
Potentiality of Current Changes and the Future of Kurdistan Oil and Gas

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Summary : The politicized ruling of Iraqi Federal Supreme Court on February 15, 2022, emerged great risks and oppositely great opportunities to the future of Kurdistan Region oil and gas industry, in which we need to, analyze the decision in terms of current changes and future contributors of global energy security providers. In this analysis, the risks of petitioning cases against Kurdistan Region oil and gas in the international courts, submission of new cases on the companies, and opportunities in front of Kurdistan Region oil and more especially gas industry, will be discussed.

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On February 16, Iraqi government gave the authority to the oil ministry to create a "tactical road map" in response to the Supreme Court decision; beside this step, if there haven't been secret moves, no other steps were taken toward controlling the oil industry by Iraq. Nonetheless, if the Kurdistan Region were convinced to give up on its oil, the Iraqi government wouldn't want it because of some small reasons. First, Kurdistan Region owes the companies of Trafigura, Vitol and RussNeft in an amount that reached 3.39\$ billion dollars in the middle of 2021. Second, the way that Kurdistan Region is managing its intercourse with the companies that work in the region. Third reason is the type of contract between the Kurdistan Region and the international oil companies, which are Production sharing contract, and the fourth is political reasons. Therefore, issuing the ruling is related to the opportunity that headed up to the Kurdistan Region natural gas export which is supervised by Qatar, America is supporting it and Europe needs it. It is not related to the Kurdistan oil, therefore the Supreme Court's ruling purpose is more connected to the Kurdistan gas, not the oil.

Natural Gas of Kurdistan Region; Iraq's Fear

The ruling of Iraq's Supreme Court on February 15th was unexpected for Kurdistan Region, some of the Iraqis and also the international community, because the decision was interpreted as a pressure card inside the political field of Iraq and to push the government formation, but if we look closer, reopening a court case from a decade ago was not random. It was to oppose the opportunity of Kurdistan Region's oil and gas industry, particularly to oppose exporting the Kurdistan Region natural gas through Ankara to Europe.

In fact, Iraq is afraid of two factors. First, it is the natural gas of Kurdistan Region that according to estimations, Kurdistan Region reserves 15 trillion cubic feet, where Dana Gas alone has proved reserves of 5.3 trillion cubic feet natural gas (2P) only in Chamchamal and Khor Mor. This means that Kurdistan owns the 7th biggest reserves of natural gas in the world. Dana gas has been producing natural gas in Kurdistan Region since 2007, even though these past years did not go very well, but Dana Gas and Kurdistan Region's steps are on the same direction now¹.

Second, developing and raising production level. On January 12th 2022, Dana Gas announced that: "the level of gas production in Khor Mor in Chamchamal per day has increased with the percentage of 50% comparing to 2018", and the level of daily production of the oil field reached 452 million cubic feet, when in 2018, their daily production in the field was 305 million cubic feet. It is expected, they increase the level of production to 700 million cubic feet per day in 2023².

This increase is more than the interior demand, so an export pipe line is required where the efforts to build the 35 kilometer pipeline inside Kurdistan to Turkey border have started already, and finding a stable market to sell the natural gas is prior.³ At this time because of the Russian conflict with Ukraine and in the future because of the transition of energy usage to more environmental friendly energies usage, the world will need natural gas.

Above all of these, from 21st of august 2021, Kurdistan Region government warned all the oil production companies not to consume the natural gas while producing oil⁴. Lately, most of the companies started to produce natural gas, for instance, Gazprom Company is producing natural gas in Serqala Field to electricity production station⁵. Also, on December 10th, 2021, Kurdistan Region government ended the right to develop and own the portions of two gas fields in Kurdistan Region for Genel Energy and rescinded the contract⁶.

The Regional and Global Changes of Oil and Natural Gas Market

On March 2nd, 2022, OPEC (The Organization of the Petroleum Exporting Countries) countries and the countries outside OPEC (OPEC+) will hold their 26th session about market condition evaluation and to go over the plan of oil production in which the subject of adding 400 thousand barrel oil up per day will be included. However, based on some resources, besides the high price of oil (over 100\$ for a barrel), after the assault of Russia on Ukraine and increasing instability in energy market, OPEC (Saudi and Emirates) and OPEC+ (Russia) are not aiming to increase the level of oil production⁷. On the other hand, America decided to use national reserves of stored oil when it is necessary⁸. Up until now, conflicts and sanctions have not got the point to energy assault, because both sides need it.

Moreover, the day when Putin announced the attack on Ukraine, and Germany froze the work progress of Nord Stream 2 Pipeline for natural gas, Tamim bin Hamad Al Thani, Emir of Qatar, arranged the sixth forum of natural gas exporter countries⁹, in which Nikolay Shulginov, who is the minister of energy of Russia, and the president of Iran were present. The message of the Russia minister was determining the promise of Vladimir Putin that, "Russia will maintain gas exportation and supply chain to the global markets"¹⁰.

In fact filling the absence of Russia in the global oil and gas market is not easy, because after Saudi and America, the country is the biggest oil producer and has great effect on the decisions of OPEC+; in January 2021, the oil exportation of Russia was 10.5 million barrels a day¹¹. This is almost equal to 10% of oil supply in global market. No other country can fill this gap of Russian absence. In 2020, Russia produced 22.5 trillion cubic feet of gas¹², where the market to export the product is European countries.

