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About the Publication

Iraq Energy Outlook is a quarterly magazine providing independent, policy-oriented analysis of Iraq and the Kurdistan region's energy sector. It covers developments across oil, gas, electricity, and renewable energy, with a focus on economic trends, institutional reform, and the broader implications for Iraq's development.

The publication aims to present complex energy issues in a clear and accessible manner, supporting informed discussion among policymakers, industry professionals, and researchers.

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The Dhia Jafar Center for Energy & Natural Resources at the American University of Iraq, Sulaimani (AUIS) is dedicated to advancing research and policy dialogue on Iraq's energy sector and its role in economic development.

Table of Contents

5	In This Issue
6	Iraq's Electricity Sector Caught in a Perfect Storm (<i>Harry Istepanian</i>)
7	Power Generation Dilemma
8	The Costly Power Sector
9	Technical and Non-Technical Losses
10	Rising Electricity Demand Will Intensify System Pressures
11	Gas Dependence and Fuel Insecurity
14	LNG Imports: Too Little, Too Late
15	Delays to the GCCIA Electricity Interconnection
16	Suspension of the Iraq-Türkiye Electricity Interconnection
16	Hydropower Could Help
17	Conclusions
18	Diversifying Iraq's oil export corridors: strategic lessons from the 2026 strait of hormuz crisis (<i>Shwan Jamal Azeez</i>)
19	The Anatomy of an Existential Chokepoint Crisis
21	The Northern Corridor: Sovereignty, Treaties, and the July 2026 Deadline
23	Western Pipeline Alternatives: Redux and Geopolitical Friction
25	Strategic Scenarios for Iraq's Energy Geography
26	Policy Recommendations for the Zaidi Administration
28	Buying Time: How Baghdad Managed Iraq's Oil-Fiscal Crisis (<i>Mohammed Hussein</i>)
29	Recovering, But Not Yet Recovered
29	The Fiscal Shock: When Iraq's Oil Revenues Collapsed
31	Baghdad's Fiscal Strategy: Buying Time, Not Solving the Crisis
33	China-Iraq Energy Relationship: Iraq's Pivot to the East (<i>Sardar Aziz</i>)
34	Sino-Iraqi Relationship: A Brief History
36	Consolidation of the Relationship
37	How China Manages Iraq
39	China's Energy Security Vs. Iraq (Middle East) Insecurity
41	Energy in Numbers: The Cost of Energy Subsidies in Iraq)
48	Energy Developments in Context
48	Iraq Deepens Energy Cooperation with U.S. Companies
50	Corruption Crackdown Reaches Iraq's Oil Industry
52	Iraq's New Cabinet Program Signals a Shift Toward Energy Sector Reform
54	Beyond The Strait of Hormuz: Iraq's Bid to Secure Its Oil Revenues

In This Issue

IEO'S EDITORIAL TEAM

When the first issue of Iraq Energy Outlook went to press, Iraq's oil and fiscal crisis was entering its third month. There was cautious hope that the fragile Iran-US ceasefire would hold and that shipping through the Strait of Hormuz would return to normal. As Issue 2 goes to press, that hope has only partly borne out. Regional tensions have flared and cooled repeatedly, oil shipments have recovered unevenly, and Iraq is still absorbing the economic fallout of a conflict it has little power to influence.

This issue returns to many of the questions raised in Issue 1, now from a later and more revealing vantage point. Taken together, the pieces trace how the regional conflict and the disruption to maritime trade have rippled through Iraq's oil industry, public finances, electricity system, and energy diplomacy. What comes through most clearly is how exposed an economy built on a single commodity and a single export corridor really is.

In "Iraq's Electricity Sector Caught in a Perfect Storm," Harry Istepanian lays out the pressures now converging on an already strained power grid. Lower oil output has cut into associated-gas supplies, while Iranian gas deliveries and regional power links have grown less dependable. Add ageing infrastructure, heavy network losses, weak bill collection, and rising demand, and the strain

compounds. Istepanian argues Iraq needs to fix efficiency, secure its fuel supply, cut losses, and reform how the sector is governed — building more generating capacity won't fix this on its own.

Regional tensions have flared and cooled repeatedly, oil shipments have recovered unevenly, and Iraq is still absorbing the economic fallout of a conflict it has little power to influence.

Shwan Jamal Azeez, Babo Bahman Jamal and Mustafa Ahmed Yousif Bashnah take on Iraq's geography in "Diversifying Iraq's Oil Export Corridors." Weighing routes through Türkiye, Jordan, Syria, and Saudi Arabia, they make the case that diversifying export routes has become a form of national insurance. But they're clear-eyed that pipelines alone won't deliver resilience — that also takes security, financing, political deals, and institutions that can actually coordinate.

In "Buying Time," Mohammed Hussein looks at how Baghdad has kept salaries, pensions, and basic services running even as oil revenue collapsed. Domestic borrowing, treasury bills, deferred investment,

reshuffled spending, and delayed payments have staved off an immediate fiscal crisis. But these are stop-gaps, not fixes — the government has bought itself time, not corrected the imbalance underneath.

Sardar Aziz's "China-Iraq Energy Relationship" tracks Beijing's growing footprint across oil production, oilfield services, electricity, infrastructure, and trade. That relationship brings investment and technical know-how, but it also builds a lopsided dependency — Iraq may end up needing China more than China needs Iraq.

The "Energy in Numbers" section illustrates the fiscal and environmental costs of Iraq's energy subsidies. It shows how underpriced energy imposes a heavy burden on public finances while encouraging inefficient consumption, pollution, and the wasteful use of the country's energy resources.

Rounding out the issue, the "Energy Developments in Context" section examines four major topics: renewed U.S. investment in Iraq's energy sector; the widening anti-corruption campaign targeting senior oil-sector officials; the energy priorities of the new federal government; and Iraq's efforts to diversify its oil-export routes through Türkiye and Syria.

Iraq's Electricity Sector Caught in a Perfect Storm

BY HARRY ISTEPANIAN

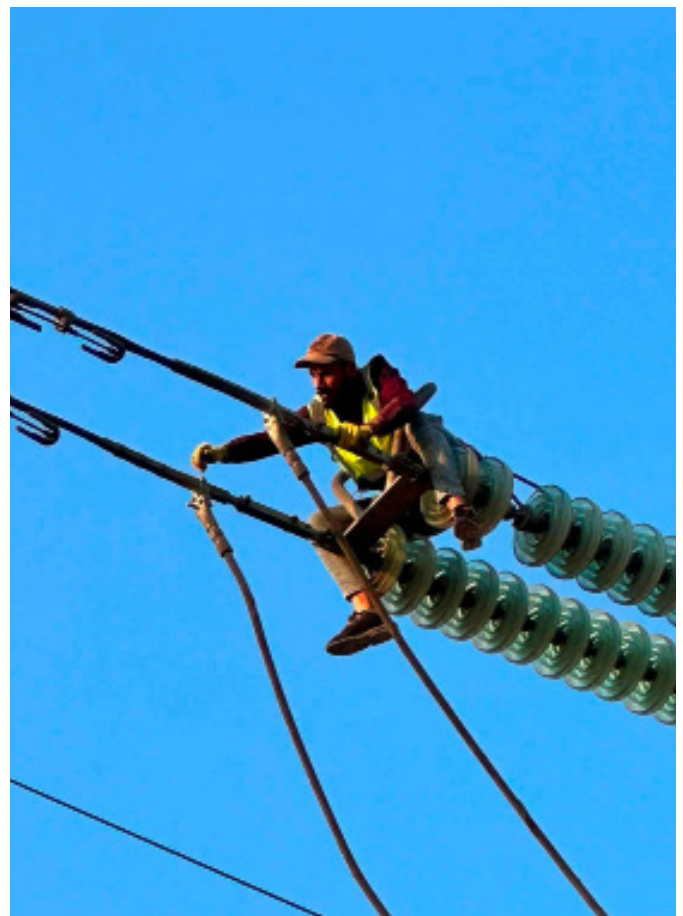
Founder of the Iraq Climate Change Center (IC3+) and an independent energy and water policy expert.



Iraq's electricity crisis re-emerges almost every summer, but 2026 could present one of the most acute challenges to date. Peak demand is projected to exceed 55 gigawatts (GW), while available supply remains below 20 GW, less than half of what it needs. This leaves a deficit of at least 35 GW.¹

Several challenges appear to be converging simultaneously, creating a crisis far more severe than in previous years. An unprecedented increase in demand, disruptions to Iranian gas supplies, delays in critical infrastructure projects, reduced natural gas availability, and persistent structural weaknesses are combining to create a “perfect storm” for Iraq's electricity sector.

The federal government had initially hoped to deliver improved electricity supply coverage in 2026 through “strategic” solutions.² These included increasing LNG import infrastructure, completing electricity interconnections with neighboring countries, and stabilizing fuel supplies for power generation. However, several of these solutions have been delayed or disrupted, while at the same time, Iraq continues to depend on imported Iranian gas. Iraq's electricity crisis in 2026 is no longer primarily a generation problem: It is increasingly a fuel security, system efficiency, and governance crisis.



An Iraqi electricity worker employed by the state-owned Baghdad Electricity Distribution Directorate. Photo credit: Media Department, Iraqi Ministry of Electricity.

Power Generation Dilemma

The generation fleet has expanded significantly since 2003. The Ministry of Electricity currently operates approximately 251 gas and combined-cycle turbines, with an available capacity of around 21 GW. However, only about 45% of these units operate on natural gas, while the remainder rely on crude oil, heavy fuel oil, or diesel.

Operational availability remains constrained, with around 30% of the fleet reportedly out of service due to technical faults, maintenance requirements, or fuel shortages. As Table 1 demonstrates, the highest recorded output from these turbines has been limited to approximately 17 GW, equivalent to about 80% of available capacity, according to some estimates from technicians within the power sector.

Full operation of Iraq's gas-fired and combined-cycle fleet on natural gas would require an estimated 130 – 137 million cubic meters per day, or around 47 – 50 billion cubic meters (bcm) annually. Current supply remains substantially below this requirement.

The structural mismatch between Iraq's installed generation capacity and the availability of suitable fuel remains one of the country's greatest energy challenges.

Available sector estimates indicate that domestic gas supplied to power plants amounts to approximately 31.5 million cubic meters per day. Of this number, imports from Iran averaged about 24 million cubic meters per day in 2025, which cost an estimated 2.8 billion USD per year. Only 7.5 million cubic meters are produced locally.

Collectively, these sources provide roughly 11.5 bcm annually, compared with an estimated requirement of 47 bcm. This implies a gas supply deficit of nearly 75% for gas-fired power generation and highlights the structural mismatch between Iraq's installed generation capacity and the availability of suitable fuel.

Table 1: Iraq Power Generation Capacity and Current Output by Fuel Type, Q3 2025

FUEL TYPE	DESIGN CAPACITY (MW)	AVAILABLE CAPACITY (MW)	CURRENT OUTPUT (MW)	SHARE OF CURRENT OUTPUT
Dry Gas	14,306	11,479	8,239	48%
Diesel	3,080	2,315	2,020	12%
Heavy Fuel Oil	2,442	1,700	1,538	9%
Crude Oil	3,210	2,230	2,078	12%
Combined-Cycle Units	4,025	3,650	3,223	19%
Total	27,063	21,374	17,098	100%

Source: Compiled by the author based on official government statements, company disclosures, and publicly available industry reports.

