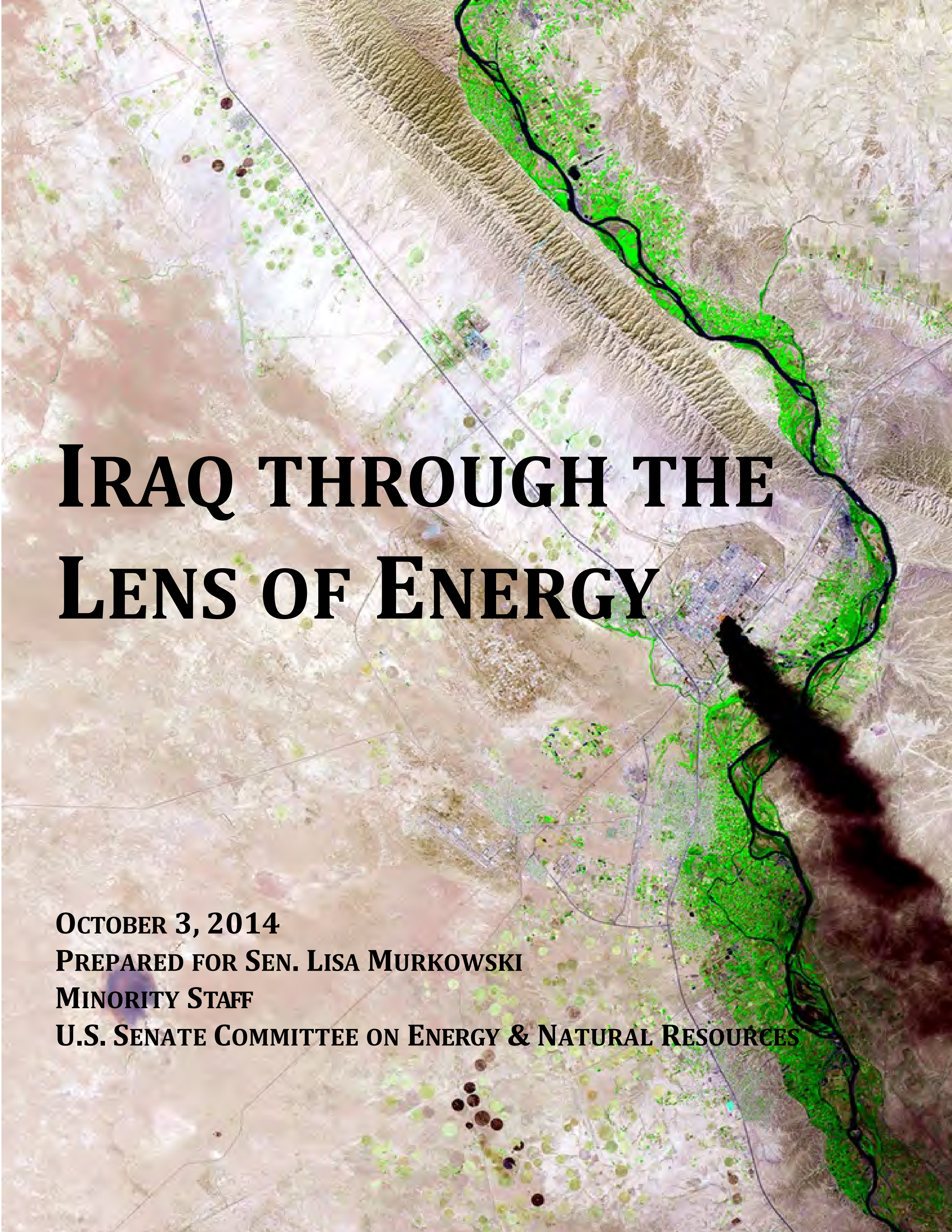

# IRAQ THROUGH THE LENS OF ENERGY

**OCTOBER 3, 2014**
**PREPARED FOR SEN. LISA MURKOWSKI**
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**U.S. SENATE COMMITTEE ON ENERGY & NATURAL RESOURCES**

## Iraq through the Lens of Energy

Prepared by Minority Staff for Ranking Member Lisa Murkowski
U.S. Senate Energy & Natural Resource Committee
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### Introduction

