INTERNATIONAL CENTRE FOR DEVELOPMENT STUDIES

Iraq: The Need For More Oil Paths

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Global Supply Chains

As the conflict in Gaza prolonged, the risks of an expanding war circle increased. Daily strikes intensified along the borders between Israel and Lebanon, while U.S. bases in both Iraq and Syria faced repeated targeting since October 7th events.

Risks related to maritime trade routes emerged with Yemen entering the confrontation, as the Houthis decided to target any ships associated with Israel or dealing with its ports.

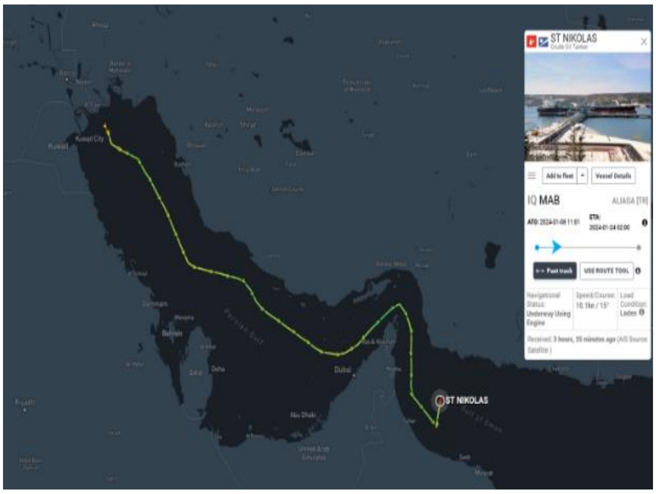
In response, Washington formed a maritime military alliance to secure sea navigation lines, thwart any attacks on commercial ships, and conduct joint attacks with the U.S. and Britain on Houthi bases in Yemen.

Consequently, the International Maritime Organization urged all ships to avoid the Bab el Mandeb Strait at the southern tip of the Red Sea for several days.

With the escalating crises in the region, either through the widening conflict or hindering global supply chains and the threat to energy security, Iraq must seriously consider establishing new and more secure routes for exporting its oil to the world.

Recent concerns escalated as Iran seized an oil tanker in the Gulf of Oman, loaded with Iraqi oil bound for Turkish ports via the Suez Canal. This significant development poses a threat to the main artery of global oil supplies.

What is notable about this tanker is that it transported Iraqi oil to Turkey through a long, expensive, and currently insecure route. Meanwhile, the Iraqi-Turkish oil pipeline has been inactive since March 25, 2023, despite Turkish officials confirming the imminent resumption of those exports.



Iraq's losses due to this halt have surpassed $9 billion to date. Turkey is also losing revenue from the export fees for Iraqi oil passing through its territory, adding to the costs of oil sourced through the Gulf of Oman and the Red Sea.

The latest shipment seized by Iran comprised around 145,000 tons of Iraqi oil, equivalent to Kurdistan's oil exports via the Iraqi-Turkish pipeline for six days.

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Iraq's Limited Options for Oil Export

Current options for Baghdad to export oil seem limited. Iraq exports approximately 3.4 million barrels of oil daily, with 85% flowing through Basra and about 15% via the Kurdistan Region to Turkey and then to global markets.

Iraq also possesses an oil export pipeline through Saudi Arabia's Yanbu port on the Red Sea, with a capacity exceeding 1.5 million barrels daily. However, negotiations with the Saudi side have not yielded specific results.

Earlier, official Iraqi sources mentioned that Iraq is considering rehabilitating the Kirkuk-Banias pipeline as part of the search for new export outlets.

However, the evolving events in these regions, whether in the Red Sea, the Arabian Gulf, or the Mediterranean, pose concerns for a country like Iraq, relying on oil export revenues for over 90% of its budget.

Therefore, the Iraqi government must explore safer and less costly ways to export oil. Exporting Iraqi oil through Turkish territory may seem the most suitable option due to its proximity to European markets, especially amid the war in Ukraine, leading Europe to refrain from buying oil and gas from Russia.

In January, Bulgaria, which was the fourth-largest buyer of Russian seaborne oil last year, replaced Russian oil shipments with those from Kazakhstan, Tunisia, and Iraq. According to data, Bulgaria purchased 76,000 tons of Basra light oil this month.