The Costly Power Sector

The annual budget of Iraq’s Ministry of Electricity for 2023–2025 amounted to approximately 15.5 trillion IQD,³ comprising 11.6 trillion IQD in operational expenditures and 3.9 trillion IQD in investment expenditures and projects.⁴ In 2024, the value of electricity sold to customers by the Iraqi government reached around 3 trillion IQD, while collections stood at approximately 2.3 trillion IQD, against accumulated arrears estimated at 9.9 trillion IQD. Consequently, the electricity sector recorded losses of around 13.2 trillion IQD in 2024. The losses, excluding fuel costs, are estimated at 16–18 trillion IQD at international market prices as Table 2 illustrates, as well as interest payments on loans from international organizations and investment banks.

Table 2: 2024 Fuel Consumption Volumes, Market Prices, and Estimated Value for Power Generation

FUEL TYPE	2024 VOLUME(M3)	APPROX. MARKET PRICE USD/CUBIC METER	ESTIMATED VALUE (USD, MILLION)
Crude Oil	10,801,364	503	5,430
HFO	3,908,787	377	1,470
Diesel	1,174	754	900
Gasoil	267,360	691	185
Natural Gas	19,507,353,020	0.177	3,450
Mix Fuel (Crude + HFO)	2,302,054	440	1,010
Total			12,445

Source: Compiled by the author based on official government statements, company disclosures, and publicly available industry reports.

The sector’s high costs are compounded by low efficiency and capacity factors and high fuel consumption at ageing plants. In 2024, Iraq’s power-generation fleet had an overall heat rate of around 10,000 kJ/kWh, equivalent to an average thermal efficiency of about 36%. This reflects continued reliance on ageing units, open-cycle gas turbines, and diesel plants, as well as fuel-quality constraints and suboptimal operating conditions.

Accordingly, the sector’s principal challenge is not limited to adding generation capacity, particularly where new capacity would increase fuel demand. As Table 3 shows that the whole system’s efficiency is below international best practice. Greater priority should be given to improving system efficiency, reducing heat rates, and making better use of existing generation assets.

Table 3: Performance Assessment of Iraq’s Power Plants by Technology, 2024

TECHNOLOGY	HEAT RATE (KJ/KWH)	EFFICIENCY (%)	ASSESSMENT
Steam plants	10,374	35%	Moderate to weak performance; older steam units remain fuel-intensive
Diesel plants	10,250	35%	Relatively inefficient and expensive for large-scale generation
Gas plants	9,946	36%	Slightly better, but still low compared with modern combined-cycle plants
Total system	10,048	36%	Overall efficiency remains below international best practice

Source: Compiled by the author based on official government statements, company disclosures, and publicly available industry reports.

Technical and Non-Technical Losses

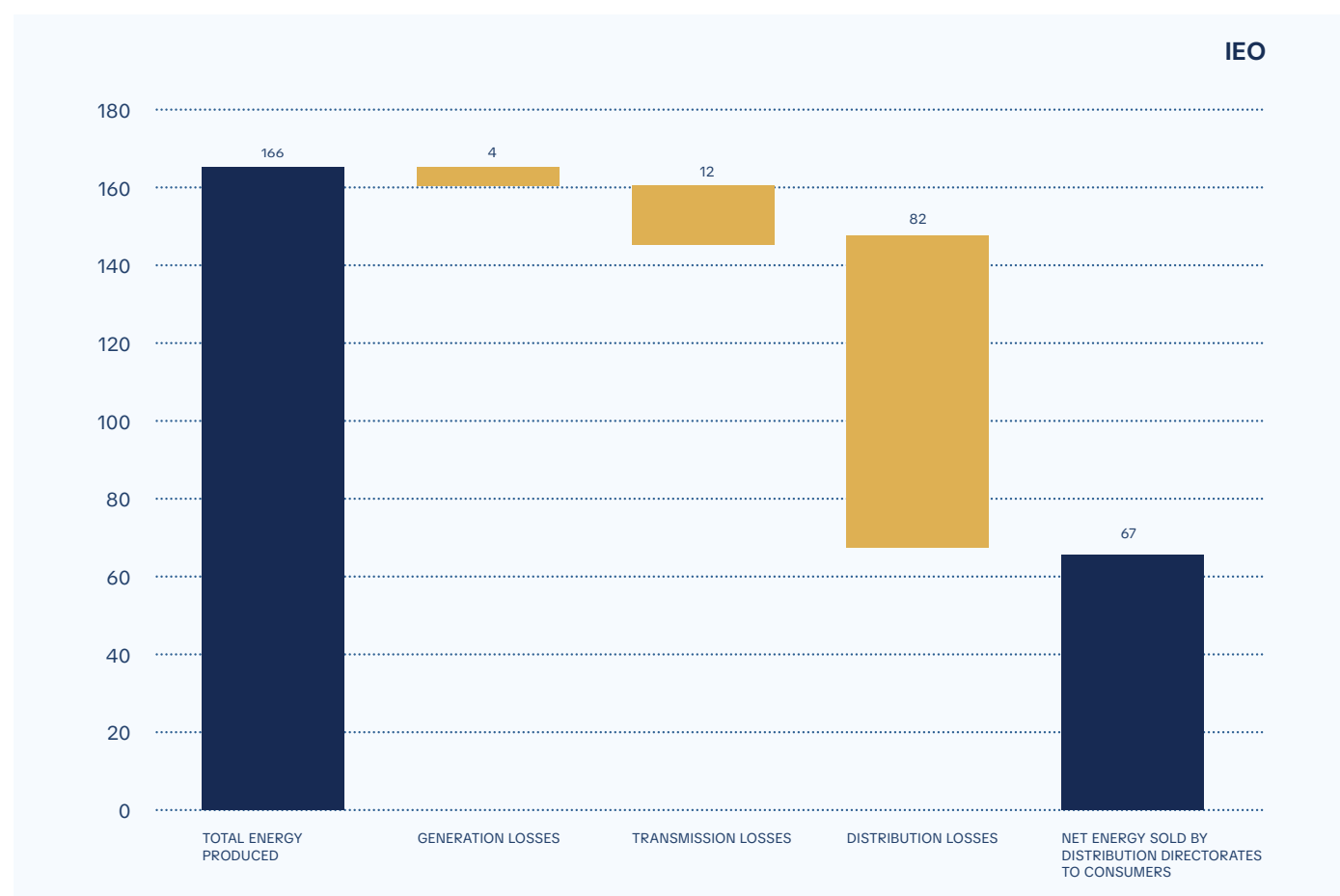
Technical and non-technical losses in Iraq's distribution networks remain a major structural challenge and should therefore be treated as a priority in any electricity-sector reform program.⁶ The Kurdistan Regional Government has adopted this approach through its Runaki program, which combines distribution-network improvements, smart metering, improved revenue collection, and reduced reliance on private neighborhood generators. The program has so far enabled participating areas to receive more reliable, round-the-clock electricity.

In 2024, total electricity produced amounted to approximately 166 terawatt-hours (TWh). After accounting for generation losses of around 4 TWh and transmission losses of about 12 TWh, electricity entering the distribution system was reduced to approximately 149 TWh. Of this amount, only around 67 TWh was sold by the distribution directorates to consumers, while approximately 82 TWh was lost at the distribution level.

The numbers in Figure 1 show that distribution losses alone accounted for nearly half of the total electricity produced and more than 55% of the electricity entering the distribution network. Consequently, addressing these losses is as important as adding new generation capacity.

Distribution losses alone accounted for nearly half of Iraq's total electricity production.

Figure 1: Electricity Generation and Distribution Losses in Iraq, 2024



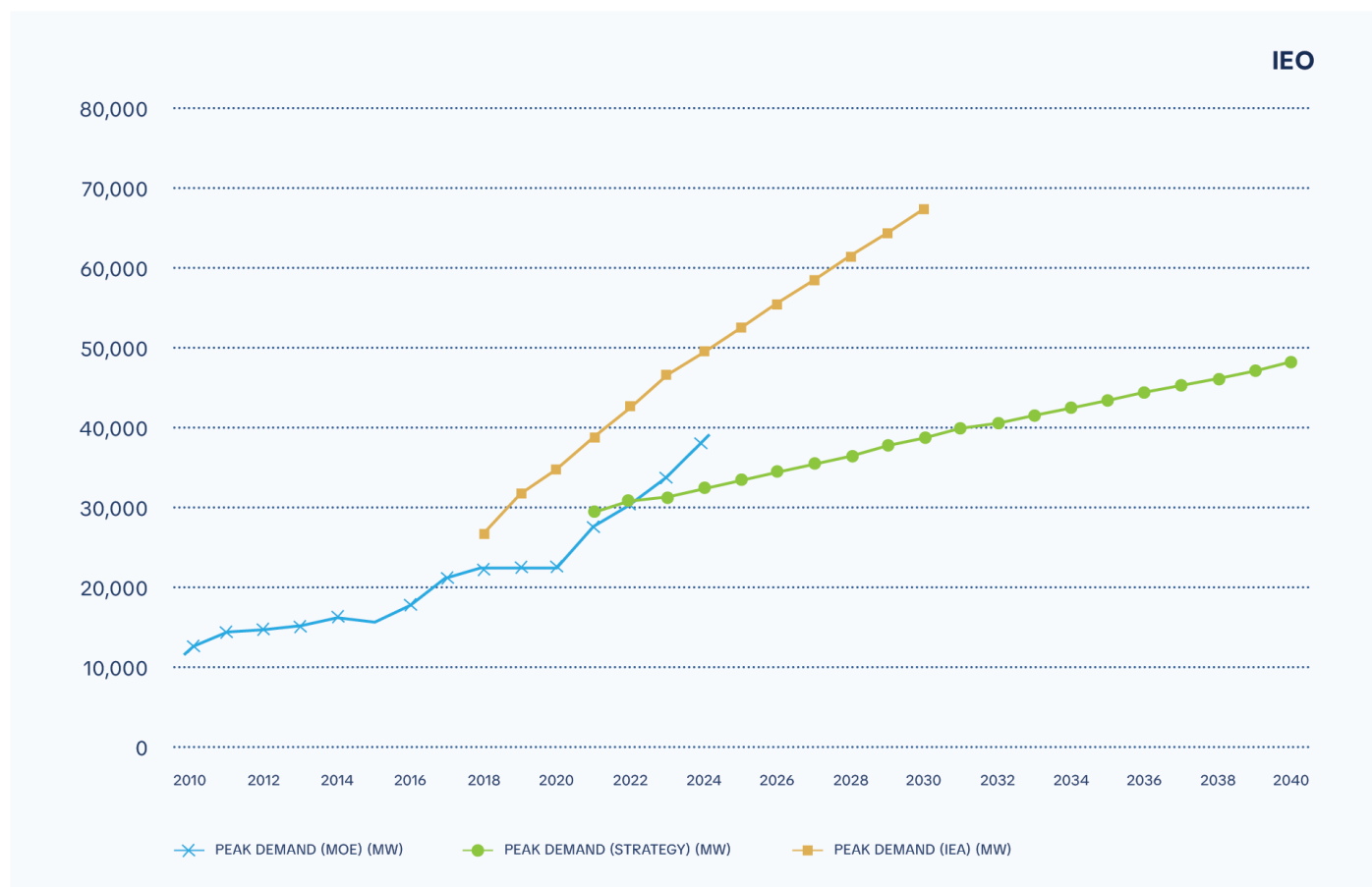
Source: Author's calculations and assessment based on Ministry of Electricity data.

