

Oil Smuggling Allegations Widen Baghdad-Erbil Rift

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KRG tightens checks but dismisses Baghdad's demand for probe into claims of oil smuggling to Iran.

The Kurdistan Regional Government, KRG, decision to clamp down on alleged crude oil smuggling has done little to ease tensions between Baghdad and Erbil, with the federal government continuing to demand an investigation into the region's oil exports.

The KRG cabinet this week approved new measures to prevent oil trafficking, including the intensified monitoring of border areas and checks on the distribution of fuel sent from Baghdad to the KRG.

Their actions follow western media reports that tens of thousands of gallons of crude oil and refined fuel were being illegally transported to Iran through Iraqi Kurdistan, in violation of Iraqi regulations and undermining new United States sanctions prohibiting fuel sales to Iran.

A New York Times report on July 8 estimated that hundreds of millions of dollars were generated each year by the reported smuggling operation.

KRG officials have denied the allegations, dismissing suggestions that the alleged practice has been an open secret for years, made possible by government complicity.

In a statement last week, KRG natural resources minister Ashti Hawrami condemned the oil smuggling claims as "baseless".

He said that oil derivatives were legally sold to Iran and that the central government was aware of the trade. Under Iraqi law, all oil exports must be reported to the Baghdad authorities.

But the KRG's denials and new measures have not diminished criticism from Baghdad, which is responsible for authorising crude exports and fuel distribution nationwide. The conflict has led to a further deterioration in relations between federal and Kurdish officials, who have frequently sparred over the management of natural resources in the semi-autonomous Kurdish region.

Federal oil ministry spokesman Assem Jihad said Baghdad did not know about the KRG selling oil derivatives to Iran.

The federal government's oil minister, Hussein al-Shahristani, has summoned KRG officials to Baghdad for questioning and told IWPR he is demanding documents "showing the amounts, revenue and dates of oil exports, regardless of the type - ie crude oil or oil derivatives.

"Whatever [the product] is, it will be considered oil smuggling."

Jihad called the KRG's new anti-smuggling measures "insufficient" and threatened that Baghdad "will cut from the KRG's budget any profits that the KRG has made from these oil exports".

Some 17 per cent of the Iraqi government's budget is allocated to the KRG.

Hawrami said in response that the KRG does not intend to meet Baghdad officials but left the door open for "possible cooperation between us".

"I have nothing to say about Shahristani's demand except that we have our own government and parliament and we make our own decisions," he said.

Iraqi Kurdistan's relative stability has attracted foreign investors seeking to tap into the region's vast oil reserves. However, disagreement between the KRG and Baghdad over which government has the authority to sign contracts and pay foreign firms has limited the development of the oil sector in the region.

Iraqi Kurdistan has between 20 and 25 billion barrels of proven oil reserves, according to the KRG's ministry of natural resources. Much of the region remains unexplored, and more optimistic assessments put the total number at 40 billion barrels. The ministry said Iraqi Kurdistan currently produces roughly 100,000 barrels per day.

"There has always been tension between the central government and Kurdistan over oil," said Abdullah Mullah Nuri, a Kurdish member of parliament for the opposition Change movement. "Now that the information about the [alleged] smuggling has come out, this will be part of the dispute. Relations between Erbil and Baghdad will become more complicated, and all politicians will use this card to their favour. Even

the US might use this issue to pressure the Kurds.”

Nuri added that he believed that “most of the information about the [alleged] oil smuggling is true”.

Part of the reason why the oil ministry in Baghdad is so concerned is that it believes some of the petroleum products now being sold to Iran come from consignments that it imported from other countries to relieve shortages of petrol and other fuels. Like Iran, Iraq is a major producer of crude oil but lacks the capacity to refine enough of it to meet domestic demand.

In Iraqi Kurdistan, speculation about oil smuggling has long been driven by the presence of Iranian and Iraqi tankers near border areas. An IWPR-trained reporter in the border town of Penjwen said that on July 12 he observed a line of tankers nearly ten kilometres long waiting at a border checkpoint.

While the KRG cabinet has called for cooperation with Baghdad to prevent smuggling, the new measures will be entirely implemented and overseen by the KRG.

In addition to heightened border surveillance, the cabinet ordered the regional finance ministry to share oil industry-related records from 2010 onwards with the ministry of natural resources. Oil exporters trading from Iraqi Kurdistan, who are licensed by the Baghdad government, will also need to receive permission from the ministry of natural resources.

Hawrami said the increased monitoring of fuel distribution and border crossings will begin “in the next few days”.

“We want to know and be able to scrutinise the kind of business that is being conducted on our borders... so that there will not be any problems,” said Hawrami.

The increased tension between Baghdad and Erbil comes as political deadlock over the formation of a new central government drags into its fifth month since an inconclusive national vote.

Oil sector development will be a critical issue facing Iraq’s new government. Without the long-delayed hydrocarbons law – an unpopular measure which would guarantee a share of Iraq’s oil profits for foreign companies – experts say the next administration must soon pass legislation to regulate the management and distribution of all of Iraq’s oil wealth.

Hawrami said the claims of illegal fuel profiteering will not affect government negotiations in Baghdad. As it stands, no political bloc has enough parliamentary seats to form a government alone. The Kurds, with some 40 seats, could play a key role in a potential government coalition.

But analyst Abdullah Jafar, a retired political science professor from Baghdad University, disagreed.

“The issue of [alleged] oil smuggling will give Baghdad the pretext to exert more restrictions on the Kurds’ oil. As the issue was revealed, the Kurds have looked weaker in Iraqi politics and to the world for selling to Iran. This has given Baghdad more power to deal with their long-term argument with the Kurds over oil issues,” Jafar told IWPR.

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