In the past, future and the present, all eyes are on a small rectangular country, Qatar, where the population is 2 million and 505 thousand people, in which only 11.8% are Qataris¹³. This means that the native Qatari people are only 300 thousand people and the remaining are foreign nations. From autumn of 2020, the European countries have been drawn on Qatar for natural gas, even before the attack of Russia on Ukraine. Based on Kadri Simson's words, the commissioner of energy of European Union, he states,

"About 90% of the gas used in Europe is imported. We have set preparation plans for partial and full isolation of natural gas from Russian, and we also directed our alternative supplier. After the agreement with Qatar, Norway and Azerbaijan, America has also helped use in supplying fluidized natural gas in December and January"¹⁴.

Kadri Simson

In practical perspective, Qatar cannot fulfill the demand of Europe for natural gas for some reasons: first, the natural gas contracts between Qatar and the buyer countries are long term, even though America did consult with Japan to change the direction of 10% to 15% of the natural gas that Qatar sold to Japan to another region when necessary. Second, because of current sufficiency level of Qatar in producing natural gas that cannot fulfill the demand of Europe.

However, in the quarter of the period of 2025-27, because of the increase in production efficiency of Qatar that adds up 47 million tons of natural gas each year, Qatar can cover the effort, because this is 20% more than the amount that Russia aims to export to Germany and Europe through Nord Stream Pipeline 2. This increase levels up the Qatar efficiency to produce natural gas to 126 million tons each year.

If we conclude the global changes and effect factors on oil and natural gas, then we can summarize some points as

following:

- Qatar is the mapmaker of natural gas in the future but is looking for a quick alternative that is ready in various perspectives at this moment, and that has to be the Kurdistan Region!
- America is supporting the improvement of oil and natural gas production in Kurdistan Region, and the American minister of energy has funded this sector in Kurdistan in the past and now.
- Europe is looking for short term and long term alternate supplier of natural gas to isolate Russia.
- Iran is looking forward to nuclear agreement, to fulfill its demands to fulfill the shortage in oil and gas market.

Risks and opportunities in front of Iraq and Kurdistan Region

One of the risks on Iraq is linking up energy sector (oil and gas) of Kurdistan Region to the global market, especially Europe. At the same time, fear of Kurdistan Region Government is opening the court case against the contributors of oil industry sector, Kurdistan Region gas (International Countries) in production, exportation and buying oil and gas.

In addition, the threat of the ruling of the Iraqi Federal Supreme Court is on the performance and progress of international companies of oil sector and the buyers of current oil and future natural gas of Kurdistan Region. However, up until now, we don't see an explicit threat.

In fact, the ruling of the court has not put a great effect on the progress of the international companies of Kurdistan Region oil and gas sector. DNO Company has announced lately that, "the company will start to produce oil in Baeshiqa oil field which is the newest oil well to start oil production after the Serta well where the CHEVRON and Genel Energy companies started to produce oil from in the near past.

Based on information, The Abu Dhabi National Energy Company (TAQA) is planning to dig four new wells this year. The company will start to dig the three new wells and the fourth one is a part of developing Atrush oil field. Also, based on information, Dana Gas will start production in 4 new wells in the gas fields of Khor Mor and Chemchemal.

According to Kpler and MIS data, in January of 2022, the exported oil of Kurdistan Region was arrived to the following European countries. Bulgaria received 18 thousand barrels, Romania received 21 thousand barrels, Spain received 33 thousand barrels, Israel received 94 thousand barrels, Croatia received 25 thousand barrels, Greek received 137 thousand barrels, and Italy received 122 thousand barrels on daily basis.

Therefore, Kurdistan region must expect overcoming Iraqi oil and gas law to resolve the issues with Baghdad and putting an end to the story of legalizing and constitutionalizing Kurdistan Region oil and gas law, because aside from a legal path to end this story, the instable politicized practices of Iraq over Kurdistan Region oil and gas will continue. This solution is necessary now where the level of oil production is at 470 thousand barrels a day and the gas is being prepared for exportation.

Finally, the court ruling lessens the opportunities to negotiate and widens the width between Baghdad and Erbil agreement, which is only because of the fear of linking Kurdistan Region oil and gas to the global market that will eventually happen because it is meant to be linked.

Footnotes:

[1] <https://www.danagas.com/operations/kri/kri-2/>

2 <https://www.danagas.com/wp-content/uploads/2022/01/20220111-Record-Gas-production-En22.pdf>

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<https://www.mees.com/2022/2/11/oil-gas/iraqi-kurdistan-gas-pipeline-boost-turkey-exports-next/d00dbf80-8b39-11ec-8cb8-01ff7cbea1bf>

4 <https://www.rudaw.net/english/interview/210820211>

5 <https://www.iraqoilreport.com/news/sargala-power-plant-highlights-krq-progress-on-gas-flaring-43748/>

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[https://gov.krd/mnr-en/activities/news-and-press-releases/2021/december/termination-of-miran-and-bina-bawi-pscs/#:~:text=KRD\)%2D%20On%2010%20December,the%20PSCs%20with%20immediate%20effect.](https://gov.krd/mnr-en/activities/news-and-press-releases/2021/december/termination-of-miran-and-bina-bawi-pscs/#:~:text=KRD)%2D%20On%2010%20December,the%20PSCs%20with%20immediate%20effect.)

7 <https://www.reuters.com/business/energy/opec-deal-seen-track-despite-russias-ukraine-invasion-sources-2022-02-25/>

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9 <https://www.gecf.org/events/6th-gecf-summit-concludes-with-doha-declaration>

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