As the Iraqi army disintegrated in June 2014, ISIS forces captured Mosul and Kurdish troops moved into Kirkuk, raising fears that the state of Iraq would irrevocably fracture. In Washington, some blamed poor intelligence estimates for the unfolding disaster, while others accused policymakers of failing to act on strategic warnings. In fact, contemporaneous public reporting covered deteriorating security conditions in Iraq long before the critical events of June.[1]

This review focuses on the public coverage of the Iraqi oil sector, providing excerpts from a narrow subset of official reports by the International Energy Agency (IEA), the U.S. Energy Information Administration (EIA), and the now-defunct Special Inspector General for Iraq Reconstruction (SIGIR). These reports were all published from December 2011, when U.K. and U.S. forces withdrew, to June 2014. The chronology demonstrates that early warning signs of increasing instability and rising violence were clearly evident in the coverage of Iraqi oil markets provided in these reports.

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[1] See, for example, "UN Chief 'Worried' About Deteriorating Iraqi Security," *VOA News* (January 13, 2014): http://www.voanews.com/content/un-chief-worried-about-deteriorating-iraqi-security/1829005.html. See also Zaid Sabah and Gopal Ratnam, "Al-Qaeda Fighters Take Fallujah as Iraqi Army Attacks," *Bloomberg* (January 4, 2014): http://www.bloomberg.com/news/2014-01-03/al-qaeda-fighters-take-fallujah-as-iraqi-army-attacks.html; Suadad al-Salhy, "Al Qaeda tightens grip on western Iraq in bid for Islamic state," *Reuters* (December 11, 2013): http://www.reuters.com/article/2013/12/11/us-iraq-violence-al-qaeda-idUSBRE9BA0O820131211; Ruth Pollard, "Iraq death toll grows as security deteriorates," *Sydney Morning Herald* (December 2, 2013): http://www.smh.com.au/world/iraq-death-toll-grows-as-security-deteriorates-20131201-2yjgu.html;; Michael Knights, "Iraq's never-ending security crisis," *BBC News* (October 3, 2013): http://www.bbc.com/news/world-middle-east-24370037; Colin Freeman, "Violence in Iraq goes up despite US pull out, as freed prisoners rejoin militias," *The Telegraph* (March 16, 2013): http://www.telegraph.co.uk/news/worldnews/middleeast/iraq/9934656/Violence-in-Iraq-goes-up-despite-US-pull-out-as-freed-prisoners-rejoin-militias.html.

