
The Consequences of Russia's Sanctions on Kurdistan Region and Iraq

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Summary : Three big Russian oil companies have the capital of about \$14 billion in investment in the field of oil and gas in the Iraq and Kurdistan region. Gazprom produces 30,000 barrels of oil and 40 million cubic feet of gas daily in the Sarqala field, and Lukoil produces about 500,000 barrels of oil at the Western Qurna2 oil field in Basra.

Three big Russian oil companies have the capital of about \$14 billion in investment in the field of oil and gas in the Iraq and Kurdistan region. Gazprom produces 30,000 barrels of oil and 40 million cubic feet of gas daily in the Sarqala field, and Lukoil produces about 500,000 barrels of oil at the Western Qurna2 oil field in Basra. Rosneft also owned 60% of the Kurdistan Region's oil export pipeline and was scheduled to build its gas export pipeline to Turkey. Still, it has not yet begun its work, and it is not expected to start in such a situation[1]. However, the Contract will end in the middle of this year[2]! Russian companies are now facing a significant challenge because of US sanctions. Their work is becoming increasingly complex, especially when the companies they work with warning them that they can no longer continue with them, especially international companies. Last week, one of the companies working on a financial review, social care and taxes for Russian oil companies in Iraq and the Kurdistan Region stopped working with them. Also, in early March, the Central Bank of Iraq called for a halt to dealings with Russia to protect the financial system. Indeed, Russian companies' challenge is here and worldwide, especially in the United States, United Kingdom, and Europe. This article investigates the consequences of Russia's sanctions on Iraq and the Kurdistan Region. Finally, we are looking for whether the United States will give wavier Iraq and the Kurdistan Region, as it has done in the face of Iran's gas support for Iraq or is it looking for local and international companies to stop their work as it is happening now?

Sanctions and Consequences

According to the Atlantic Consul dashboard, 11 countries and the United Nations have sanctioned 953 different Russian targets, and the United States alone has established 822 sanctions on Russian institutions and personalities[3]. On March 24, 2022, the White House increased the number of US sanctions on Russia from 400 to 600, which it sees in Russia's major financial institutions and personalities, bringing forward a new phase of the US and its allies' treatment of Russia[4].

Since February 24, 2022, when Russia attacked Ukraine. The Kurdistan Region made no official statement about the war. The Iraqi government somehow distanced itself from it, even though on February 28, 2022, Iraq voted for an Arab League statement on Ukraine, which Russia did not hold responsible for the war with Ukraine[5]. However, on March 2, 2022, at the UN General Assembly, which condemned Russia's attacks on Ukraine, Iraq only expressed concern about the deteriorating situation and tensions between Russia and Ukraine[6].

According to the Yale School of Management Dashboard[7], of Russia's 1,000 largest global companies, about 750 have publicly announced that they are reneging on their work in Russia because of international sanctions. However, some companies have announced their stay in Russia. In contrast, the others, of which 189 companies have expressed their desire to leave or reduce their work, 139 have stopped developing and investing in results, 111 companies have reduced their current position. Also, 363 have suspended their jobs, they have maintained the option of returning to work in Russia, and 298 already have left Russia.

Whatever is related to Iraq and the Kurdistan Region, there has been no official announcement, except that on March 2, the Central Bank of Iraq[8] proposed halting its trade and financial dealings with Russia. Still, already several companies have suspended their work.

Russian companies in the Kurdistan region and Iraq

Russia's investment in Iraq and the Kurdistan Region is estimated at \$14 billion, mainly in the oil and gas sector, in a way that large companies such as Rosneft, Gazprom and Lukoil in southern Iraq and the Kurdistan Region have reserves of more than 17 billion barrels of oil, which now produce more than 500,000 barrels of oil. According to the Russian ambassador to Iraq, about \$2 billion is the capital of Russian companies' investment in the oil and gas sector in the Kurdistan Region[9].

