

Independence of Iraqi Kurdistan: Big Oil Pressuring for Breakup of Iraq?

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There are some contradictory stories emerging about whether oil major Royal Dutch Shell is in negotiations with the Kurdistan Regional Government (KRG). Twice before it was in talks with the Kurds, but withdrew to protect its investments in southern Iraq. Now the equation has slightly changed. It has secured all of the contracts it was interested in with the Oil Ministry, while other large oil corporations have taken the leap to work in Kurdistan. It could now very well follow their lead and move north as well. That would seemingly break with the conservative mold it has forged so far, while working in the country.

When it comes to oil companies deciding to defy Baghdad and signing a deal with Kurdistan, all news reports have to be taken with a large grain of salt. On September 21, 2012, [Reuters had a story that Shell was considering working in Kurdistan](#). The article claimed that it was inspired by the fact that other major oil companies such as Exxon Mobil and Total had recently signed contracts with the KRG, and Baghdad had taken no serious action against them. [Deputy Premier Hussein Shahrستاني's office denied that story](#), and [the central government allegedly threatened to blacklist Shell if it went to the north](#). There was another piece that stated the company had backed out of talks, because of those warnings. More importantly, a Shell spokesman said that while the company would eventually like to work in all parts of Iraq, at the time it was happy with its operations in the south. It would not be surprising if Shell were considering working in Kurdistan, [because its terms are much better than those offered by the Oil Ministry](#). At the same time, many firms do not get paid, have to rely upon the hope that their stock prices will go up with any discoveries they make there, and the region relies upon short-term deals with Baghdad in order to export. The central government has also threatened to sanction any company that moves north, but its stories about majors dropping negotiations with the KRG or halting their work have consistently been wrong. Right now it is impossible to tell which direction Shell will take on the matter. However, one could look at their past history.

Twice before Shell was in talks with Kurdish officials. That occurred in 2007 and 2011. The first time, the Oil Ministry had not opened up to foreign investment yet, but Kurdistan had. Details of the matter are not clear, but it would appear Shell decided to wait until the central government offered up the much larger southern petroleum fields. In 2011, [the company was finalizing a natural gas deal in Basra province](#), and did not want to jeopardize that. That showed a conservative streak within the company that could point to its future actions. Shell may again be unwilling to go north if it thinks its projects in the south are more important.

Shell currently has three contracts with the central government. One is for the Majnoon field in Basra, [which it has a joint venture with Malaysia's Petronas](#). [Shell is expected to invest](#)

[between \\$2.5-\\$3 billion into that project by the middle of next year](#), out of a total of \$50 billion. It is also a junior partner with Exxon in Basra's West Qurna 1. Finally, it has a \$17 billion deal with Mitsubishi to collect natural gas from several fields in Basra, [which took three years to finalize](#). As part of that endeavor, [it has signed a memorandum of understanding to build a petrochemical plant as well](#). The company's work has not gone smoothly in the south. Its natural gas project is still caught up in red tape. [It claims that it is losing ¢60 per barrel on the Majnoon field](#), and won't start getting paid until the first half of 2013 when it will reach its first production target of 175,000 barrels per day. It is then supposed to start earning \$1.39 per barrel, but the actual amount will be less as it has to pay a ¢35 tax. [Its payments for West Qurna 1 have been caught up in the bureaucracy as well](#). Shell obviously has a huge amount of money invested in southern Iraq, and plans on putting in a lot more. That includes the largest natural gas deal in the country, which has huge potential. It's for those reasons, that it was unwilling to make the leap into Kurdistan in the past. That being said, it is facing problems dealing with Baghdad. That's because of the unwieldy government that seems to make even the most mundane matters difficult. Working in the KRG is much easier, and a major draw.

Shell could go either way when it comes to its talks with the Kurdistan Regional Government. In the past, it has been weary of giving up its endeavors with the central government. It has been willing to deal with Baghdad, and even expand its operations in the south. At the same time, its profits look to be slim, Kurdistan offers a much easier business environment, and official threats of retaliation by the Oil Ministry appear to be feckless. Shell has followed a conservative course in Iraq however. That would point to it staying the course, and concentrating upon its three contracts in Basra rather than taking the jump into the north. That doesn't mean it won't follow that path in the future. Still, further details will have to emerge before Shell's ultimate decision can be determined.

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