Rising Electricity Demand Will Intensify System Pressures

Long-term electricity demand in Iraq is expected to continue rising rapidly because of population growth, urbanization, and economic expansion.⁷ According to the IEA, Iraq would require 68 GW of generation capacity by 2030, depending on economic growth and reform scenarios.⁸ At the same time, reforms themselves could influence future demand growth. Better billing systems, tariff reform, demand-side management, and reductions in electricity theft could improve efficiency and moderate future consumption growth.

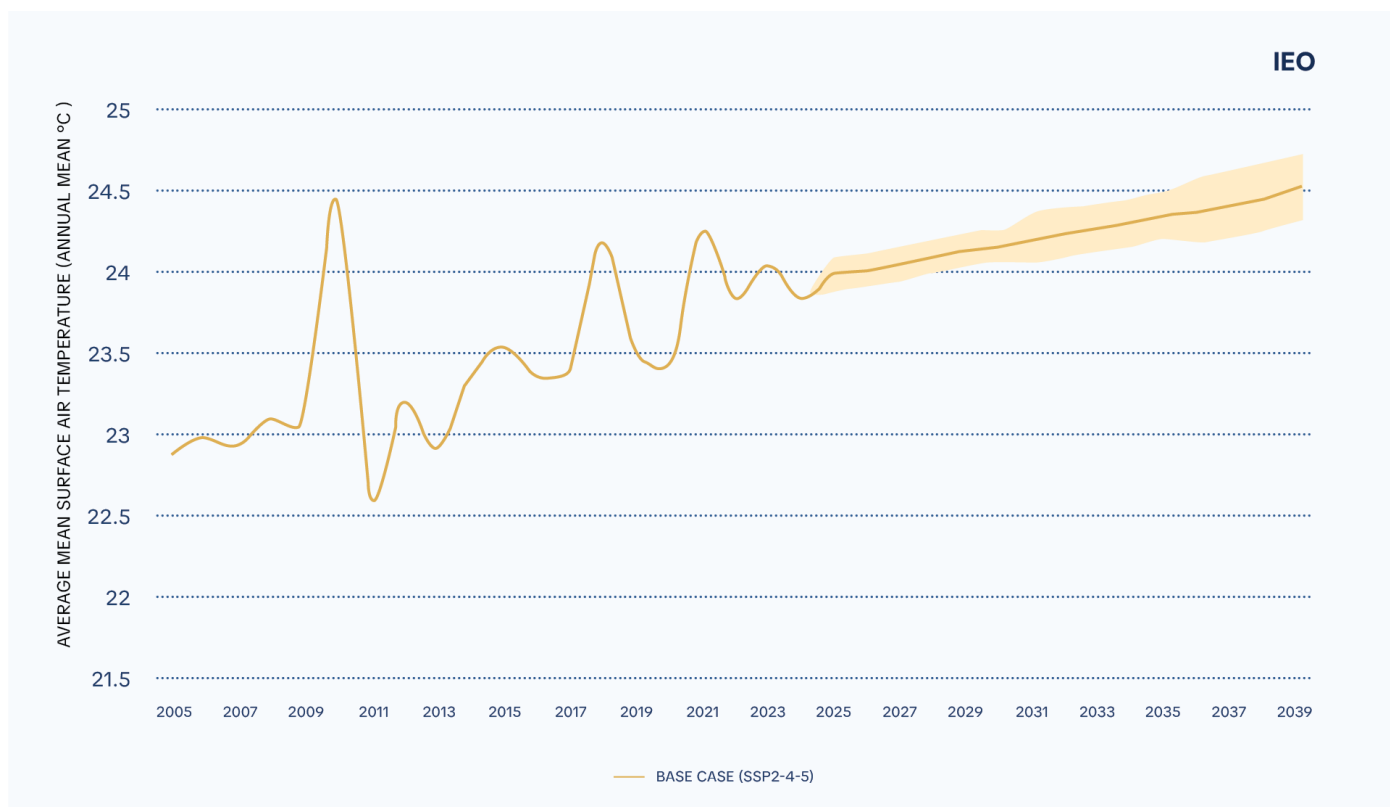
Additionally, climate change and the growth of cooling demand are expected to increase electricity demand, as Figure 3 demonstrates. Higher ambient temperatures directly increase the demand for cooling across residential, commercial, and public sectors, contributing to higher base-load consumption and more severe summer peak demand. Climate change is expected to become one of the principal drivers of prolonged heatwaves and increasingly extreme summer temperatures.⁹

Figure 2: Projected Peak Electricity Demand in Iraq, 2010–2040



Source: Author's calculations and assessment

Figure 3: Average mean surface air temperature based on the baseline scenario



Source: Author's calculations and assessment.

Gas Dependence and Fuel Insecurity

Demand for natural gas, mainly for power generation, increased from 6.8 bcm per year in 2015 to 23 bcm per year in 2025. Iranian gas remains a critical source for meeting this demand, accounting for more than 40% of the fuel used in Iraq's power generation sector (Figure 4). However, the reliability of these supplies has recently deteriorated significantly. From a high of 10 bcm of imported Iranian gas in 2023, deliveries declined in 2025 due to a combination of rising domestic demand in Iran, recurrent supply interruptions, and payment restrictions linked to US sanctions on Iranian financial transactions.¹⁰

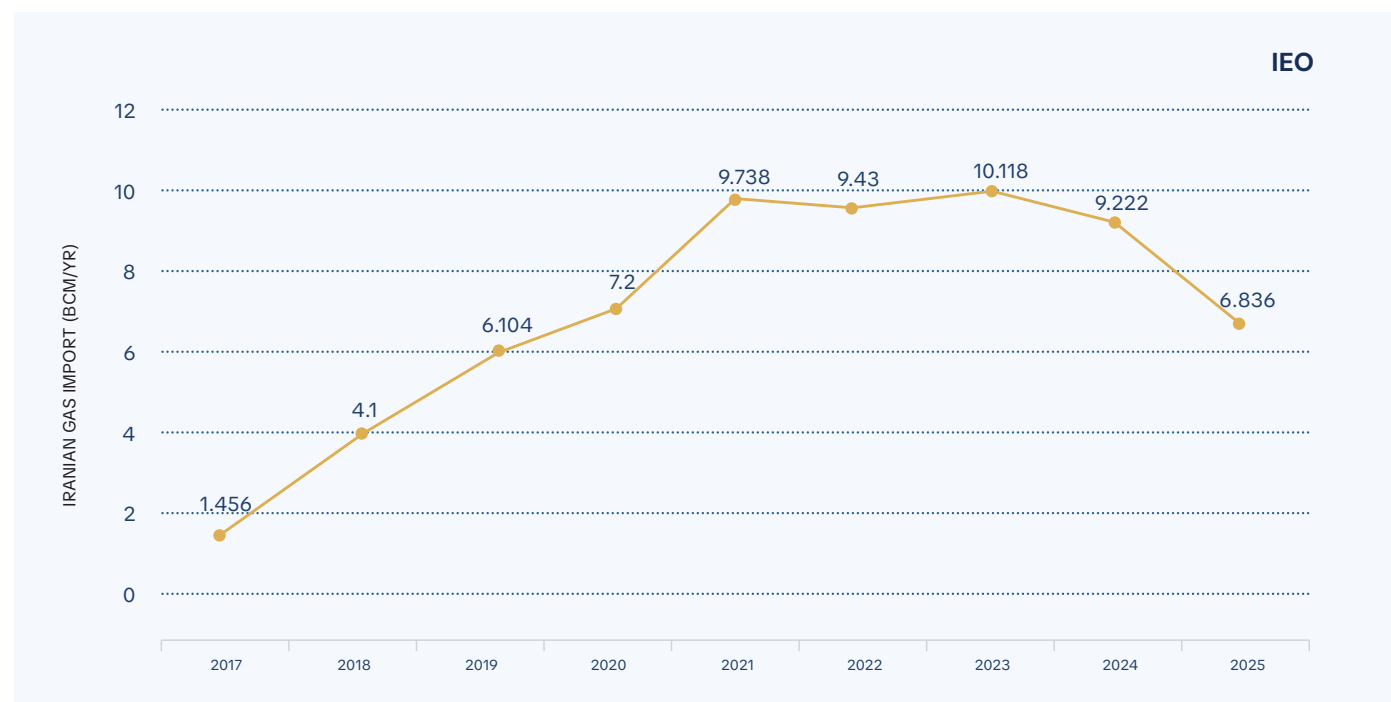
In March 2026, Iranian gas exports to Iraq were fully halted, leading to the loss of more than 3,000 MW of

generation capacity. Although partial supplies resumed shortly thereafter, flows remained limited to around 5 million cubic meters per day, compared with previous levels of approximately 35 million cubic meters per day.¹¹

By April 2026, the Ministry of Electricity reported that supplies to the southern governorates had been fully suspended, while deliveries to the central region remained sharply reduced. These disruptions required the Ministry to increase reliance on alternative fuels in order to keep selected gas-fired generation units in operation.¹²

Iranian gas remains a critical source for meeting Iraq's power demand, accounting for more than 40% of the fuel used in the country's power generation sector.

Figure 4: Iranian Gas Exports to Iraq, 2017–2025



Source: Author's calculations and assessment.

It is unclear how post-war Iranian reconstruction will affect this gas supply. Historically, Iranian domestic market dynamics have always affected the supply of Iranian gas and electricity to Iraq.

Gas production is also expected to decrease inside Iraq if geopolitical risks remain elevated and if shipping through the Strait of Hormuz continues to be disrupted. In March 2026, restrictions on navigation through the waterway limited Iraq's crude oil exports and placed significant pressure on storage capacity.¹³ In response, Iraq declared force majeure on foreign-operated oilfields and curtailed oil production in the south, with available volumes redirected where possible to domestic refineries. Since a large share of Iraq's gas is produced as associated gas from oilfields, the decline in crude output also reduced domestic gas availability.

In April 2026, the federal Ministry of Electricity reported that domestic

gas production had fallen by more than 50%.¹⁴ This created a dual impact: lower export revenues and reduced gas feedstock for processing facilities and power generation, further tightening fuel availability for the electricity sector.¹⁵

Lower crude oil production means lower gas production, further tightening fuel availability for Iraq's electricity sector.