On June 2, 2017, Rosneft and the Ministry of Natural Resources of KRG in St. Petersburg signed a series of documents to expand bilateral cooperation in the fields of "exploration, oil and gas production, trade and logistics"[10]. Although the total value of the agreement has not been formally disclosed, according to Rosneft's sources, it has been worth more than one billion dollars, as well as Rosneft's dealings since it first traded about \$4 billion in December 2016, which has paid the Kurdistan Region more than \$2 billion as a loan, instead of pre-sold oil in global markets[11].

Gazprom has invested in three different oil fields in the Kurdistan Region, in a way that has a 40 per cent share in the Garmian block, in the Sarqala oil field, and 80 per cent in the Halabja and Shakal blocks. Sarqala oil field reserves 3 million barrels of oil[12]. Gazprom manages and produces 30,000 barrels of oil and 40 million cubic feet of gas per day, now used to produce 165 megawatts of electricity.

Lukoil has sought opportunities to work in Iraq since the beginning of 1990 and has an agreement to expand the Western Qurna-2 oil field in partnership with Norwegian Statoil. Western Qurna-2 oil field is about 65 kilometres west of Basra and reserves 13 billion barrels of oil. Again in 2013, Lukoil signed another agreement to extend the Contract for the West's Qurna-2 oil field for 25 years, aimed at bringing daily oil production to 800,000 barrels by 2024, and now makes up about 9 per cent of Iraq's total oil production and 12 per cent of Iraq's oil exports[13].

Conclusion

The work of Russian companies in the Kurdistan Region and Iraq continues. Still, the inaction of their partner companies, which do other work such as financial, legal, tax, social care for their employees, etc., has been suspended. Others warned and sent them continuous work notes. And this has given them two possibilities, the first of which is finding a replacement to carry out their work or withdraw? As Vagit Alekperov resigned, the chief executive of Lukoil company to protect the company after he was sanctioned[14]. Although the US and its allies are increasingly sanctioning Russia and trying to separate off the world, the Central Bank of Iraq has called for protecting Iraq's financial system. In contrast, continuing sanctions are related to the Ukraine-Russia war[15].

Ultimately, the US and its allies' sanctions on Russia have targeted only four of Russia's energy sectors but have targeted 62 financial institutions[16] due to the role Russian companies play in supplying and filling the world's oil and gas needs. Because it is the production and export of Russian oil and gas which has kept the price of oil per barrel above \$100 and the cost of gas above 6 dollars, which has not risen by this number in a decade, and this has somehow led to a region like Kurdistan Region to be named as a new world's natural gas providers. Therefore, we must wait to see what Russian companies in the Kurdistan Region, Iraq and the world are doing to escape sanctions, especially US sanctions.

Footnote:

[1] <https://www.washingtoninstitute.org/policy-analysis/search-new-patron-krg-turns-back-moscow>

[2] <http://rudawrc.net/?p=2015>

[3] <https://www.atlanticcouncil.org/blogs/econographics/global-sanctions-dashboard-groundhog-edition/>

[4] <https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/24/fact-sheet-united-states-and-allies-and-partners-impose-additional-costs-on-russia/>

[5] <https://www.arabnews.com/node/2033381/middle-east>

[6] <https://www.washingtoninstitute.org/policy-analysis/un-resolution-ukraine-how-did-middle-east-vote>

- [7] <https://som.yale.edu/story/2022/over-750-companies-have-curtailed-operations-russia-some-remain>
- [8] <https://www.rudaw.net/english/middleeast/iraq/020320221>
- [9] <https://www.rudaw.net/sorani/interview/02032022>
- [10] <https://www.rudaw.net/english/kurdistan/020620173>
- [11] <https://www.reuters.com/article/us-mideast-crisis-kurds-referendum-russi-idUSKCN1BV1IH>
- [12] <https://www.trtworld.com/magazine/the-importance-of-russia-s-growing-footprint-in-iraq-40054>
- [13] <https://mideast.lukoil.com/en>
- [14] <https://www.reuters.com/business/lukoils-alekperov-supporter-russia-opec-ties-resigns-2022-04-21/>
- [15] <https://www.aljazeera.com/economy/2022/4/21/russias-lukoil-chief-alekperov-resigns-after-being-sanctioned>
- [16] <https://www.atlanticcouncil.org/blogs/econographics/global-sanctions-dashboard-special-russia-edition/>