

“IRAQ : THE STATE OF LOCATIONS, EVOLUTIONS AND PROSPECTS CONCERNING ENERGY”

Barah Mikail, Chercheur

Etude n° 2006/089 réalisée pour le Secrétariat général pour l'Administration selon la procédure du marché n° 06-45-159 sans formalités préalables

SYNTHESIS

Iraq is currently undergoing some crucial evolutions as much on the political front as on the economic, and of course, the social front. Since the invasion of the country in March 2003 and the fall of Saddam Hussein's regime, *Nation building*, which was called upon to make Iraq an example of democracy in the region, has quite frankly engendered instead some disturbing evolutions, due to the explosion of terrorist attacks on the one hand, and also to the withdrawal of several ethnic and/or denominational communities on a local and localized scale. The national, unitary Iraqi sentiment, which supposedly prevailed during the time of the former president and thus succeeded the era of national fragmentation delimited by identity affiliations, has since diminished, which for now, has allowed Kurdistan, in the North region, to claim further separatist motives. The country's major Shiite leaders seem to be tempted by recourse to this same model, all of them questioning in addition what will become of the other communities, beginning with the Sunnis, who are concentrated in the center of the country.

This situation is all the more problematic since it generates consequences for the country's terms of reconstruction, as it is forcing the central government to confront this friction. The Iraqi executive power is in effect pushed toward finding a necessary balance between its partiality for the maintenance of multinational forces in the country for security reasons, which is the aspiration of the Kurds and Shiites

particularly concerning the attainment of broadened management prerogatives and coinciding with fixed geographic limits, and the presence of multiple claims and tensions within the Iraqi Parliament. However, over time, it became evident that the central power was responsible for Iraq's poor economic situation reflected in the durability of opposing motives of a large segment of the Iraqi people. The economic motives do not explain everything, but they do subscribe amply to the idea that the fall of Saddam Hussein's regime offered the country, nearly five years later, no prospect of a promising future.

However, the important energy resources of Iraq remain fully exploitable, serving as quite a financial godsend, one which could largely satisfy the needs of the country. The issue that underlies the present task thus requires deep reflection, at the outset, upon the effective state of Iraqi infrastructures, the efforts that remain to be deployed in order to render the infrastructures fully operational, as well as the effective conditions that could permit the Iraqi central government to initiate a cycle of offers and the allocation of contracts for the reconstruction. Further, it is imperative that these dealings benefit Iraq just as well as they do in countries and companies endowed with a useful know-how of the matter.

Entitled "Iraq: The State of Locations, Evolutions and Prospects Concerning Energy," the enclosed study centers around three major axes. Firstly, we attested to the precise state of Iraqi infrastructures and energy deposits, with maps as support, by revisiting certain historic specificities that still bear importance in explaining the stakes of contemporary Iraq. Our reflection, which we expanded to include the case of the Iraqi electric infrastructure, will thus allow us to insist on the fact that this country continues, still today, to suffer from a catastrophic economic situation as is the case with its infrastructure. It remains significant, in effect, to note that the potential for oil and electric production on a national scale is merely at the level that it reached at the end of the 1970s. The Iran-Iraq War (1980-1988), the Gulf War of 1991, the years of embargo that followed, and the calamitous management of Saddam Hussein also have a part in the explication, of course. But all of these factors also serve as administrative motives that explain the country's incapacity to

recover nearly five years after its invasion in March 2003. Rather than thinking to take the aspirations of the population into account at the outset of considerations, Iraq's reconstruction strategy as directed by the Americans has given marginalization of anything that had to do with Saddam Hussein's regime more than its share of room to develop, as well as enabling a focus on security stakes to the detriment of certain aspects of the economy. These errors, combined however with the insufficient amount of credit at the disposal of the Americans before entering the territory meant to aid the Iraqi population, thus early on allowed for separatist vague desires to take advantage of the loss of bearings endured by the members of some official Iraqi institutions for months and months. The result will soon be the development of local idiosyncrasies about national prospects, with repercussions of this situation on the challenges of reconstruction.