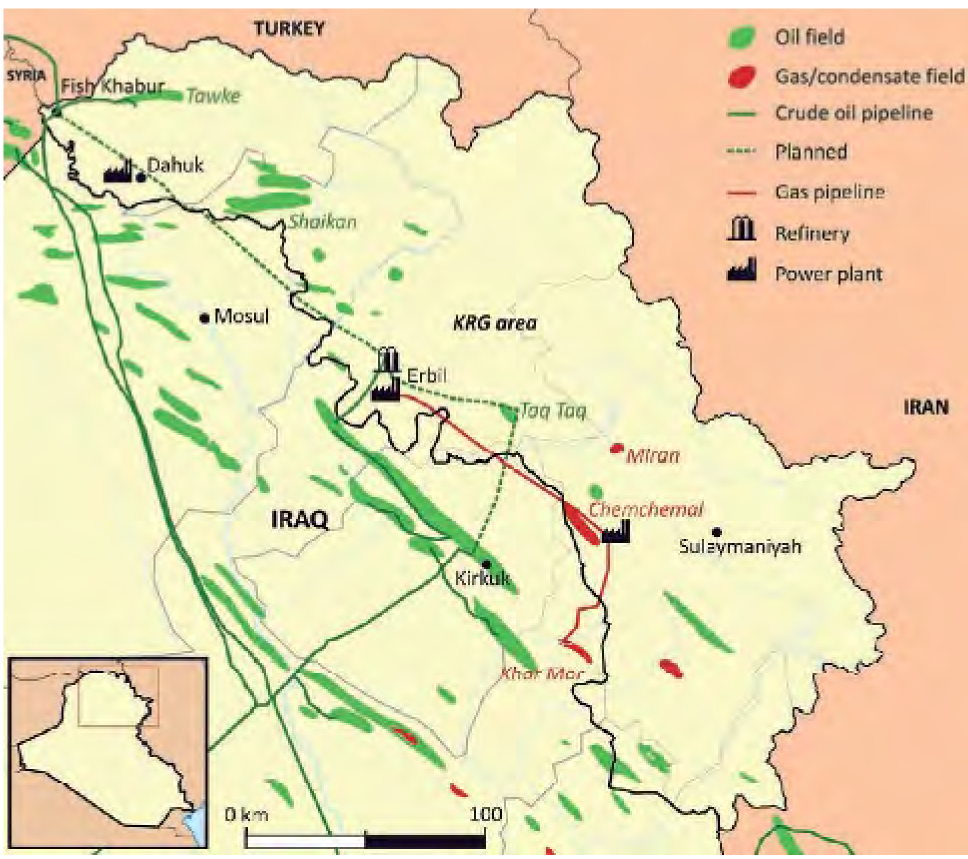

Source: IEA, *Iraq Energy Outlook 2012*

## Kurdish Seizure of Kirkuk

In September 2013, SIGIR reported about a violent Iraqi government raid in the town of Hawija that previous April and described the aftermath:

> "In the tense days that followed this tragedy, dozens of Sunni tribesman and Iraqi police were killed in skirmishes in Kirkuk and the nearby provinces of Salah Al-Din, Anbar, and Ninewa—predominantly in the cities of Ramadi and Mosul. Kurdish *Peshmerga* troops moved farther south around Kirkuk to take up guard posts vacated by Iraqi Security Forces (ISF) near the northern oil fields, further escalating tensions between the Kurdistan Regional Government (KRG) and the Government of Iraq (GOI). Fighting in Syria has further complicated security in these areas, rendering control of the Syria-Iraq border beyond difficult. The disorder has facilitated the cross-border movements of personnel from al-Qaeda in Iraq (now called the Islamic State of Iraq and Sham, or ISIS) between the two countries."[2]

The following year, the Iraqi Kurds would do much the same thing when Iraqi troops abandoned Kirkuk in the face of the ISIS advance.




Source: IEA, *Iraq Energy Outlook 2012*

[2] SIGIR, *Final Report to the United States Congress* (September 9, 2013), p. 66: http://cybercemetery.unt.edu/archive/sigir/20131001092420/http://www.sigir.mil/files/quarterlyreports/September2013/Report_-_September_2013.pdf#view=fit.

**Neutralizing the Kirkuk-Ceyhan Pipeline**

The 600-mile-long Iraq-Turkey Pipeline runs from the oil-rich Kirkuk in northern Iraq to the Turkish port of Ceyhan. With a nominal or nameplate capacity of 1.6 million barrels per day, but an operable capacity of approximately 300-400 thousand barrels per day, it is the principal export outlet for the Kirkuk oil fields, including production by the Kurdish Regional Government. It has been offline since March 2014 due to militant attacks and sabotage. The pipeline has long been a target for insurgents of various stripes.


Source: Genel Energy, Investor Presentation (May 2014)[3]

In August 2012, the IEA reported:

> "The pipeline from Kirkuk to Ceyhan was attacked twice, both times within the Turkish border, first on 20 July and then again on 5 August. Amid a worsening political situation in Syria and heightened activity by PKK insurgents in border areas, the Turkish army has stepped up its presence along the Iraqi border."[4]

In April 2013, the EIA reported:

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[3] Available here: http://www.genelenergy.com/media/43556/Genel%20company%20presentation%20May%202014.pdf.

[4] IEA, OMR (August 10, 2012): http://omrpublic.iea.org/omrarchive/10aug12sup.pdf.

> "The Iraq-Turkey pipeline has been subject to repeated disruptions, limiting exports from the northern fields."[5]

In July 2013, the IEA reported:

> "Kirkuk volumes plummeted due in part to pipeline damage along the northern line running to the Mediterranean, following a resurgence of attacks by opposition groups in Iraqi territory...***Persistent attacks on the pipeline by insurgents*** have caused significant damage to the key pipeline in recent months and worsening security issues have delayed repair work. Militants have also stepped up attacks on repair technicians sent out to fix the damage."[6] [emphasis added]

In January 2014, the IEA reported:

> "Iraqi production in December fell by 25 kb/d to 3.07 mb/d, largely due to ***continued attacks on pipelines*** and technical maintenance disrupting supplies in the northern region…Northern exports of Kirkuk crude declined by around 50 kb/d to 252 kb/d, with volumes constrained by ***repeated attacks*** on the northern Ceyhan-Kirkuk pipeline…."[7] [emphasis added]

