could actually both profit from the economic and commercial benefits their projects promise. However, it would be vital for both sides to bury their differences and cooperate in strategic projects as a joint venture would grant both countries huge returns. A neutral, possibly foreign, company could determine the port's location according to technical and economic considerations, and equal shareholdings would offer both countries the highest possible returns.

Foreign investment increases

Despite the still precarious internal security situation and continuing concerns over operational risks, Iraq has seen an increase in foreign investment, growing from \$3.87 billion to \$42.67 billion in the past eight years, and attracting \$45 billion so far this year. Iraqi minister for planning **Ali Yusuf Abd Al-Nabi** is seeking to boost investment in the following year to \$51 billion.

The Iraqi stock exchange index has risen 40% this year, making it one of the top performing stock indices globally. **Hussein Qaragholi**, vice-president of the US-Iraq business council, recently said that this reflects a growing confidence in Iraq's stability on the part of foreign companies. However, it is mostly regional and Asian businesses that are investing in Iraq.

The US seems more hesitant and risk-averse. US companies have been slow to make use of Iraqi investment opportunities. A report on foreign commercial activity in Iraq by **Dunia Frontier Consultants** stated US companies represented only 4.7% of foreign investment. South Korea accounted for 24% of overseas investment, making it the largest foreign investor.

The oil sector is the main contributor to Iraq's GDP. The annual budget, and the government's plan to reform the economy, will most likely rely on expected increases in oil revenues – oil production is expected to grow to 3 million b/d by the end of the year – and on promotion of foreign direct investment. Investors recognise the potential of Iraq's oil-rich economy which is in need of development, especially in the areas of power generation and transmission, housing and infrastructure such as transport.

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