



2024

Policy Paper No: 321

Analyzing Russia's Involvement in Iraq and the Kurdistan Region's Energy Sector

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مؤسسة المتوسطي للدراسات الاقليمية

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Key takeaways:

- ❖ Russia and Iraq have owned rich oil and gas resources and a common interest in fostering a favorable energy investment and trade atmosphere.
- ❖ Russian-Iraqi cooperation in the energy sector has bloomed with the significant participation of major Russian energy companies (Rosneft, Gazprom, Lukoil, and Bashneft) in Iraq's burgeoning oil industry. Russia's economic hegemony in Iraq will reach \$19 billion in 2023.
- ❖ Russia, along with its main geopolitical ally, China, has embarked on trade and investment in Iraq. They probably want to control everything and are seeking an end to Western hegemony in the Middle East from Iraq!
- ❖ Russian hegemony began in three stages in the Kurdistan Region (northern Iraq) in 2017, and by the end of 2023, the Russian company Lukoil had almost controlled most of the rich areas in the south of Iraq.

Introduction

As geopolitical chess pieces move, Moscow, with Beijing as its ally, strategically advances towards controlling the energy narrative and investment in Iraq, an effort to distance Baghdad from Western energy engagements and align it with the emerging Iran-Saudi Arabia axis. By the year 2023, [Russia's stake in Iraqi energy](#) would have reached \$19 billion. Furthermore, in March 2023, the Iraqi state-owned Dhi Qar Oil Company (DQOC) ratified the development plans for Block 10 reserves. These include the entire Eridu field, the largest oil field discovered in Iraq since 2003. Preliminary estimates indicate that Iraq's Eridu oil field has between 7 and 10 billion barrels of reserves. The exist of Inpex, a Japanese corporation, from its 40 percent holding in Block 10, which boasts the substantial Eridu discovery, has facilitated a streamlined path for [Lukoil to assert dominance](#) over this resource-rich expanse. Concurrently, the departure of Exxon Mobil from the lucrative West Qurna oil field in Basra has allowed Lukoil to reacquire its shares.

The tapestry of military and energy collaborations between Russia and Iraq paints a picture of their deepening cooperative relationship. An enterprise such as Lukoil has channeled up to \$11 billion into Iraq's southern provinces, notably the Basra region. Beyond the oil fields, the maritime sector emerges as a fertile ground for Russian-Iraqi collaboration. With Iraq's strategic placement along critical maritime conduits complemented by Russia's seasoned expertise in port development and maritime logistics, the convergence of interests is unmistakably evident. Such collaborative ventures aimed at enhancing Iraqi port infrastructure and [fostering robust maritime cooperation](#) are anticipated to significantly bolster the efficiency and throughput of Iraq's maritime trade routes, attracting heightened trade and investment flows.

The discourse then shifts to probe the genesis of Russia's involvement in Iraq. It questions the catalysts behind Russia's strategic shift in the region. Do the Russian and Chinese strategic projects in Iraq and its vicinity propose a rectification of historical injustices dating back to the post-World War I era? What ramifications do the oil and gas resources of Iraq and the Kurdistan Region hold for Russia's geopolitical ambitions? And what historical-political narratives could the Russian presence in the region be scripting for Iraq and the Kurdish populace?

Context and Limits of Discussion

In the broader context of global geopolitics, the preference matrix for global powers and industrial magnates remains skewed towards ensuring national security and fostering a competitive edge in energy distribution. This was evident at the COP28 climate change summit in Dubai, held from December 1 to December 4, 2023, where 134 nations inked [the UAE Declaration](#). The summit saw an assembly of over 70,000 participants, including government leaders from 200 countries and a congregation of decision-makers, scientists, experts, heads of state, and members of international bodies, engaging in earnest dialogues to unearth solutions and financial strategies for climate change initiatives.