Iraq remains one of the world's largest gas-flaring countries despite successive agreements and projects aimed at capturing and processing associated gas.¹⁶ Several initiatives are underway to reduce flaring and increase domestic gas recovery, including by the Basra Gas Company, TotalEnergies' Gas Growth Integrat-

ed Project, Baker Hughes-linked flare-gas recovery projects, and field-specific schemes at Halfaya, Nahr Bin Umar, Gharraf, Nassiriya, and Faihaa.¹⁷ However, the target of eliminating gas flaring by 2028 appears highly ambitious given the current scale and trajectory of flaring, as well as the infrastructure, financing, and implementation constraints facing the sector (Table 4).

Table 4: Major Gas Recovery and Flaring-Reduction Projects in Iraq

PROJECT / CONTRACT	PARTIES	SCOPE / CAPACITY
Basra Gas Company (BGC)	South Gas Company, Shell, Mitsubishi	Captures and processes associated gas from southern oil fields, a major long-running flaring-reduction vehicle.
IFC financing for BGC	IFC / Basra Gas	360 million USD loan in 2021 and 500 million USD investment contract in 2025 to expand associated-gas processing and reduce flaring. ¹⁸
Gas Growth Integrated Project (GGIP)	Iraq, TotalEnergies, QatarEnergy, Basra Oil Company	Includes a 17-million cubic meter per day gas-processing plant to recover flared gas from southern fields, including Ratawi/Artawi, Majnoon, and West Qurna 2. ¹⁹
ArtawiGas25 / Ratawi early gas project	TotalEnergies / Iraq	Early modular unit to process 1.42 million cubic meters per day of associated gas from Ratawi/Artawi, previously flared.
Siemens Energy flare-gas agreement	Iraq / Siemens Energy	Agreement to convert flared gas into fuel for electricity generation; reported target of 3.4 million cubic meters per day within six months, plus another 3.4 million cubic meters per day within one year.
Siemens Energy–SLB MoU	Iraq, Siemens Energy, SLB	MoU to invest in stopping associated gas flaring and converting gas into electricity-sector fuel.
Halfaya Gas Project	Halfaya Gas Company / Baker Hughes and partners	Gas flaring reduction project in Missan; reported capacity around 8.5 million cubic meters per day. Baker Hughes signed an MoU in 2024 and a further agreement in 2025.
Nahr Bin Umar gas project	Iraq / PetroChina-linked contractor / BGC interface	Project to capture associated gas from Nahr Bin Umar; reported capacity around 8.5 million cubic meters per day. A 2026 fast-track pipeline was reported to send gas to BGC's BNGL complex.
Gharraf and Nassiriya gas project	Iraq / Baker Hughes	The associated gas utilization project reported at around 5.6 million cubic meters per day.
Faihaa field gas project	Iraq / field operators	Reported gas project capacity is around 3.7 million cubic meters per day.

Source: Compiled by the author based on official government statements, company disclosures, and publicly available industry reports

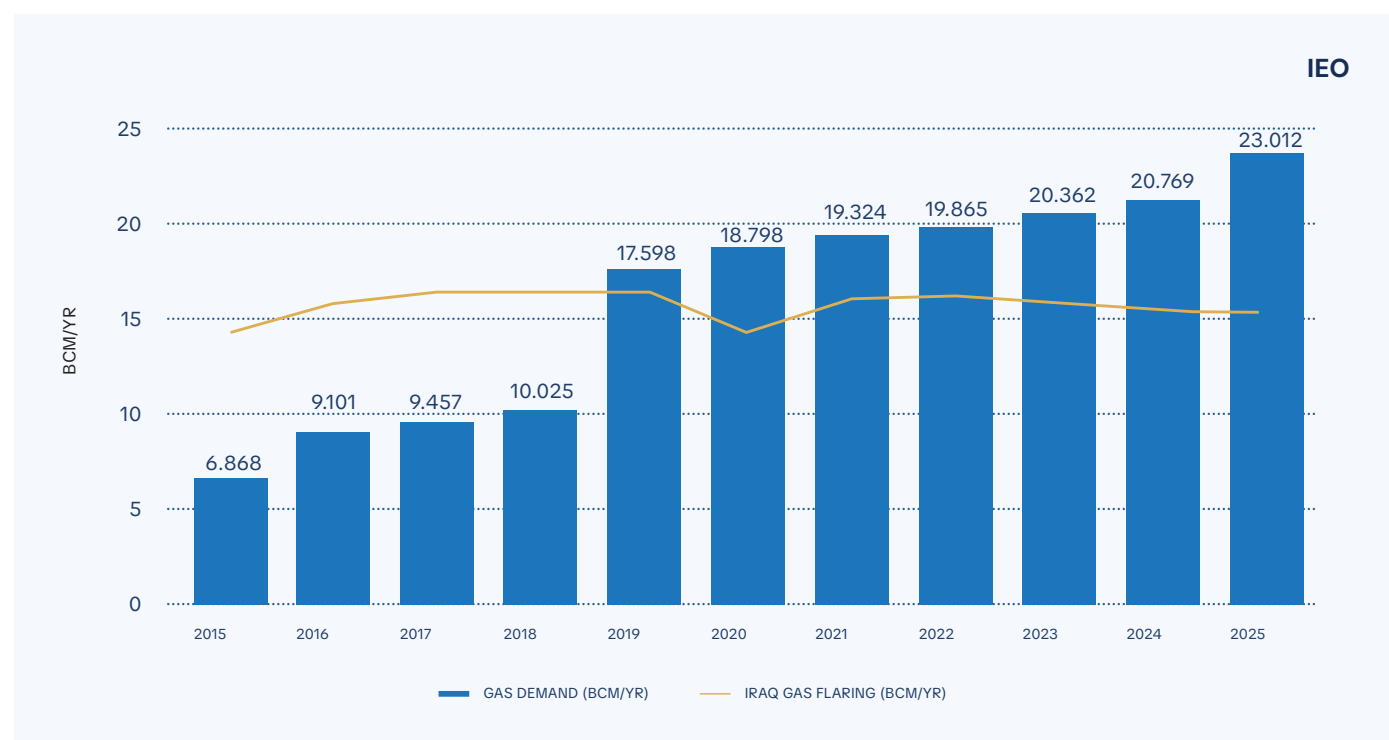
Following the completion of the KM250 expansion, the Khor Mor field has a reported gas-processing capacity of approximately 750 million standard cubic feet per day, equivalent to around 7.7 bcm annually.

If this entire volume were supplied to modern combined-cycle power plants, it could theoretically support approximately 4.5–5 GW of continuous generation, equivalent to around 40–44 TWh annually. Actual electricity output would be lower because of plant efficiency, availability, gas-processing constraints, transmission limitations, and interruptions to field operations. Khor Mor

gas currently supports approximately 2–2.5 GW of power generation in the Kurdistan Region, but this figure reflects the existing generation system rather than the field's theoretical gas-to-power potential.²⁰

By 2030, Iraq's domestic gas production is projected to increase to approximately 24 bcm annually (Figure 5). However, even if all planned gas projects are delivered, domestic production would still meet only around half of the estimated fuel requirements of the electricity generation sector. This highlights the continued gap between Iraq's growing gas-fired generation capacity and the availability of domestic gas supply.

Figure 5: Iraq's Natural Gas Demand and Gas Flaring Trends, 2015–2025



Source: Author's calculations and assessment.

LNG Imports: Too Little, Too Late

There have also been delays to plans to increase imports of liquefied natural gas (LNG) using a leased floating storage and regasification unit (FSRU) at Khor Al-Zubair, which has further constrained the country's ability to diversify fuel supplies ahead of 2026 peak summer demand. Originally announced in 2022 and later contracted to Exceleerate Energy, the project was expected to import approximately 14 million cubic meters of gas per day, enough to generate 3,000–3,500 MW.²¹

However, implementation has now been postponed until 2027. Exceleerate Energy confirmed that the Acadia FSRU, originally intended for Iraq, has been temporarily deployed to Jordan under a nine-month agreement with NEPCO at Aqaba.²²

Additionally, the imported LNG is expected to be very expensive. The cost of Iranian gas is estimated at between 9.20 USD and 9.50 USD per million British thermal units (MMBtu), depending on Brent oil price and including pipeline transportation costs based on February 2026 prices. By comparison, the cost of the same unit of gas supplied through the LNG FSRU in Basra for the same month, on a hypothetical basis, could reach approximately 22 USD per MMBtu, or more than double the price of Iranian gas.

Multiple Other Shocks

The electricity crisis during peak demand will be further compounded by several major setbacks happening almost simultaneously.

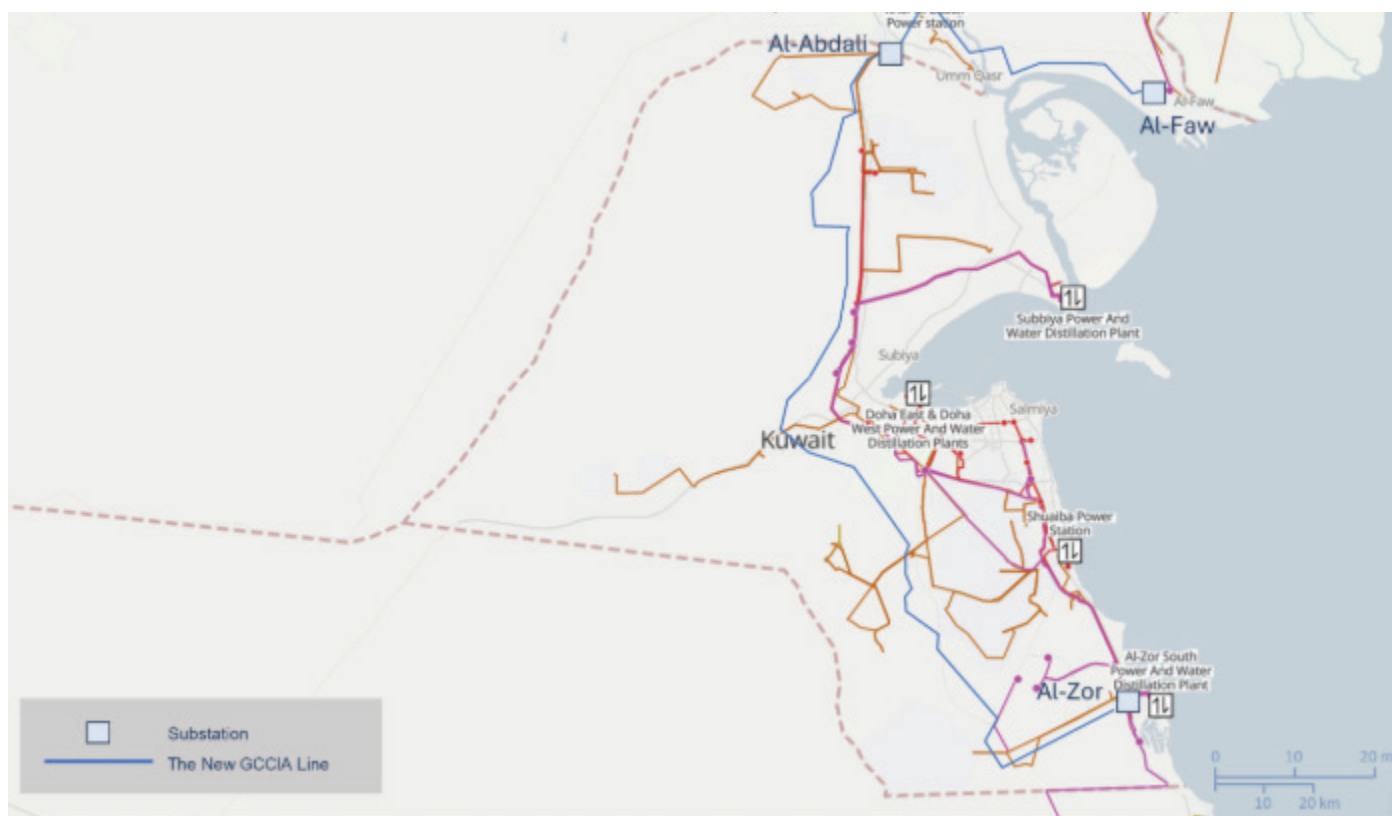
Delays to the GCCIA Electricity Interconnection

The Gulf Cooperation Council Interconnection Authority (GCCIA), which links up electrical grids across the region, has informed Iraq that the electricity interconnection through Kuwait was not commissioned as planned in early 2026. The first phase, expected to supply 500 MW, may now be delayed until late 2026 or possibly 2027.²³

Although interconnection was not expected to resolve Iraq's electricity crisis, it would have provided important support to the southern power network during the summer peak-demand period, particularly in Basra, where temperatures are expected to exceed 50°C.