In April 2014, the IEA reported:

> "***A major wave of attacks*** on the Iraq-Turkey pipeline sharply reduced flows on 2 March and ***escalating violence in the region*** has meant repair work cannot take place."[8] [emphasis added]

Also in April 2014, the EIA reported:

> "Unplanned disruptions in Iraq escalated in March, averaging nearly 0.4 million bbl/d, as a result of attacks on the Kirkuk-Ceyhan pipeline."[9]

In May 2014, the IEA reported:

> "By contrast, exports of northern Kirkuk crude to Ceyhan, Turkey were totally suspended compared with around 30 kb/d in March following attacks to the Iraq-Turkey pipeline, which cut off pipeline flows from 2 March. Iraqi officials report that the ***violence continued in the region*** where renewed attacks forced workers to halt repair work."[10] [emphasis added]

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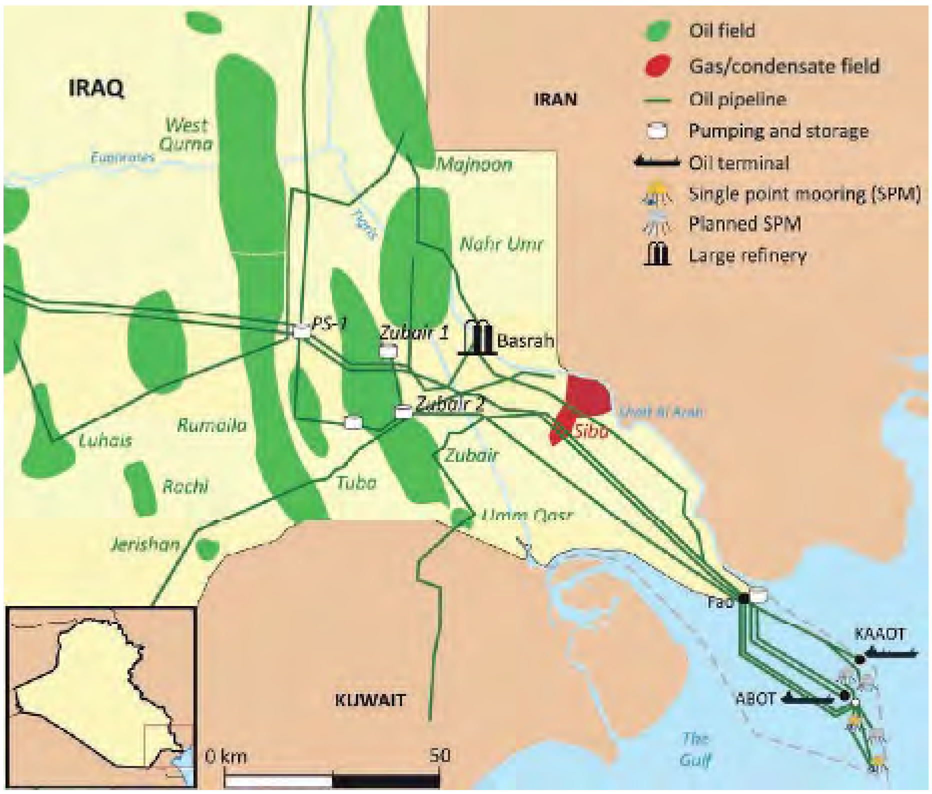
[5] EIA, Iraq Country Analysis Brief (April 2, 2013): http://www.eia.gov/countries/cab.cfm?fips=iz.
[6] IEA, OMR (July 11, 2013), p. 16: http://omrpublic.iea.org/omrarchive/11jul2013fullpub.pdf.
[7] IEA, OMR (January 21, 2014), p. 20: http://omrpublic.iea.org/omrarchive/21jan2014fullpub.pdf.
[8] IEA, OMR (April 11, 2014), p. 20: http://omrpublic.iea.org/omrarchive/11apr2014fullpub.pdf.
[9] EIA, Short-Term Energy Outlook (April 2014), p. 3: http://www.eia.gov/forecasts/steo/archives/Apr14.pdf.
[10] IEA, OMR (May 15, 2014), p. 17: http://omrpublic.iea.org/omrarchive/15may2014fullpub.pdf.