Within this complex weave, Simon Watkins—esteemed financial journalist, former head of institutional forex sales and trading, later director of forex at the Bank of Montreal, and a geopolitical risk consultant to major hedge funds in London,

Moscow, and Dubai—sheds light on Russia's geopolitical maneuvers. His 2023 [publication](#), *The New Global Oil Market Order And How To Trade It*, delves into Russia's strategic advances in Iraq and the Kurdistan Region from the onset of 2017 through the culmination of 2023. Watkins elucidates how these developments have altered the dynamics of the global oil market, forging new paradigms and dictating novel rules of engagement.

For Watkins, the quintessence of oil in determining a nation's economic destiny is unequivocal. Its influence is so profound that it molds both domestic and international policy of major oil producers and consumers. In a realm where the stakes tower high, the key players in the global oil theatre are inclined to employ every conceivable strategy to secure an advantage. The trader, thus, must remain vigilant of the seismic shifts that have transpired over the recent years, particularly with the advent of the COVID-19 pandemic reshaping the conduct of the world's leading oil market stakeholders and redefining political and diplomatic strategies at the regional echelon.

Russia Began to Manipulate the Region from the Kurdistan Region

It was from the Kurdistan Region that Russia initiated its strategic manipulation. Rosneft and Gazprom, behemoths that function as extensions of the Russian state apparatus, though commercial in their pursuits, ultimately serve the Russian government's directives, Vladimir Putin's vision, and the plethora of entrepreneurs whose fortunes are tethered to uninterrupted [access to global energy reservoirs](#). Since 2018, through a series of calculated business transactions, Rosneft has emerged as a notably assertive arm of Russian state interests. Its prominence is underscored by hefty investments across key foreign policy theatres for Russia, spanning the Arctic, China, Vietnam, Venezuela, Africa, and the Middle East.

In June 2017, a Kurdistan Regional Government delegation led by Prime Minister Nechirvan Barzani, Deputy Prime Minister Qubad Talabani, and Minister of Natural Resources Ashti Hawrami visited Russia on the sidelines of the St. Petersburg Economic Forum, which included 130 leaders. The country, which attracted 12,000 people, [signed](#) a contract with Ross Oil.

In general, oil and gas contracts are between the product's owner, the party involved in the export route, and the buyer. According to the agreement between the Kurdistan

Region and Rosneft, the cost of building a liquefied gas pipeline from the Kurdistan Region to the market Rosneft wants is \$1 billion. Since 2017, the Russian energy giant has lent \$3.5 billion to the Kurdistan Regional Government (KRG) and [signed contracts to develop five oil blocks](#). As of April 2018, the parties had agreed to implement a geological exploration program and commence pilot production. The agreement comes as the two largest US energy companies, Exxon Mobil and Chevron, left several fields in the Kurdistan Region in 2015 and 2016. During the war against ISIS, the federal government of Baghdad did not pay the salaries of the Kurdistan Region or the cost of the Peshmerga forces. In 2017, the Kurdistan Region was moving towards an independence referendum. Kurdistan's leaders understood that the United States would not support the Kurds in their problems with Baghdad or in achieving political independence. The Kurdistan Regional Government (KRG) voted for independence in the referendum, which failed due to pressure from the Iraqi government and a lack of support from the United States.



St. Petersburg, Russia (June 2017): The KRG's PM Nechirvan Barzani, Deputy PM Qubad Talabani and the KRG'S Natural Resources Minister Ashti Hawrami signed a contract with Rosneft CEO Igor Sechin (Archive: The KRG [Ministry of Natural Resource](#))

From the beginning, for Iraq, the endgame has been evident in Russia's effective takeover of the oil and gas industry in Iraq's troubled Kurdistan Region to the north.

Russia's control over Iraqi Kurdistan, through proxies of state companies, especially Rosneft, has been ensured since the autumn of 2017 through three mechanisms:

First, it provided US\$1.5 billion in financing through advanced oil sales payable over the next three to five years.

Second, it received an 80 percent working interest in the region's five major oil blocks and the resulting investment and technical and equipment assistance.

Third, 60 percent ownership of the critical pipeline previously built by the Kurdistan Regional Government (KRG) by committing to invest \$1.8 billion to increase its capacity to 1 million barrels daily.