The delay has been attributed mainly to regional political and security tensions, which impact implementation work in Iraq and Kuwait. Some reporting has also pointed to Iraq's financial liquidity constraints, including the requirement to settle project-related costs before electricity supply begins.²⁴

Figure 6: Al-Faw (Iraq) – Al-Abdali (Kuwait) GCC Interconnection



Source: Open Infrastructure Map.

Suspension of the Iraq–Türkiye Electricity Interconnection

The Iraq–Türkiye electricity interconnection, which began operating in July 2024 with an initial capacity of 300 MW, was expected to increase to 600 MW in a second phase. However, recent reporting indicates that the interconnection has been suspended since September 2025, with an overdue debt reportedly the cause. However, no formal public announcement was issued by the Iraqi government.²⁵ Unconfirmed reports suggest that Iraq proposed settling part of its outstanding debt for imported electricity from Türkiye through an oil-swap arrangement. In August 2025, the Turkish Karadeniz Power-ship Orhan Ali Khan arrived at Umm Qasr port in Basra under a short-term agreement with Kar Power-ship to supply emergency electricity to Iraq’s grid. Public reporting con-

firms that the broader power-ship contract covered up to 590 MW through two vessels, with Orhan Ali Khan later reported to have added around 300 MW to the grid.²⁶

However, the reported costs associated with the agreement appear to be based on unconfirmed reporting or sector estimates rather than publicly disclosed contract documents. These include the tariff of approximately 0.15 USD/kWh, the estimated cost of about 1 million USD per day for roughly 315 MW, and the claim that the vessels consume around 1,400 tons of heavy fuel oil per day. These figures should therefore be presented as estimates, not confirmed contractual terms.

Hydropower Could Help

Hydropower could provide important seasonal support to Iraq’s electricity system, particularly during the peak-demand period. Following years of drought and reduced inflows from Türkiye, improved water levels in the Tigris and Euphrates systems have increased the potential contribution of major hydropower stations. Iraq’s principal hydropower assets, including Mosul, Haditha, Dukan,

Darbandikhan, and other smaller stations, have a combined installed capacity exceeding 2,200 MW. While this capacity cannot resolve the electricity deficit on its own, it could help reduce pressure on gas- and fuel-fired generation, provided that water releases are carefully coordinated with irrigation, drinking water, and broader water-security requirements.

Table 5: Hydropower Stations

HYDROPOWER STATION	LOCATION / GOVERNORATE	CAPACITY, MW	NOTES
Mosul Main	Nineveh	750	Main Mosul Dam hydropower station
Mosul Regulator	Nineveh	60	Downstream regulating hydropower station
Haditha	Anbar	660	Capacity varies by source; often cited at 660 MW installed capacity
Dukan	Sulaymaniyah	400	Major Kurdistan Region hydropower station
Derbandikhan	Sulaymaniyah	249	Major Kurdistan Region hydropower station
Samarra	Salah al-Din	84	Run-of-river hydropower station at Samarra Barrage
Hemrin	Diyala	50	Hydropower station on the Diyala River
Hindiyah	Karbala / Babil area	15	Small hydropower station
Kufa	Najaf	2.5	Small hydropower station
Total		2,271	

Source: Compiled by the author based on official government statements, company disclosures, and publicly available industry reports.

Conclusions

Iraq's electricity crisis is no longer simply a question of adding more generation capacity. It reflects deeper structural weaknesses in fuel security, system efficiency, network losses, investment planning, and institutional governance.

Recent regional disruptions have exposed the risks of relying on imported gas and delayed infrastructure projects. Building a resilient electricity sector will require not only expanding domestic gas production and generation capacity but also improving efficiency, reducing losses, diversifying fuel sources, and accelerating long-overdue market and governance reforms. Without such measures, Iraq's electricity crisis will continue to re-emerge every summer.

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3. The annual operational and investment budgets of the Ministry of Electricity during 2023–2025 accounted for 7.8% of the total federal budget, excluding fuel costs.
4. The annual operational and investment budgets of the Ministry of Electricity during 2023–2025 accounted for 7.8% of the total federal budget, excluding fuel costs.
5. Using approximate 2024 international market prices for power-generation fuels.
6. Technical and non-technical losses mean illegal connections, weak metering, billing gaps, and low collection rates, and are broadly equivalent to the net electricity sold to consumers.
7. Iraq's nominal GDP rose from about 50 billion USD in 2005 to approximately 280 billion USD in 2024, and could exceed 430 billion USD by 2040 under baseline growth assumptions.
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Diversifying Iraq's Oil Export Corridors: Strategic Lessons from the Strait of Hormuz Crisis

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The de facto closure of the Strait of Hormuz on March 4, 2026 exposed a fundamental structural vulnerability of Iraq's economy. About 93% of the country's crude oil exports normally transit via the Persian Gulf.¹ Following the reactive suspension of operations at Basra's southern terminals, nationwide crude sales collapsed by more than 90%, from 3.567 million barrels per day (bpd) to an average of 329,000 bpd by May.² With seaborne exports offline, Iraq's sovereign survival has become entirely dependent on the single — and politically compromised — northern pipeline corridor to Türkiye.

This report evaluates the technical, financial, and geopolitical implications of this export collapse. It analyzes the operational bottlenecks of the northern Iraq-Türkiye Pipeline (ITP) ahead of the July 2026 treaty-expiration and assesses western and southern diversification

alternatives, including the Basra-Haditha, Basra-Aqaba, Kirkuk-Baniyas, and Saudi Arabia (IPSA) pipelines. Finally, it evaluates the strategic options now available to Iraq following the continuous tensions over Strait of Hormuz (SoH) and proposes policy recommendations aimed at reducing the country's long-term dependence on a single export corridor.

Since the completion of this report, the SoH has experienced renewed disruptions following a brief reopening. These developments underscore the continuing fragility of Iraq's oil export system and demonstrate that the temporary restoration of southern exports did not eliminate the country's structural dependence on a single maritime corridor. The recurrence of the crisis highlights the urgency of diversifying Iraq's export infrastructure and strengthening its long-term energy security.

93%

of the country's crude oil exports normally transit via the Persian Gulf

98.3%

of Iraq's exported oil quantity and value passed through the Persian Gulf, 2021–2025

–90%

nationwide crude sales collapsed by more than 90%, from 3.567 million bpd to 329,000 bpd

20%

of global oil supply transits the Strait of Hormuz

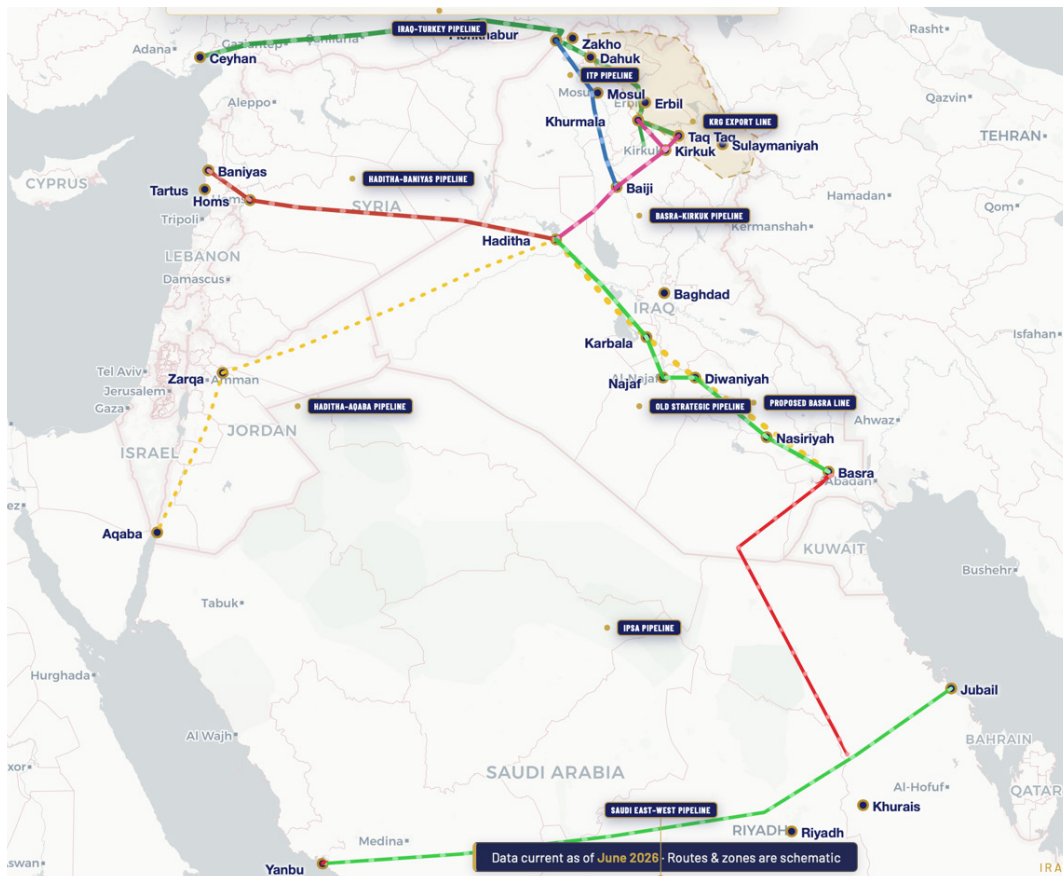
The Anatomy of an Existential Chokepoint Crisis

The Brent crude price spike in early March 2026, which carried prices past 120 USD per barrel, was the direct result of a structural supply shock in the Persian Gulf.³ Following the outbreak of conflict involving the United States, Israel, and Iran in late February, Iranian maritime restrictions and kinetic operations effectively shut down the SoH, which serves as the transit pathway for 20% of global oil supply.⁴ By late April, global energy markets faced a projected loss of up to 1 billion barrels of cumulative oil production.⁵

For Iraq, the maritime disruption represented one of the most severe export disruptions in the country's modern history. The crisis demonstrated how quickly Iraq's fiscal stability can unravel when access to the Persian Gulf is interrupted.