**Unrest in Rumaila**

Oil production in the south near Basra has remained largely unimpeded by the hostilities raging elsewhere in the country. As ISIS approached Baghdad earlier this summer, many observers feared that the southern production centers might come under attack. These southern fields make up the vast majority (about 75%) of Iraqi production and constitute the lion's share of estimated resources in the country. A significant supply disruption in this region would have serious consequences in global oil markets. While ISIS never captured territory here, the southern fields have not been immune from instability and violence.



Source: IEA, *Iraq Energy Outlook 2012*

In January 2012, SIGIR reported:

> "On December 13 [2011], explosions damaged three parallel pipelines carrying crude oil from Iraq's al-Rumaila field to a storage facility at al-Zubair. The explosions shut down al-Rumaila South field—which produces about half of al-Rumaila's 1.4 million barrels per day (MBPD)—for just over 24 hours. Two days later, a Ministry of Oil official announced that 80% of the lost output had been restored and that full production would resume by midday on December 15. No injuries were reported, and oil exports were said to be uninterrupted because large quantities of crude were already in storage tanks waiting to be loaded aboard a departing tanker.

> Welding teams cut out and replaced about 40 yards of damaged pipeline before pumping resumed."[11]

In November 2013, the IEA reported:

> "In early November, a worsening security problem in the country's main Basrah producing region and export bottlenecks at the southern terminals…may reduce production…Attacks on the main export pipeline to the southern ports combined with bad weather forced the company [BP] to completely shut-in its production."[12]

The IEA report continued:

> "In addition, attacks on foreign workers in early November forced oil service firms Schlumberger and Baker Hughes to suspend operations, with the latter declaring *force majeure.* The attacks on expatriate staff by angry Shiite Muslim workers were precipitated by claims that foreign workers insulted their religion. It is unclear what the impact on production will be from the withdrawal of Schlumberger and Baker Hughes staff. Schlumberger suspended its operations in response, not only in Rumaila but at the other oilfields in Basra province while Baker Hughes has declared force majeure on its operations."[13]

In December 2013, the IEA reported:

> "Iraqi crude oil production rose in November to 3.15 mb/d, from 3.03 mb/d in October, due to a recovery in northern exports and the resumption of some exports out of the southern ports following the restart of field operations that had been suspended due to poor security conditions. The BP-operated 1.4 mb/d Rumaila field operated at reduced levels for much of November due both to a lack of export capacity and to protests around the oilfield. Although protests at a nearby drilling site in Northern Rumaila that disrupted Schlumberger and Baker Hughes operations did not directly affect BP's operation at the Rumaila field, BP evacuated its personnel fearing a spill-over of unrest. BP resumed operations at the field on 26 November following the abatement in hostilities and the field likely will become operational in the coming weeks."[14]

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[11] SIGIR, *Quarterly Report and Semiannual Report to the United States Congress* (January 30, 2012), p. 65: http://cybercemetery.unt.edu/archive/sigir/20131001093128/http://www.sigir.mil/files/quarterlyreports/January2012/Report_-_January_2012.pdf#view=fit.

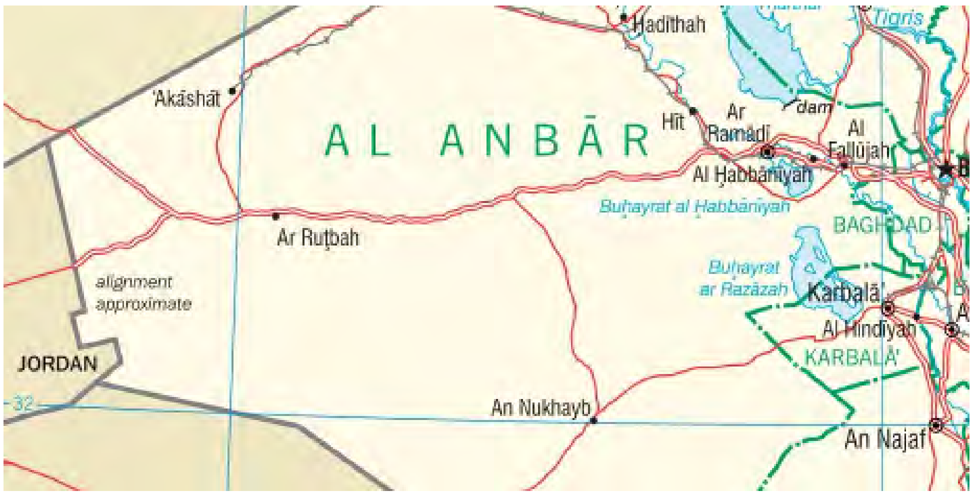
[12] IEA, OMR (November 14, 2013), p 18: http://omrpublic.iea.org/omrarchive/14nov2013fullpub.pdf.