Some European countries face challenges due to their reliance on high-sulfur crude oil, such as Russian Urals oil, which has become difficult and expensive to obtain in the European Union.

The absence of Kurdistan oil, which has similar specifications, further complicates matters for European buyers. This underscores the importance of the return of Kurdistan oil exports to global markets, especially with the potential to increase production to nearly one million barrels per day.

It may also be appropriate to consider exporting quantities of oil from central and southern Iraq through the Kurdistan Region to accommodate the expected significant increase from those regions in the next three years.

However, this faces several obstacles, including the need to extend pipelines connecting Iraq's central and southern fields to Turkish ports—an expensive and time-consuming endeavor.

Another factor is Turkey's stance on this expansion and allowing Iraqi oil to pass through its ports, given the ongoing halt in oil exports from Kurdistan.

As for the Iraqi oil pipeline connecting Basra to the port of Aqaba on the Red Sea, it has not been completed yet, despite the agreement signed between Iraq and Jordan on April 9, 2013.

The pipeline, with a capacity of one million barrels per day, has faced significant political pressure and threats of targeting, amid suspicions that it would transport Iraqi oil to Israel.

Withdrawal U.S. Troop from Iraq

As Iraq aims to increase its oil production to around 6 million barrels per day within the next five years, contemplating the expansion and diversification of export outlets becomes crucial to achieving this goal.

Iraq lacks significant oil storage capacity for extended periods, so any future closures in the Strait of Hormuz or the Bab el Mandeb Strait would result in Iraq losing at least a quarter of a billion dollars daily.

This would have significant repercussions on the livelihoods of Iraqis, as the Iraqi economy imports many goods and products and relies on its oil exports for revenue, denominated in U.S. dollars.

In the event of revenue cessation, the value of the Iraqi dinar would plummet significantly, leading to a sharp rise in prices, coupled with almost complete cessation of trade dependent on external imports.

With the ongoing tension in the Middle East, Iraq won't be far from what unfolds. Demands for the withdrawal of coalition forces from Iraq at this time may be interpreted as a victory for Tehran and its allies over Washington.

However, the government of Iraqi Prime Minister Muhammad Shiaa Al-Sudani sees the withdrawal of coalition forces as a means to ease tensions in the region. Therefore, the Iraqi government formed a bilateral committee to determine arrangements for ending the mission of the U.S.-led international coalition in Iraq.

This comes amid the need for significant support for the Iraqi economy, particularly regarding the banking sector. The U.S. Treasury has played a role in expanding the connection base of Iraqi banks with global banks, reducing measures taken against dollar smuggling and invoice forgery in imports. This would improve the image of this sector in the global economy.

Additionally, many U.S. companies are involved in vital projects such as energy, water, and others, and any security tension in Iraq and the region may affect their presence or delay their achievements.

Political Stability

Achieving political stability and restoring confidence in the concept of a federal state, away from crisis instigation, is essential.

Iraq's Foreign Minister Fuad Hussein described the attacks on military bases of the international coalition near Erbil airport and Salah al-Din's summer residence as an attack on the federal government, as the country's security cannot be fragmented.

It is also necessary to address many issues between Baghdad and Erbil, such as agreeing on the presence of coalition forces, approving the oil and gas law, in addition to details related to foreign companies operating in the region, production costs, and other issues that are as important to the economy as they are to politics.

Iraq needs to provide internal stability and regional balance to enhance its economy and develop opportunities for development. Especially since the large projects that Iraq intends to accomplish, such as the Faw Port, the Development Road, and achieving self-sufficiency in food and energy, require significant investments and advanced technologies that will not be provided amid the atmosphere of war or Iraq getting involved in a conflict with one party over another.

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About ICDS

The International Centre for Development Studies (ICDS), based in London, is an independent think tank on international development issues. ICDS was founded in 2009 in the UK by several individuals interested in promoting policies and practices which lead to the reduction of poverty and the achievement of sustainable livelihoods in developing countries.

The Centre grew rapidly in two years, expanding both because of the nature of its work and its geographical scope.

Since its establishment, ICDS worked hard to provide the best information and analysis to government leaders, businesspeople and analysts.

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