Unlike regional peers, Iraq never meaningfully diversified its export corridors; between 2021 and 2025, approximately 98.3% of Iraq's exported oil quantity and value passed through the Persian Gulf.⁶ When Iranian drone and missile strikes targeted commercial tankers loading at Iraq's southern terminals on March 12, the federal government suspended southern port operations, halting the primary revenue stream on which the state depends for more than 90% of its annual budget.⁷

Figure 1: Map of Iraq's oil export pipeline network and the wider region, prepared by the Dhia Jafar Center. Green lines mark pipelines currently operational; red lines mark pipelines that are dysfunctional or out of service; the dashed yellow line marks the proposed pipeline that has not yet been built.



Source: Open Infrastructure Map.

As Iraqi energy experts have long observed, “Geography is sovereign.” Iraq’s extremely restricted access to open water makes its entire economic model structurally vulnerable to regional warfare.⁸ The technical and fiscal feedback loops of this unilateral dependence materialized immediately:

1. CATASTROPHIC FISCAL COLLAPSE

Nationwide oil sales plummeted from a pre-crisis average of 3.567 million bpd in February to an average of 329,000 bpd in April and May. Gross oil revenues collapsed from 6.81 billion USD in February to approximately 1 billion USD per month in April and May.⁹ Once international oil company (IOC) cost-recovery shares (17% to 25%) are deducted, net state receipts dwindle to 750–830 million USD. Against this stands a rigid wall of 5.45 billion USD in mandatory monthly cash transfers (including 3.88 billion USD for public salaries and 1.22 billion USD for pensions), with total operational expenditures reaching 7.2 billion USD.¹⁰

2. MONETARY FINANCING AND SOVEREIGN DISTRESS

To bridge its compounding fiscal crisis, the state has borrowed 8 billion USD domestically during the first four months of 2026, rapidly drawing down its foreign exchange reserves to approximately 97 billion USD at the end of April 2026 to cover a cumulative three-month operational shortfall approaching 17.5 billion USD.¹¹ While Foreign Minister Fuad Hussein stated that the state expanded its financial capacity by injecting 25 trillion IQD (~19 billion USD) to sustain public salaries past July 2026, the Central Bank of Iraq (CBI) clarified that this was achieved through issuing treasury bills rather than unbacked currency printing. However, using commercial banks as intermediaries to monetize government debt has significantly depleted reserves. Consequently, S&P placed Iraq’s credit rating on CreditWatch negative, while the IMF expects the national economy to contract by 6.8% in 2026.¹²

3. UPSTREAM RESERVOIR HAZARDS

Lacking sufficient domestic storage capacity, onshore tank farms in Basra became saturated within days of the prolonged shipping disruption, forcing operators to implement emergency wellhead shut-ins.¹³ Extended production shut-ins in major southern fields, including Rumaila, West Qurna-1, West Qurna-2, Zubair, Halfaya, and Maysan, may create reservoir management challenges that vary according to geological and operational conditions. In reservoirs with active aquifer support, prolonged shut-ins may increase the risk of water encroachment, potentially reducing production efficiency and ultimate recovery.¹⁴ Extended inactivity may also increase the risk of corrosion associated with formation brines and hydrogen sulfide in susceptible wells, complicating restart operations and potentially requiring costly workover interventions.¹⁵

97 Billion USD

foreign exchange reserves at the end of April 2026

17.5 Billion USD

cumulative three-month operational shortfall

6.8%

contraction of the national economy expected by the IMF in 2026

The Northern Corridor: Sovereignty, Treaties, and the July 2026 Deadline

The SoH crisis transformed the northern export corridor via the Iraq-Türkiye Pipeline (ITP) into Baghdad's principal alternative export route, despite its limited capacity and constraints.¹⁶ However, utilizing this route requires navigating a complex set of legal, financial, and sovereignty disputes. Access to the ITP has long functioned as a primary flashpoint between the federal government of Iraq (FGI) and the semi-autonomous Kurdistan Regional Government (KRG).

For the KRG, hydrocarbons historically functioned as a primary instrument of political and fiscal leverage, but ongoing legal and security crises have severely constrained its autonomy, transforming the KRG's energy sector into a site of permanent stress.¹⁷ Following the launch of the KRG's independent crude sales in 2013, Baghdad initiated arbitration at the International Chamber of Commerce (ICC) in Paris. In March 2023, the ICC ruled in Baghdad's favor, ordering Türkiye to pay 1.47 USD billion in damages for facilitating unauthorized Kurdish crude exports between 2014 and 2018, prompting Ankara to suspend all pipeline flows.¹⁹

A US-brokered interim agreement in September 2025 enabled the resumption of crude exports from the Kurdistan Region under the authority of federal oil marketer SOMO, with initial export volumes ranging between 180,000 and 230,000

bpd.²⁰ The subsequent Iran-US-Israel conflict disrupted these exports as IOCs suspended operations following regional bombardments.

After the immediate security disruption eased, a renewed political dispute emerged in early March 2026 when the KRG declined to facilitate the export of Kirkuk crude through the Kurdistan pipeline, citing disagreements over customs-duty revenues, the implementation of the Automated System for Customs Data (ASYCUDA), and broader fiscal disputes that included Kurdish access to US dollar liquidity through the CBI.

Under renewed US diplomatic pressure, Baghdad and the KRG reached a temporary agreement on March 17, allowing approximately 170,000–183,000 bpd of Kirkuk crude to resume flowing through Kurdish-controlled export infrastructure.²¹ The recovery gathered further momentum in early June 2026, when international oil companies (IOCs) operating in the Kurdistan Region gradually restarted production, adding nearly 150,000 bpd to northern export volumes.

The legal framework governing the ITP — which was first signed in 1973 and amended in 2010 — is set to expire on July 27, 2026. Türkiye has formally notified Iraq that it will not renew the agreement under current terms, citing Iraq's failure to deliver the treaty-mandated minimum of 1.5 million bpd.²²

1.6 Million bpd

combined nameplate capacity of the 46-inch and 40-inch lines

1.5 Million bpd

the treaty-mandated minimum Iraq failed to deliver

1.25 USD

per barrel — the current baseline transit tariff

170,000–183,000 bpd

of Kirkuk crude resumed on March 17, plus nearly 150,000 bpd from June 2026

Türkiye is currently demanding transit fees far higher than the current baseline tariff of 1.25 USD per barrel, idle-capacity maintenance fees paid to Turkish state pipeline operator BOTAS, and the settlement of Türkiye's outstanding debt from the 2023 ICC arbitration ruling. Furthermore, Turkish operators were revealed to have reappropriated one of the ITP's two parallel lines (which consist of a 46-inch and a 40-inch diameter line with a combined nameplate capacity of 1.6 million bpd) to transport domestic crude produced from Türkiye's Gabar mountains to Ceyhan without seeking Iraqi consent.²⁴

To avoid a complete halt of northern exports, the Iraqi Council of Ministers amended Resolution 254 on May 27, 2026, extending the pipeline contract negotiation period for four months.²⁵ Baghdad is simultaneously accelerating the rehabilitation of the Kirkuk-to-Fishkhabour line, the main extension of the pipeline inside Iraq. This federally controlled segment runs from Kirkuk through Salahaddin and Nineveh provinces, bypassing the KRG network entirely. However, it has been inoperable since 2014 following years of conflict, extensive sabotage, oil theft, and infrastructure degradation. It will re-

quire substantial rehabilitation before operations can fully resume.²⁶

The pipeline's immediate export potential is constrained not only by infrastructure challenges and negotiations with Türkiye, but also by Iraq's current production profile. Existing output from Kirkuk and the Kurdistan Region is largely committed to domestic refinery demand, leaving only a limited volume available for export. Consequently, Baghdad and Ankara are also exploring a broader strategic arrangement, including the possible construction of a pipeline linking Basra to Kirkuk, which would enable southern crude to access the Türkiye export corridor and substantially expand the long-term commercial viability of the ITP.

To avoid a complete halt of northern exports, Baghdad is pursuing both short-term agreements and long-term infrastructure solutions.

In a critical effort to ensure continuity following the expiration of the previous treaty on July 27, Türkiye's state-owned pipeline operator BOTAS, Iraq's State Organization for Marketing of Oil (SOMO), and the North Oil Company signed a one-year transit agreement on August 1. The agreement provides for a stated daily capacity or minimum contracted volume of 750,000 barrels per day (bpd). However, actual flows remained at approximately 170,000 bpd when the agreement was reported; therefore, 750,000 bpd should be understood as the agreement's stated volume, not the current flow.²⁷

Western Pipeline Alternatives: Redux and Geopolitical Friction

In a bid to establish long-term strategic autonomy, Iraqi planners have also accelerated several overland pipeline proposals designed to route southern crude westward. These projects face distinct technical challenges and geopolitical obstacles, but are critical to any diversification of export routes.

1. THE BASRA–HADITHA PIPELINE: THE STRATEGIC BACKBONE

The 4.6 billion USD to 5 billion USD Basra–Haditha pipeline represents Iraq’s most viable midstream project²⁸. This 56-inch diameter, 685-to-700-kilometer system is designed to transport up to 2.25 million to 2.5 million bpd of southern crude from Basra to the K-3 pumping station in Haditha, located in western Iraq’s Anbar governorate.²⁹ The strategic importance of the pipeline lies in its versatility. Once completed, it can supply central and northern refineries, connect to northern Ceyhan routes, or act as the trunkline for proposed overland pipelines to Jordan and Syria.

The project officially entered the construction phase on May 1, 2026.³⁰ The government approved an initial allocation of 1.5 billion USD for 2026, financed through the bilateral Iraq–China Framework Agreement’s “oil-for-infrastructure” mechanism.³¹ The project is being executed by the state-owned Basra Oil Company (BOC) and the State Company for Oil Projects (SCOP), drawing on equipment agreements signed with the State Company for Iron and Steel in January 2025.³² Despite this early momentum, no significant construction progress had been reported by late July 2026.

