

MEES- Monday 15 October 2007

KRG-Baghdad Oil Licensing Standoff Shifts Up A Gear Over Geography Of Hunt Oil PSC

The simmering row between Iraq's Oil Ministry and the Kurdish Regional Government (KRG) in Irbil over its recent moves to license oil companies for exploration and development in KRG-controlled areas of northern Iraq stepped up a gear this week after allegations by former Iraqi Oil Minister Issam Chalabi, in a MEES interview, that the production-sharing contract awarded to US independent Hunt Oil in early September relates to areas of Iraq at present outside KRG control. If confirmed, the development would appear to suggest that the KRG is not only targeting oil investment, but may have broader political ambitions for control of oil and gas in the disputed areas adjacent to its territory in northern Iraq.

The reduction in politically-motivated violence in Iraq in recent weeks has been a welcome development to all parties within Baghdad's beleaguered government as they strive to achieve the political breakthrough that will allow parliamentary approval for the pivotal Iraqi hydrocarbon law. By contrast, the war of words between the Shi'a-led government in Baghdad and the KRG in the north of the country has intensified in line with the huge strides made in oil investment by the Irbil-based regional administration. Following the KRG's publication of a regional hydrocarbon law and model contract over the summer (*MEES*, 9 July), the Kurdish parliament in August approved the law (*MEES*, 13 August), in effect opening the door for international oil companies (IOCs) seeking to take a stake in the KRG's oil sector.

The most recent awards by the KRG saw Canada's Heritage Oil and France's Perenco take upstream blocks in the area alongside two small refinery deals with Heritage and the Genel Energy/Addax partnership which is operating the Taq Taq field – in all, investment amounting to \$800mn (*MEES*, 8 October). The awards have come in for sharp criticism from the Baghdad government, which has declared them illegal and warned that crude produced under such deals would not be legally exportable – even though the very law that might constrain the KRG's right to sign up IOCs independently in its own region has yet to enter the statute book. In response, the KRG has insisted that contracts it has signed are in line with the federal Iraqi constitution, Article 115 of which gives all power to regional

government not stipulated as exclusive powers of the federal government (which covers oil and gas) and Article 141 which validates “decisions issued by the KRG, including court decisions and contracts” since 1992.

Hunt Oil PSC

But it is the PSC signed with Hunt Oil in early September (*MEES*, 17 September) – the first of these latest PSCs – that is the subject of the latest spat between the KRG and those supporting a centrally-controlled Iraqi oil industry. The Hunt Oil PSC covers oil exploration in the Duhok area in the northwest of the KRG area. Unlike the subsequent agreements with Heritage and Perenco, where specific blocks were published, the Hunt announcement did not specify blocks. *MEES* understands that the Hunt Oil deal covers Blocks 6, 7 and 8 – which are defined on the map of 40 blocks issued by the KRG earlier this year (map published in *MEES*, 9 July and available at www.krg.org). 'Amman-based former Iraqi oil minister Issam Chalabi told *MEES* that the Hunt deal covered four structures in those blocks – Jabal Kand, Fajir, Nerjis and 'Ain-Sifni – of which the first three fall outside the jurisdiction of the KRG in the Ninewa Governorate. Several attempts by *MEES* to get clarification from the KRG or Hunt Oil on the location of the structures failed to yield a response by press time. If the structures are outside the KRG jurisdiction but within the KRG's disputed areas which are due to be subject to a referendum, the issue is bound to inflame the Baghdad-KRG political relationship, as it would imply that the KRG is creating facts on the ground ahead of a vote, prejudging any referendum while exceeding its present geographical jurisdiction. Under the federal constitution, the referendum on the disputed areas around Kirkuk is due to take place by the end of 2007 but that deadline cannot technically now be met.

Asked whether the structures fell inside the KRG's area or within the disputed areas, Mr. Chalabi said that there was “no such thing as ‘disputed areas’ as far as the Iraqis are concerned”. But he said that an unofficial map made available to some media “does show that maybe these areas fall within disputed areas. But they are disputed only from the perspective of the KRG,” he said. Mr. Chalabi, who held the Iraqi oil portfolio from 1987 to 1990, said Hunt's signing with the KRG for acreage outside the KRG's three governorates of Dihok, Irbil and Sulaimaniyah would have very serious implications from the legal as well as the political perspectives. “This will be considered a very serious matter from a political point of view between the central government and the KRG,” he said, adding that this was especially true since Hunt Oil is a US company.

Potential For New Disputes

While the Hunt contract brings the KRG's geographical jurisdiction under the spotlight, the margin for new disputes of this sort is wide. While it is generally assumed that the KRG boundaries are limited by the three Saddam-era governorates, the map of 40 upstream blocks published earlier this year by the KRG clearly does not adhere to these boundaries in its northwestern areas. Moreover, while many Iraqis might oppose the transfer of Kirkuk to the KRG following a referendum, the government has induced many Arab settlers to return to their former homes further south through financial incentives of \$15,000 per family – increasing the chances that any referendum will see the Kirkuk region added to the area under KRG control. The boundaries of the areas under Kurdish control have shifted somewhat since the autonomy agreement of 1970 and since Kurdish regional control started in 1991 to reflect ceasefire lines. As such, areas of the Kirkuk and Ninewa governorates may actually fall within the KRG's jurisdiction – even if this has yet to be formalized.

Speaking in general terms about the KRG's contracts with IOCs, Mr Chalabi said he supported the Iraqi government's denouncement of the contracts as illegal. "I think they are absolutely right, because even if you go to the Constitution it says in Article 111 that oil and gas are the property of all the Iraqi people. This means agreements ought to be signed by the only body that represents those Iraqi people, and in the absence of an oil law that gives particular authorization to anyone else, it must be only the central government that has the right to sign these contracts," he said. "If there had been a federal law with certain authorizations to the regions, then we could say that these signings have been done in accordance with the federal oil and gas law. But they went ahead and issued their own oil and gas law without the approval or consent – or even consultation with – the Ministry of Oil."

In Baghdad, efforts to bring the draft hydrocarbon law before MPs continue to move slowly. The latest draft of the law, which has received fairly widespread support including from the KRG, has been submitted to parliament after a meeting of the parliamentary oil and gas committee on 22 September. This version has dropped the contentious annexes, which had allocated fields either to the KRG, INOC or for international investment, and instead has referred the issue of assignment to the Federal Oil and Gas Council to be resolved later.