[13] Ibid.

[14] IEA, OMR (December 11, 2013), p. 20: http://omrpublic.iea.org/omrarchive/11dec2013fullpub.pdf.

## Terminating the Iraq-Jordan Trucking Route

Jordan has long imported oil from Iraq by truck across the border. In fact, in the run-up to the Coalition invasion of Iraq in 2003, both Saudi Arabia and Kuwait agreed to supply Jordan some 75,000 b/d for three months to offset the losses from its interrupted trade with Iraq.[15] In 2014, terrorist attacks virtually closed off this route to exports.




Source: Central Intelligence Agency (2008 – Unclassified)

In February 2014, the IEA reported:

> "Trucked exports of oil from Iraq to Jordan halted due to ***deteriorating security in Anbar province*** where militants overran the city of Fallujah in January. Iraq normally exports between 8 kb/d to 10 kb/d in this way."[16] [emphasis added]

In March 2014, the IEA reported:

> "Trucked exports of Kirkuk crude oil to Jordan also remain suspended due to security issues in Anbar province."[17]

In April 2014, the IEA reported:

> "Meanwhile, trucked exports of Kirkuk crude oil to Jordan also remain halted due to security issues in the Anbar province."[18]

In May 2014, the IEA reported:

> "Iraq typically trucks around 10 kb/d of crude to Jordan but these volumes also remain suspended due to security issues in Anbar province."[19]

[15] IEA, OMR (April 10, 2013), p. 20: http://omrpublic.iea.org/omrarchive/10apr03full.pdf.
[16] IEA, OMR (February 13, 2014), p. 19: http://omrpublic.iea.org/omrarchive/13feb2014fullpub.pdf.
[17] IEA, OMR (March 14, 2014), p. 18: http://omrpublic.iea.org/omrarchive/14mar2014fullpub.pdf.
[18] IEA, OMR (April 11, 2014), p. 20: http://omrpublic.iea.org/omrarchive/11apr2014fullpub.pdf.

## The Baghdad-Kurdistan Dispute

The Kurdish seizure of Kirkuk in the summer of 2014 surprised many observers. Tensions between the central government and the Kurdish Regional Government are longstanding, however, and have remained unresolved ever since the creation of the KRG. As ISIS gained strength and prepared to make its move into Iraq to capture territory, the dispute between Baghdad and the Kurds only became more serious.


Source: SIGIR (January 2012)

In April 2012, the IEA reported:

> "Northern exports of Kirkuk crude from Ceyhan on the Mediterranean in March rose to 400 kb/d, up by 25 kb/d. However, around 50 kb/d of crude exports from the Kurdish region, which feed into the Kirkuk stream, were halted in early April due to ongoing payment disputes between Baghdad and the Kurdish Regional Government (KRG)...***Tensions between Baghdad and the KRG have escalated following the withdrawal of US troops at end-2011***."[20] [emphasis added]

In August 2012, the IEA reported:

> "Meanwhile, the Kurdistan Regional Government (KRG) in Iraq has reportedly started cross border shipments of around four trucks of condensate per day into

[19] IEA, OMR (May 15, 2014), p. 17: http://omrpublic.iea.org/omrarchive/15may2014fullpub.pdf.
[20] IEA, OMR (April 12, 2012), p. 18: http://omrpublic.iea.org/omrarchive/12apr12sup.pdf.