Subsequently, Russia has manipulated its region and has entered into a surprise confrontation with the Iraqi central government in Baghdad, the final stage of its plan to effectively incorporate the Iraqi Kurdistan Region into all other parts of Iraq. By the end of 2023, Russia will be fully involved in Iraq's gas sector. With this in mind, Russia and China are now moving to secure their dominance over the whole of Iraq. Removing Inpex from the vast Eridu field is the latest example of [their expansion strategy at work](#).

From the inception of the Soviet Union in 1922, Russia's foreign policy has been characterized by an impulse to extend its influence into regions of turmoil. The current Russian endeavor to assert its will in the Middle East, building upon its aggressive posturing in neighboring Iran, is therefore in keeping with historical precedence. The objective in September 2017 was not just to extend Russian influence into Iraq, but to maneuver in the semi-independent Kurdistan region as a precursor to broader dominion over southern Iraq. With this, Russia aims to preside over the unification of northern and southern Iraq under its influence, thus affirming its long-standing expansionist ambitions.

Tracing the Energy Alliance: Russia and Iraq's Shared History.

Michael Barantschik, an expert on the background of the oil and gas industry in the Middle East, traces trade and investment relations between Russia and Iraq back to a long and complex history. In the Middle Ages, merchants and explorers from both regions met, traversing the Volga and Caspian Sea trade routes and establishing early

trade networks between what would much later become Russia and Iraq. Formal diplomatic relations were established on September 9, 1944, and despite a brief hiatus between 1955 and 1958, relations between the two countries grew, and Baghdad was seen as a significant Soviet partner in the Arab world.

In 2008, Russian President Vladimir Putin forgave much of Iraq's Soviet-era debt, setting the stage for a US\$4 billion oil deal. This gesture marked the beginning of a deeper economic play, which was further solidified in 2012 with the significant contributions of the Russian oil company Luke Oil in the Iraqi energy sector.

Recent relations between the two countries have further strengthened Russia's involvement in Iraq's oil sector. In February 2023, Russian Foreign Minister Sergei Lavrov visited Baghdad. One of the main issues discussed was the funding mechanism for Russian energy companies, which reflects a mutual interest in continuing and expanding economic ties despite Western sanctions. This was also the topic of discussions between Iraqi Prime Minister Mohammed Shaia al-Sudani and Russian President Vladimir Putin on October 10 and 11, 2023, during [their meetings at the Kremlin](#), which took place against the backdrop of the ongoing conflict in Ukraine and the situation in the Middle East. Strengthening relations between Russia and Iraq covers all areas. In 2022–2023, Russia will provide 200 free education courses at various levels for Iraqi citizens.

In addition to contracts with Russian companies, Russia and Iraq have signed agreements to boost cooperation in the oil sector, including exploration and drilling projects and infrastructure development. These agreements are a significant step towards deepening their energy ties and ensuring a steady flow of investments vital to the growth and sustainability of the Iraqi oil industry.

Furthermore, Iraq and Russia also coordinate in the gas sector. With Iraq aiming to reduce flaring and Russia having extensive experience in gas production and processing, there is a natural synergy to help. Technical assistance, joint investment in gas processing facilities, and data transfer could be further explored to benefit both countries.

The Engagement of Economic Contributions Makes Strategic Projects Bolder

The concentration of economic contributions in the energy sector highlights the need for diversification to ensure a balanced and sustainable economic relationship. Exploring new avenues for economic cooperation across different sectors, including agriculture, technology, manufacturing, human capital, and skills development, can foster a diversified economic engagement, thereby enriching economic ties between Russia and Iraq.

Transportation and infrastructure are important elements in Russia-Iraq bilateral relations, forming the backbone for enhanced trade, economic cooperation, and regional connectivity. Iraq has launched a \$17 billion project to strengthen its transportation infrastructure, aimed at connecting a major port of goods from the south (Faw Port) by rail and road to the north and the Turkish border to a regional transport hub by developing its road and rail infrastructure, thereby connecting Europe with the Middle East. [The project](#) stretches 1,200 kilometers from Turkey to the Gulf and is seen as a cornerstone of a sustainable non-oil economy and a means to foster economic integration within the region.