On July 4, 2026, the cabinet approved preliminary agreements to evaluate key strategic oil export corridors, including the Basra–Haditha–Kirkuk–Ceyhan and Basra–Haditha–Baniyas routes. It authorized the BOC to work with an international consortium on technical and financial feasibility studies and to engage the US engineering firm KBR as a consultant for the Basra–Haditha pipeline project. Although these agreements create no binding financial or contractual obligations, they signal Baghdad’s cautious but proactive commitment to diversifying Iraq’s oil export infrastructure.³³

2. THE BASRA–AQABA CORRIDOR (JORDAN)

First devised in 1983 during the Iran–Iraq War to bypass Persian Gulf maritime chokepoints, the project was championed by the Reagan administration and the Bechtel Corporation, with the US Ex-Im Bank offering 500 million USD in financial guarantees. Negotiations stalled over Iraqi fears of an Israeli attack on Jordan’s Aqaba terminal.³⁴ Despite intensive backdoor diplomacy — involving Swiss financier Bruce Rappaport and Israeli Prime Minister Shimon Peres, who offered a written non-aggression pledge in exchange for secret Labor Party funding — Iraq rejected the Bechtel proposal in late 1985, citing inflated costs.³⁵

The project was revived in April 2013 as an oil corridor over 1,680 kilometers, but was halted in 2014 when the Islamic State captured Anbar governorate.³⁶ It was recently estimated that a revived Basra–Aqaba project would cost approximately 10.55 billion USD at 2025 prices.³⁷ However, expert Ahmed Mousa Jiyad warns that the project continues to suffer from shifting cost estimates and a critical lack of transparency.³⁸

Today, the pipeline remains in the pre-construction phase and faces severe domestic political opposition, with critics arguing that the pipeline would bring Iraqi crude into close physical proximity with Israel. Furthermore, because the Red Sea remains exposed to Houthi drone strikes, the route merely exchanges one chokepoint risk for another.

3. THE KIRKUK–BANIYAS CORRIDOR (SYRIA)

Built in 1952 by Bechtel for the Iraq Petroleum Company (IPC) with a capacity of 300,000 bpd, the history of this pipeline to Syria is defined by political conflicts.³⁹ Following the nationalization of the IPC in June 1972, Syria seized the pipeline segment in its territory and demanded a doubling of transit fees, prompting Baghdad to build the “Strategic Pipeline” in 1975 to route Kirkuk crude south to the Gulf.

Iraq stopped pumping via Syria in 1976.⁴⁰ Although flows resumed briefly in 1979, the Syrian regime shut down the pipeline in April 1982 in concert with Tehran during the Iran-Iraq War. The pipeline reopened briefly in 2000 to bypass UN sanctions, but was heavily damaged by US airstrikes in 2003 and has remained inoperable ever since.⁴¹

Bilateral negotiations to restore the route intensified following the ouster of the Assad regime. Joint technical committees are conducting engineering studies to determine whether to rehabilitate the existing pipeline or construct a parallel dual-line system with a capacity of 1.5 million bpd, at an estimated cost of more than 4.5 billion USD and a construction timeline of approximately 36 months.⁴² The strategic outlook shifted in January 2026, when government forces in Damascus regained control of several northeastern oil fields. This consolidation returned critical assets to state control, facilitating a coherent permitting and contracting environment.⁴³

4. THE IRAQ PIPELINE THROUGH SAUDI ARABIA (IPSA)

Originally built in the 1980s, the 1,568-kilometer Iraqi Pipeline in Saudi Arabia (IPSA) was designed to bypass the SoH during the Iran-Iraq War, routing up to 1.6 million bpd from Iraq’s southern oil fields to the Red Sea port of Yanbu. While this strategic corridor reduced Iraq’s exposure to Iranian maritime blockades, Riyadh permanently closed it following the 1990–1991 Gulf War.⁴⁴

Saudi Arabia officially confiscated this pipeline in June 2001 and notified the Iraqi government that the asset, along with its pumping stations and maritime terminals, was seized as compensation for Iraq’s outstanding debts and unpaid financial loans. Consequently, re-establishing a bilateral transit agreement remains highly unlikely under current circumstances.⁴⁵

The Oil Ministry has instead prioritized the Basra–Haditha line towards Türkiye due to three major stasis factors: Saudi Arabia’s likely demand to use the pipeline for its own domestic crude, the exorbitant capital costs required to replace deteriorated parts, and Riyadh’s persistent security concerns regarding Iraqi political stability.⁴⁶

The history of the Kirkuk–Baniyas pipeline is defined not by engineering limitations, but by decades of political conflict.”

Strategic Scenarios for Iraq's Energy Geography

The future of Iraq's export security and stability will depend on how the Zaidi administration navigates these infrastructure and governance challenges. The government's capacity and policy options are likely to vary across the following scenarios:



CONTINUED DEPENDENCE ON BASRA:

If the SoH reopens and conditions normalize, Iraq can restore about 94% of its crude oil exports through its southern terminals, providing immediate fiscal relief. However, continued reliance on a single export corridor leaves the country highly exposed to future geopolitical disruptions.



GREATER RELIANCE ON THE TÜRKIYE ROUTE:

If western pipeline projects remain unrealized, Iraq will rely primarily on the ITP via Ceyhan for crude oil exports. This will require resolving longstanding disputes with the KRG and IOCs over exports and payment mechanisms, while increasing Iraq's structural dependence on Türkiye as its principal export transit state.



RED SEA AND MEDITERRANEAN DIVERSIFICATION:

By completing the Basra–Haditha–Aqaba pipeline and potentially extending it to Egypt and the Mediterranean, Iraq could diversify its export routes beyond both the SoH and Ceyhan, significantly enhancing its export security. However, high capital costs, Red Sea security risks, and domestic political opposition could undermine the corridor's commercial viability and operational reliability.



MULTI-ROUTE EXPORT STRATEGY:

Iraq could develop a diversified export network by completing the Basra–Haditha pipeline, rehabilitating the federal Iraq–Türkiye Pipeline, and establishing pipeline links to Türkiye and Syria, and potentially Saudi Arabia. This will enable SOMO to redirect crude exports across multiple corridors in response to geopolitical or commercial disruptions, significantly strengthening Iraq's energy security and strategic autonomy. The experience of 2026 demonstrated that diversification is no longer merely an infrastructure objective but a core element of Iraq's national economic security. However, that strategy depends on domestic security reforms, regional agreements, and managing the geopolitical competition surrounding Türkiye's role as a regional energy transit hub.⁴⁷

Policy Recommendations for the Zaidi Administration

To secure its national sovereignty and economic survival, the Government of Iraq should prioritize the following actions:

- 01 ACCELERATE THE BASRA–HADITHA TRUNKLINE:**
Maintain construction momentum on the Basra–Haditha project, ensuring that the high-level oversight commission and Chinese “oil-for-infrastructure” financing remain insulated from domestic bureaucratic delays.
- 02 RESOLVE THE FEDERAL-KRG ENERGY STANDOFF:**
Formulate a comprehensive, long-term federal hydrocarbons law that establishes a transparent revenue-sharing formula, mutually recognizes upstream contracts to restore IOC confidence, and defines a clear operational role for SOMO in marketing northern crude.
- 03 FORMULATE A UNIFIED STANCE FOR TURKISH TREATY NEGOTIATIONS:**
Leverage the current four-month treaty extension to secure a balanced, long-term successor agreement for the ITP. Iraq must coordinate a unified federal-KRG negotiating position to resist Turkish attempts to impose unfavorable tariff rates and leverage the outstanding ICC debt.
- 04 DISMANTLE THE SMUGGLING ECONOMY AND CONSOLIDATE SECURITY:**
Bring all armed formations, including PMF-affiliated factions operating outside the formal chain of command, under the effective authority of the Commander-in-Chief and enforce uniform financial, disciplinary, and operational controls.
- 05 MITIGATE MARITIME CHOKEPOINT RISKS THROUGH RED SEA-MEDITERRANEAN CORRIDORS:**
Establish feasibility studies with Jordan and Egypt to extend the proposed Basra–Aqaba pipeline westward to the Mediterranean, creating a land-based transit corridor under the Amman-Baghdad-Cairo framework that bypasses both the SoH and the volatile Red Sea.

The 2026 SoH crisis, together with the renewed disruptions that followed, demonstrates that Iraq’s dependence on a single maritime export corridor remains a critical strategic vulnerability. Unless Iraq succeeds in diversifying its export corridors, strengthening federal energy governance, and investing in redundant infrastructure, future regional conflicts will continue to carry severe economic consequences.

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Buying Time: How Baghdad Managed Iraq's Oil-Fiscal Crisis

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The *de facto* closure of the Strait of Hormuz as a result of the Iran-Israel-US war exposed one of Iraq's most enduring economic vulnerabilities: the overwhelming dependence of its public finances on uninterrupted oil exports. Within days of the start of the conflict, the disruption sharply reduced crude export volumes, depriving the federal government of Iraq of billions of dollars in expected revenues and delivering the most severe fiscal shock that Iraq has absorbed since 2003.

The immediate concern was straightforward: could Baghdad continue financing the state? Oil revenues provide roughly 90% of federal government income and underpin virtually every major public expenditure, including salaries and pensions, security, electricity subsidies, and the day-to-day operations of government institutions. A prolonged interruption of exports therefore threatens not only Iraq's fiscal position, but also its political and social stability.

This article examines how the federal government has managed to cope with this unprecedented shock without experiencing immediate fiscal collapse. It analyzes the emergency mechanisms that have sustained government finances, assesses the country's gradual fiscal recovery, and evaluates what conditions will be required for Iraq to restore long-term fiscal stability.



Members of Iraq's federal government attend a regular cabinet meeting during the Strait of Hormuz crisis. Photo credit: Office of Prime Minister Ali al-Zaidi.

Recovering, But Not Yet Recovered

Tensions in the Gulf have repeatedly escalated and then eased, only to re-escalate again. As a result, shipping through the Strait of Hormuz has remained caught between partial resumption and continued disruption. Iraqi oil exports recovered gradually in June, easing some of the fiscal pressures created by the crisis, but weakened again in July as increasing security risks undermined tanker traffic and buyer confidence.

The federal government continues to finance salaries, pensions, and other essential government functions

through a combination of domestic borrowing, expenditure reprioritization, and the partial recovery of oil export revenues.¹ This should not be mistaken for a return to normal. Iraq currently receives only a fraction of the oil revenues that it did before the crisis and remains well below the fiscal position needed to finance its budget comfortably.

A meaningful recovery will require oil revenues to return to at least the levels recorded before February 2026. Despite recent improvements that mark remains some distance away.

Full fiscal recovery, however, requires something considerably more demanding: restoring crude exports to around 3.5 million barrels per day while maintaining international oil prices above 84 USD per barrel.² The IMF estimates that only under those conditions can Baghdad comfortably meet its recurring obligations — salaries, pensions, and operational expenditures — without relying heavily on domestic borrowing or extraordinary fiscal measures. However, this fiscal recovery appears unlikely to occur by the end of 2026.

The Fiscal Shock: When Iraq's Oil Revenues Collapsed

The *de facto* closure of the Strait of Hormuz transformed a regional security crisis into an unprecedented fiscal shock for Iraq. Within days, the country's oil exports collapsed to levels not witnessed since the era of international sanctions during the 1990s, depriving Baghdad of its principal source of public revenue.³

Because oil normally accounts for around 90% of federal government revenue, every barrel lost to export disruptions translated directly into reduced fiscal capacity. Figure 1 illustrates how the crisis evolved during the first half of 2026, showing its impact on Iraq's oil exports, revenues, and public finances.