Turkey. Strained relations between the KRG and Baghdad have seen the former cut off 175 kb/d of export shipments via the Kirkuk-Ceyhan pipeline since April, claiming that Baghdad has failed to make payment for the crude."[21]

In January 2013, the IEA reported:

> "A long-simmering political standoff between Baghdad and Erbil was behind reduced exports from the northern region…The protracted dispute deteriorated further in early January when the KRG started selling crude via truck to Turkey."[22]

In February 2013, the IEA reported:

> "The standoff over revenue sharing and the legality of contract awards by the Kurdish Regional Government (KRG) and Baghdad escalated once again last month…KRG oil flows to the Kirkuk crude export system were completely halted in January due to the stand-off with Baghdad."[23]

In March 2013, the IEA reported:

> "There were no exports via Ceyhan from the Kurdish region again in February due to the ongoing dispute between Baghdad and Erbil over payments. The ongoing dispute over oil revenues between the central government in Baghdad and the Kurdistan Regional Government (KRG) continue to constrain production potential in the northern region of the country, with ***tensions worsening in recent months*** over revenue sharing and payments for past shipments."[24] [emphasis added]

In February 2014, the IEA reported:

> "There are still no crude exports of KRG crude through the new pipeline that ties into the Iraq-Turkey Pipeline (ITP) at Fishkabur, and it is likely no progress will be made until after the April elections."[25]

In April 2014, the IEA reported:

> "Crude exports from the KRG region to the Kirkuk-Ceyhan pipeline were expected to resume at 100 kb/d in April as a goodwill gesture on the part of the government in Irbil as part of negotiations in its long-running dispute with Baghdad. The planned exports, however, have been suspended with the northern pipeline out of commission."[26]

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[21] IEA, OMR (August 10, 2012), pp. 18-19: http://omrpublic.iea.org/omrarchive/10aug12sup.pdf.
[22] IEA, OMR (January 18, 2013), p. 17: http://omrpublic.iea.org/omrarchive/18jan13sup.pdf.
[23] IEA, OMR (February 13, 2013), pp. 18-19: http://omrpublic.iea.org/omrarchive/13feb2013fullpub.pdf.
[24] IEA, OMR (March 13, 2013), p. 18: http://omrpublic.iea.org/omrarchive/13mar2013fullpub.pdf.
[25] IEA, OMR (February 13, 2014), p. 20: http://omrpublic.iea.org/omrarchive/13feb2014fullpub.pdf.
[26] IEA, OMR (April 11, 2014), p. 20: http://omrpublic.iea.org/omrarchive/11apr2014fullpub.pdf.

## Conclusion

None of these agencies "predicted" the events of June 2014, but their reporting pointed unmistakably to a steadily deteriorating situation in the country. Record Iraqi production volumes, rising exports from southern Iraq, and new oil developments partially overshadowed, perhaps, these darker warning signs. In some cases, ISIS and its ilk had nothing to do with the instability – the labor disturbances in Basra were organized by Shiite workers, for example, and Kurdish separatists attacked the Iraq-Turkey Pipeline in 2012 – but that Iraq was growingly increasingly unstable is an indisputable fact.

These public records tell a story of oil infrastructure under attack, trade routes cut off, the Kurdish Regional Government maneuvering for greater independence, and security forces incapable of performing their core mission at critical moments. In July 2013, the EIA noted:

> "***Political disputes*** and infrastructure limitations are likely to continue hampering output growth in the short run. In addition, ***terrorism***, the poor investment climate, and other problems could limit Iraq's production over the projection period."[27] [emphasis added]

Months later, in September 2013, SIGIR issued its final report to the Congress and Secretaries of Defense and State. It contains this terse statement:

> "Iraq has become ***significantly more dangerous*** since SIGIR's last report. Indeed, the last four months have been the most violent period in the country since the summer of 2008."[28] [emphasis added]

Given the importance of oil to the wider region, it may be instructive to look to energy markets for hints and warning signs of future instability in other countries.

## Acknowledgments

Staff wish to thank the Congressional Research Service for assistance with this report. The cover image – of the Baiji refinery on fire and under attack – was released on June 20, 2014, by the U.S. Geological Survey.[29]

[27] EIA, *International Energy Outlook 2013*, p. 30: http://www.eia.gov/forecasts/ieo/pdf/0484%282013%29.pdf.
[28] SIGIR, *Final Report to the United States Congress* (September 9, 2013), p. 66: http://cybercemetery.unt.edu/archive/sigir/20131001092420/http://www.sigir.mil/files/quarterlyreports/September2013/Report_-_September_2013.pdf#view=fit.
[29] Photo taken on June 18, 2014: http://eros.usgs.gov/views-news/baiji-iraq.