Also, the project symbolizes a strategic move to enhance trade flows, reduce transportation costs, and improve market access. By investing in the construction of the railway, Russia and Iraq are laying the groundwork for a robust logistics network, which will not only benefit bilateral trade but also create a ripple effect on regional trade dynamics.

Although Iraq is an unstable country in every way, the political situation, conflict between different communities, and external interference have hindered the country's transformation from bad to good and from good to better. However, having a strategic and geopolitical vision that fully affects the economic, cultural, and technological elements and revives the general business environment is a strong possibility to get Iraq out of the mud of the past decades, such as in 2023, by building roads and modernizing airports. Urban development initiatives have begun.

The Ongoing Turmoil in Kirkuk : Russia Came, and British Petroleum Left

Iraqi oil was domesticated in Kirkuk, the birthplace of the Iraqi oil industry. In September 2013, [British Petroleum \(BP\) signed](#) a memorandum of understanding with the Iraqi Oil Ministry's Northern Oil Company to support \$100 million in field exploration and research in Kirkuk. The arrival of ISIS in 2014 and the seizure of Kirkuk oil fields by Kurdish forces delayed BP's operations.

In early 2020, after completing a survey and technical study of the field, BP left the results of their work and laptops to Northern Oil Company. Iraq had hoped BP would help triple production from the fields to 1 million barrels per day, more than one-fifth of Iraq's current output and 1 percent of global output.

According to [the Mediterranean Institute for Regional Studies](#), access to BP's data and statistics has not been easy, but the signs after BP's departure from Kirkuk have not been promising for the Iraqi government and Northern Oil Company. They would have extended their stay if the study results had incentivized BP and the West. In addition, most of Iraq's crude oil is produced in areas administered by the central government of Baghdad and exported from the south and southern Gulf ports. After ISIS blew up the Kirkuk-Ceyhan pipeline in 2014, the Kurdistan Regional Government exported about 300,000 barrels of crude oil daily through the Kurdistan-Ceyhan pipeline to Turkey from 2014 to October 2017 until Russian companies withdrew and stabilized the Kurdistan Region and Iraq recovered from the war against ISIS. With the regional support of Britain and the United States, the Iraqi central government regained control of the oil fields in Kirkuk and ended the rule of Kurdish forces in the city.

Why is Russia Insisting on Expanding its Hegemony in the Region?

One of the concepts that Russian thinkers have been working on since the Cold War is Eurasia. Eurasia is a complex concept because it still needs a geographically unified identity, whether it refers to Asia and Europe or the regions connecting Asia and Europe. Russia, Iran, Iraq, and Syria have the world's largest oil and natural gas reserves. Wherever Eurasia is, Russia will do everything to change the unipolar system and governance of the world, and to do so, it must be present in the strategic energy basins in which the West dominates.

Turkey is at its heart wherever Eurasia is, and any Russian energy pipeline from the Kurdistan Region or Iraq must be a key party to the deal. Turkey positioned on the

Mediterranean Sea the Black Sea, and overlooking the Caucasus and Eurasia, Turkey is part of Europe and a major part of the Middle East.

Robert D. Kaplan, a professor and geopolitical expert, wrote a book in 2018 entitled "The Return of Marco Polo: US War, Strategy, and Interests in the 21st Century." It identifies the situation as a transient moment that must be felt on two levels:

First, the United States must counter Chinese hegemony in the Atlantic and right-wing populism in Europe.

Second, according to Kaplan, geography and technology intersect. That is why Russia has always dominated Eastern Europe. In Eastern Europe, protests against the system have led to the rise of right-wing and popular movements. This will ensure Russia's interests.

This shows us that Russia will be wherever the West sees it as interesting. Suppose Russia has the Eurasian Project and leads the Caspian Basin, and since May 29, 2014, the Eurasian Economic Union (EAEU) has been formed. The Arabian Gulf basin has the Gulf Cooperation Council (GCC). Natural gas has been discovered in the eastern Mediterranean since 2010. The main natural gas producers in the sea and offshore are Israel, Cyprus, and Egypt, more than 20 countries. They have created [the Eastern Mediterranean Gas Forum \(EMGF\)](#) since China also has a road belt and project in the region. How will the Kurds deal with these strategic projects?