It should be noted however, and it is indeed the second axis that we have contended, that the deciding terms prevailing during the rule of Saddam Hussein largely favored nepotism and companies stemming from countries likely to be able to provide him with political backing. The real identity of all the companies and people who benefited from the "generosity" of the former dictator is certainly still relatively unknown; but by and large, it is a proven fact that in those days some Russian, Chinese, or even French companies had been among the ranks of the economically-privileged beneficiaries. What are the circumstances today? The question remains unanswered, and for good reason. If the United States had been able to assure, in the immediate post-Saddam Hussein period, some concrete assets in terms of obtaining markets for the country's reconstruction, one could effectively know how to affirm whether or not the state of the country is exactly the same today. This matter continues to have a host of unknowns. But at the same time, the central Iraqi government gives the impression that it has reassumed control over the prerogatives linked to the reconstruction's market. Since July 2007, certain power players in the Iraqi political arena, including Oil Minister Hussein Shahrastani, have been engaging in an astonishing amount of activity, which consequently seems to indicate that Baghdad is actively looking to diversify its partners for the reconstruction. Even more noteworthy, Iraq undoubtedly wants countries principally like Iran, China or even

Russia to participate actively in the process of its reconstruction. Will logic see itself through to the end? There is nothing to the contrary, in any case. Still, in the Iraqi case, promises bear no commitment. If in effect the Executive ascribes great importance to appealing to potential partners from diverse countries, it remains at the same time extremely constrained by the country's existing laws. Multiple financial obligations remain in effect the prerequisite for Iraq's reconstruction, and it is for this reason that there is a good chance that, short of a miracle, the future of Iraqi markets will not be able to see its first signs of recovery before the first half of the year 2008.

The prospects offered by the Iraqi energy market depend in effect on quasi-exclusively political factors, and therein lies the subject of the third axis that we have developed within the framework of the present study. Moreover, three major financial obligations have a decisive influence on the country's prospects: the status of the city of Kirkuk, a city rich in oil claimed by the Kurdistan Regional Government, whose final status could be clarified by a referendum in December 2007; the institutional future of the country, pending the outcome of the Parliament's deliberations scheduled for April 2008 on a recent "Law on the federalization of Iraq"; and the Iraq Oil Law, a text drawn up in February 2007, ratified by the Council of Ministers in July of the same year, but that the Iraqi Parliament has still not adopted at present. However, without the authorization of the legislature, the government cannot just simply proceed to allocate contracts for the exploitation and exploration of the country's energy supply. But likewise, no one can foresee if this Law, assuming it can be adopted rather quickly by the Parliament, will be maintained in the state, or if, on the contrary, it will still need to undergo some more or less substantial modifications. At any rate, this situation is even more troubling and problematic in that it is currently impeding any possibility of substantial advancement for the country. More similar to this situation, given that the motives behind additional complications remain deciding factors for now, was the case in August 2007 following the Kurdistan Regional Government's decision to ratify measures related to an Oil Law adopted by its own legislative authority. Since then, a substantial portion of Iraqi Parliament members, all politicians at the crux of the Iraq Executive, have denounced this situation, considering it illegal and synonymous with disunion for Iraqis. But micro and macroeconomic prospects

have not particularly improved on a national scale, and oil, as gas as electricity remains largely under-exploited, carries as much weight as the whole of the other infrastructures aimed at contributing to the national economy's revitalization and at preserving means of subsistence for the Iraqis.

In this context, it is not so futile to ponder about the chances of certain governments and companies in the international community seeking to acquire some important contracts for the reconstruction of Iraq. Although the opacity of current prospects indeed often obstructs a clear view of the country's future, there are companies nevertheless present in the Iraqi energy market today. But at the same time, if the international economic giants (such as Total, Chevron, Texas, etc.) are unquestionably and directly interested in Iraqi energy prospects, they have not so much as managed to invest their assets in the land as of now. Certain contracts and partners are yet already close to doing so, waiting only for a sign of approval from Iraqi authorities. Nevertheless, as long as the legal prospects prevailing in a national capacity are not clarified, and as long as the security situation in Iraq remains problematic, encouraging signs will be lacking in this sense. Contrary to what has been able to prevail until a short while ago, the United States today seems far from being alone in having a say in explaining progress made through the allocation of contracts for the reconstruction of Iraq. Countries such as China, Russia, Iran, but also Turkey and many more member countries of the European Union, including Great Britain and France, indeed all have interests. At the same time, if a form of equity in the diversification of partners seems, in some respects, to be feasible, political blockages continue however to greatly obscure the conditions aimed at governing the Iraqi market for the reconstruction effort in the near future.

In effect, Iraq abounds in prospects for reconstruction aimed at benefiting it as much as the international partners involved in the effort. But it is the remedy for unblocking the situation that remains absent for now. It remains thus to be seen if, during the course of the year 2008, the country will be able to progress toward more promising horizons. What some organizations actively engaged in monitoring Iraq's

reconstruction say notably and openly about the nature of political tensions among different country officials, remains quite far from being established.