
Iraq's Oil Ministry Efforts to Seize the Kurdistan Region's Oil and Gas

29-05-2022

Authors

Mahmood Baban

Summary : Iraq's oil ministry has issued two letters and tried two different ways this month and increased its attempts to seize and remove oil and gas companies from dealing with the Kurdistan Region. First, by sending a letter to international oil and gas companies in the Kurdistan Region to deal directly with the State Organization for Marketing of Oil (SOMO).

Introduction

Iraq's oil ministry has issued two letters and tried two different ways this month and increased its attempts to seize and remove oil and gas companies from dealing with the Kurdistan Region. First, by sending a letter to international oil and gas companies in the Kurdistan Region to deal directly with the State Organization for Marketing of Oil (SOMO). Second, hiring Cleary Gottlieb Steen & Hamilton, a legal consulting company, to reach out to companies operating in the Kurdistan Region and urge them to develop new methods to deal with Baghdad.^[1] Indeed, until the recourse to this international legal advisory body, the situation was normal, interpreted in a political context and the current desire of Baghdad due to the division of Kurds and Shiites regarding the formation of a new government in Iraq. But the latest move by Iraq's Oil Ministry to recourse to an institution like Cleary Gottlieb Steen (one of the world's largest legal consulting firms) is worth attention because there are various risks behind this recourse. As much as it is dangerous for the Kurdistan Region, it is also more dangerous for Iraq's sovereignty, Iraqi federalism, and the cooperative work between Erbil and Baghdad.

Iraq's efforts to seize the Kurdistan Region's oil and gas

Iraq's Oil Ministry's efforts began after the Federal Supreme Court ruled on February 14 that the Kurdistan Region's oil and gas law was "unconstitutional." However, it sparked reactions from official institutions in the Kurdistan Region, including all four presidencies. However, there seems to have been a relentless effort to put the decision into action since February 16. Thus, the decision cannot be implemented by negotiation, judgments, or exercising different approaches; therefore, these acts by the Iraqi government remind us that Baghdad's failure to use other methods is due to the weakness of its domestic power; otherwise, resorting to an institution or legal consulting firm like Cleary Gottlieb Steen & Hamilton demonstrates the fact mentioned above.

Table 1, Chronology of Baghdad's attempts to seize the oil and gas of the Kurdistan Region

Date	Title Statements and Decisions	By	Note
April 15th, 2022	The Kurdistan Regional Government's Oil and Gas Law is "unconstitutional" ^[2]	Federal Court of Iraq	The decision was considered political.
June 24th, 2022	A four-point letter entitled "Implementation of the Decision" has been sent to the Kurdistan Regional Government and the Ministry of Natural Resources.	Iraq's Ministry of Oil	
June 29 th , 2022	Workshop of Iraq's Ministry of Oil to discuss the mechanisms of managing the oil industry in the Kurdistan Region ^[3]		
April 2nd, 2022	The Kurdistan Regional Government's oil and gas industry is at the negotiating table between the Ministry of Oil and the Iraqi National Oil Company ^[4]	Iraq's Ministry of Oil	
April 7 th , 2022	Service contracts and production sharing negotiations between the Ministry of Oil and Iraq's National Oil Company ^[5]	Iraq's Ministry of Oil	
April 11 th , 2022	Meeting between Erbil and Baghdad, the Iraqi Oil Ministry emphasized reviewing oil contracts and establishing an oil company in Erbil. Iraq oil ministry emphasized that both sides were satisfied with the meeting ^[6]	Iraq's Ministry of Oil	Both sides were satisfied about the meeting

April 28 th , 2022	The fourth meeting of the Ministry of Oil, and an essential point of Iraq's Oil Minister, was that the price of producing a barrel of crude oil in the Kurdistan Region is 50% of the cost of selling it. Revenue from traded oil in the region does not exceed 50% of the value of oil sold [7]	Iraq's Ministry of Oil	
May 7 th , 2022	The Ministry of Oil is moving toward implementing the Federal Court's decision on Iraq's Ministry of Oil [8] .	Iraq's Ministry of Oil	
May 12 th , 2022	National Petroleum Corporation – the Petroleum Contracts and Licenses sector. Cost contract analysis for oil contracts in the Kurdistan Region [9]	Iraq's Ministry of Oil	
May 15 th , 2022	Statement of the Northern Oil Company and the seizure of the Kirkuk oil field by the Kurdistan Region.	Iraq's Ministry of Oil	
May 19 th , 2022	Sending letters to oil companies in the Kurdistan Region. [10]	IQ Ministry of Oil	

What are the risks behind Hiring or resorting to Cleary Gottlieb Steen & Hamilton?