Hydrocarbons Have Threatened the Security of the Kurdistan Region

In an eyeshot of the pattern of past events, the Kurdish issue has been played out among the regional forces. The complex hydrocarbon issue requires a comprehensive strategic project from Kurdish leaders. The panorama of events since 2017 has dealt a severe blow to the political economy and national security of the Kurdistan Region:

- In September 2021, the United States provided \$250 million in [financial support](#) to the Khor Mor gas field to expand the field's stations (known as KH250). The field is expected to produce 750 million cubic feet per day by the end of 2024 and 1 million cubic feet per day the following year. UAE Crescent Petroleum has operated the field since

- Since 2021, the Kurdistan Region and Turkey will move forward in relations with the Gulf countries in the same direction. The leadership of the Kurdistan Regional Government has reportedly played a central role in facilitating direct dialogue between Turkey and the UAE, although this may be secondary. However, reporting on the KRG's participation is evidence of the [central role played by the KRG](#).
- In early February 2022, Iraqi Kurdistan Regional Government President Nechirvan Barzani traveled to Ankara to discuss closer energy ties with Turkish President Recep Tayyip Erdogan. That same month, the Kurdistan Region [announced](#) extending its gas pipeline network to the Turkish border, ensuring an extensive gas supply through a 112-mile pipeline. This step encouraged Kurdistan's export capabilities and showed that Turkey's position as a major gas supply hub, especially for European markets, is always under consideration. Two weeks after Nechirvan Barzani visited Ankara, Prime Minister Masrour Barzani discussed Kurdistan's gas potential during a visit to Qatar and the United Arab Emirates. In 2022 and 2023, the Kurdistan Regional Government (KRG) President and Prime Minister visited the UAE and Qatar 11 times separately.
- The above movements were not without risks and challenges: Iran and Shiite militia groups in Iraq (Probably with Russia's knowledge) have launched several open attacks on the Kurdistan Region's energy sector, directly and indirectly. From October 2022 to January 2023, the Khor Mor field was [attacked](#) thrice with Katyushas and drones. On March 13, 2022, Iran fired 12 missiles at the residence of Sheikh Baz Barzanji, owner of the Kar Group of Companies, in the Kurdistan Regional Government's capital, Erbil (Kar group and 60% by Rosneft own 40% of the Kurdistan Pipeline).
- The Kurdistan Region suffers from political-internal division. On April 28, 2022, The president of PUK met with several consul generals and diplomats in Erbil to discuss the exportation of the Region's natural gas and the latest developments in the issues relating to Sulaimani's financial situation and the Region's upcoming parliamentary elections. "The contract and its method must be explained to the people of the Kurdistan Region... The case should be worked on transparently, and Kurdish people are a part of this process. Any

efforts outside these requests, I announce clearly and publicly, they will have to export gas pipelines over Bafel Jalal Talabani's dead body," Talabani said in a [statement](#). Only a week after the Talabani's expression, arrows hit Bafel Talabani's party: One of the prominent security officials of Talabani's party, who worked on sensitive cases, fled from Sulaimani to Erbil, which is under the control of the Kurdistan Democratic Party (KDP).

Conclusion

Russia's increasing involvement in Iraq and the Kurdistan Region's energy sectors reflects a broader pattern of economic ambition and strategic positioning. However, the path to solidifying these ties is littered with challenges, both internal and external. Geopolitical tensions, international sanctions, and a complex regulatory environment create significant obstacles to economic cooperation. Engaging in an ongoing dialogue at the bilateral and regional levels is essential to address these concerns and foster a stable environment for economic collaboration. Strengthening financial infrastructure and exploring alternative financing mechanisms can mitigate financial barriers, facilitating trade and investment flows between Russia and Iraq.

The Kurdistan Region's energy sector, with its poor economic ability and internal divisions in such a region, is waiting for a comprehensive strategic project to strengthen its natural resources and be able to carry out a geopolitical transformation, thereby increasing its political, economic, diplomatic, and security strengths.

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