The appointment of Cleary Gottlieb Steen & Hamilton by Iraq's Oil Ministry poses a severe threat to Erbil and Baghdad's joint work because the operations of a legal consulting firm dealing with companies without considering the Kurdistan Region will prevent Erbil and Baghdad from working together and escalate the problems from a domestic to an international level. Baghdad turned to this legal consulting firm since it lacked the power to implement the Federal Court's decision and statements and judgments; thus, it appointed Cleary Gottlieb Steen & Hamilton, specifically in such a case! Furthermore, this decision will have a variety of short and long-term impacts, with the following implications for Iraq and the Kurdistan Region:

- Develops mistrust and breaks joint works of Iraq's oil and gas sector.
- Increasing the costs of the problems, especially the appointment of a law firm such as Cleary Gottlieb Steen & Hamilton, will undoubtedly cost a significant amount of money for this duty from Iraq, however the Kurdistan Region, to protect itself and its contracts.
- Delaying development and production work in the Kurdistan Region's oil fields.
- Will further distrust the work of international companies in Iraq and the Kurdistan Region.
- Increased threats will increase the costs of maintaining oil fields and blocks in the Kurdistan Region.
- It will change oil contracts, while other issues exist, such as loans between international companies and the Kurdistan Region.
- Tensions have increased politically and ethnically, while Iraq is suffering from a complex political phase, which has not yet formed a government after nearly seven months, also suffering in terms of weather, poverty, unemployment and many other problems.

Conclusion

From the beginning, the decision of the Federal Supreme Court and the statements and decisions of Iraq's Oil Ministry were interpreted as a political game. Still, after resorting to Cleary Gottlieb Steen & Hamilton, the Kurdistan Region has taken risks seriously and has brought the two main forces of the Kurdistan Region closer together. The issue of resolving tensions by hiring Cleary Gottlieb Steen & Hamilton makes international oil and gas companies prioritize their legal _____

transactions over their production in the Kurdistan Region because, this time, the measures will be taken at the international level than domestically and within Iraq.

Iraq's Oil Ministry letter revealed on May 19 included two messages. One of them was sent to oil companies by Iraq's Oil Ministry, and the second was sent to Cleary Gottlieb Steen & Hamilton. Both included the same message, asking the oil companies in Kurdistan Region to deal with Baghdad. While in the previous decisions of Iraq's Oil Ministry, they decided to establish a national company for the Kurdistan Region in Erbil supervised by the Iraqi authority. The act of contacting the oil companies and sending a message to Cleary Gottlieb Steen & Hamilton have one intention that has been the goal of the Iraqis since the formation of Iraq. But it was the changes, and internal problems that kept them from implementing, not their conviction in collaborative work and rebuilding Iraq.

Finally, before the costs increases on Erbil and Baghdad and tensions escalate, reviewing the oil contracts and negotiating is the best option to resolve the issues. Thus, Baghdad's legal obligation to international oil companies in the Kurdistan Region will be a new stage because there will be no value in working together and rebuilding Iraq.

Footnotes:

[1] <https://financialpost.com/pmnl/business-pmnl/iraq-bids-to-control-kurdistan-oil-revenue-with-contract-switch-2>

[2] <https://oil.gov.iq/?page=886>

[3] <https://oil.gov.iq/?page=960>

[4] <https://oil.gov.iq/?page=967>

[5] <https://oil.gov.iq/?page=973>

[6] <https://oil.gov.iq/?page=979>

[7] <https://oil.gov.iq/?page=1021>

[8] <https://www.rudaw.net/sorani/kurdistan/0705202217>

[9] <https://oil.gov.iq/?page=1028>

[10] <https://www.rudaw.net/sorani/middleeast/iraq/200520223>