Iraq exported about 99 million barrels of crude during February 2026, which was equivalent to around 3.5 million barrels per day, through its southern Gulf terminals and the Iraq-Türkiye Pipeline. These exports generated nearly 6.8 billion

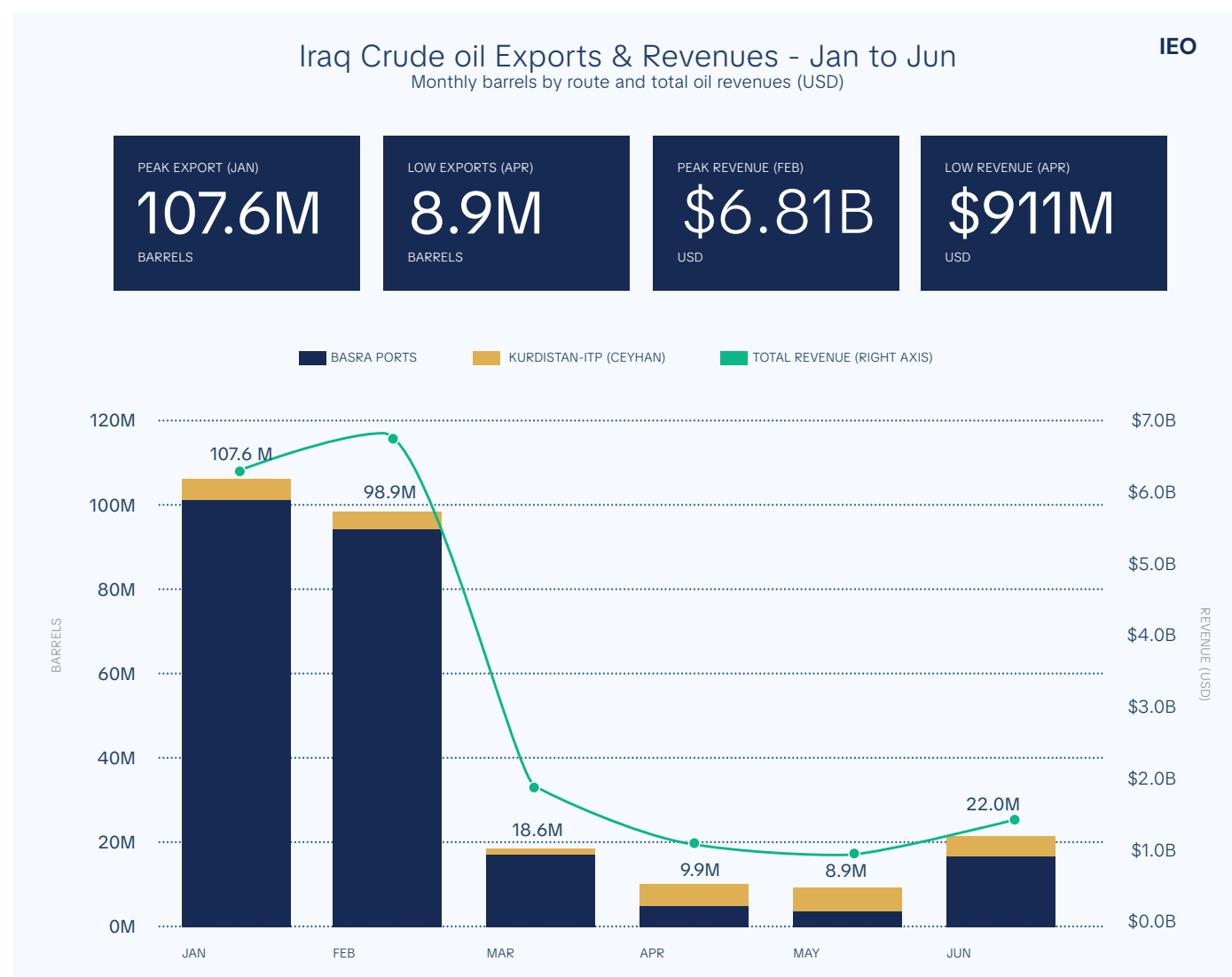
USD in monthly oil revenues. Within two months of the conflict beginning, exports had collapsed by more than 90%. By May, Iraq exported less than 9 million barrels of crude, or roughly 287,000 barrels per day, while monthly oil revenues had fallen to approximately 900 million USD — barely one-eighth of their pre-crisis level.

The collapse was driven primarily by the shutdown of Iraq's southern export system. The Basra Gulf terminals, which normally handle almost 93% of Iraq's crude exports, were effectively paralyzed by the disruption of commercial shipping through the Strait of Hormuz. Southern exports fell from more than 101 million barrels in January to nearly 3 million barrels in May. This represented one of the sharpest declines ever recorded in Iraq's modern petroleum industry.

The northern export corridor through the Iraq-Türkiye Pipeline proved considerably more resilient. However, it operated well below its technical capacity because much of the production Kurdistan Region's remained offline throughout the period due to security concerns about airstrikes.

Exports fluctuated through Ceyhan between roughly 4 million and 7 million barrels per month during the crisis, making it Iraq's only relatively stable export outlet during the most difficult months of the disruption. Its limited capacity, however, meant it could compensate for only a small fraction of the losses from Basra. By June, the first signs of recovery began to emerge. As security conditions in the Gulf gradually improved and commercial confidence slowly returned, tanker movements through the Strait resumed.

Figure 1. Iraq's Oil Exports and Oil Revenues During the Strait of Hormuz Crisis (January–June 2026)



Source: Compiled and estimated by the author using data from the State Organization for Marketing of Oil (SOMO) for January–April 2026; a formal SOMO letter submitted to the Iraqi Parliament for May–June 2026; June 2026 oil revenues and exported are based on Iraq Oil Report data and estimations. 4

Southern exports recovered to approximately 17 million barrels during the month, lifting Iraq's estimated monthly oil revenues to around 1.4 billion USD. Although this represented a meaningful improvement over April and May, revenues remained far below the levels required to meet Iraq's fiscal commitments without strain.

These figures also highlight an important distinction between revenue recovery and fiscal recovery. Revenue recovery means that oil exports have begun to rebound from the extraordinary lows that were recorded

at the height of the crisis. Fiscal recovery, however, requires something far more demanding.

The federal government did not adopt a 2026 Budget Law and has instead managed public finances under the one-twelfth rule of the previous budget, authorizing monthly expenditures of up to one-twelfth of the 2025 budget appropriations. This spending level is subject to available revenues.

Based on the 2025 budget framework, the government requires approximately 11.769 trillion IQD⁴

(around 8.98 billion USD⁵) each month to finance its current operating expenditures. By comparison, Iraq's estimated oil revenues in June amounted to just 1.52 billion USD or about one-sixth of the amount needed to cover monthly operational spending.⁶

This gap explains why Baghdad has managed to avoid an immediate fiscal collapse while allowing underlying financial pressures to accumulate. The recovery of oil exports has eased the immediate fiscal shock, but it has not yet restored Iraq's fiscal sustainability.

Baghdad's Fiscal Strategy: Buying Time, Not Solving the Crisis

The federal government's response to the oil-fiscal shock reveals a coherent, if risky, fiscal strategy. Rather than undertaking structural adjustment, Baghdad has chosen to preserve the state's core functions on the working assumption that the current disruption to oil exports will end soon. Its policies over the past four months suggest a government pursuing fiscal endurance over fiscal reform. This strategy rests on three implicit assumptions.

First, that the crisis is temporary. The government's continued reliance on domestic borrowing, treasury bills, and other short-term financing instruments signals that policymakers expect oil exports through the Strait of Hormuz to recover before Iraq's financial buffers are exhausted.

Second, that political stability must take precedence over fiscal sustainability. In principle, when governments face severe revenue shortfalls, they reduce expenditures to restore fiscal balance. In Iraq, that option is politically constrained. Public-sector salaries, pensions, and social protection spending averaged approximately 7.2 trillion IQD (5.5 billion USD) per month in 2025.⁷ These expenditures function as the country's most important social safety net and underpin the political legitimacy of the state itself. Cutting them would almost certainly generate widespread social and political unrest.

Third, that time itself is a policy instrument. Every major measure adopted since the crisis began serves

the same objective of buying time. Issuing treasury bills buys time by replacing lost oil revenues with domestic borrowing. Delaying infrastructure projects buys time by reducing immediate expenditure pressures. Using payment arrears buys time by postponing fiscal obligations. None of these measures generates new revenue or reduces Iraq's dependence on oil.

Baghdad has chosen to preserve the state's core functions on the working assumption that the current disruption to oil exports will end soon.

Iraq's strategy comes at a cost. As of the latest official data, the Central Bank of Iraq's (CBI) foreign reserves have dropped to approximately 90 billion USD, equivalent to about 118 trillion IQD at the official exchange rate. While this remains a substantial financial buffer, continued reserve depletion would gradually constrain the CBI's ability to defend the exchange rate, finance imports, and support financial stability.⁹

This approach is not new. The federal government responded similarly during the oil price shock of 2014 and the COVID-19 collapse of 2020 by borrowing, delaying investment, and waiting for oil market conditions to improve. The critical difference today is that previous crises were driven by lower prices while exports continued uninterrupted. The current crisis stems from a disruption to export routes themselves.

Nevertheless, the strategy may yet prove successful — but only if its underlying assumptions hold. If shipping through the Strait of Hormuz continues to normalize and oil exports recover during the second half of the year, the government may gradually close its financing gap and avoid severe fiscal adjustments. While this strategy for preserving political and economic stability until oil revenues return may prove to be the most rational course of action available under the circumstances, it also reveals the central weakness of Iraq's political economy.¹⁰

Conclusion

The federal government has so far succeeded in preventing a fiscal crisis from becoming a state crisis. It has maintained the basic functions of the state despite an unprecedented collapse in oil revenues. Measures like domestic borrowing, expenditure reprioritization, deferred payments, and the gradual recovery of oil exports have bought valuable time, but not led to any sort of fiscal sustainability.

The country's recovery remains largely contingent on the resumption of normal oil exports through the southern ports of Basra and the Strait of Hormuz. The crisis has demonstrated once again that Iraq's deepest fiscal vulner-

ability is the state's overwhelming dependence on a single export route and a single source of income. Unless that structural dependence is addressed, future geopolitical disruptions are likely to produce similar fiscal shocks, regardless of how effectively the current crisis is managed.

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China-Iraq **Energy** Relationship: Iraq's Pivot to the East

BY SARDAR AZIZ

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Historically, the Middle East was not a top priority for China, but this is changing. China's influence has increased significantly over the past decade, and this will likely continue to be the case.

Iraq in particular is critical to China's strategy. It has a significant economic capacity and potential for development, in addition to Baghdad's capacity to influence its neighbors. More importantly, it stands out from other countries in the region due to its relatively open economy and political landscape, as well as its complex and fragmented domestic socio-political situation.

These features allow China to penetrate the political sphere and develop party-to-party relationships and direct engagement with local organizations. When it comes to the economy, China has also managed to build relationships with local companies and economic partners across the country at the company-to-company level.



Illustration of Iraq–China economic and energy ties, produced by the Iraq Energy Outlook technical team using OpenAI-assisted image generation

10 of 13

blocks awarded to Chinese firms in Iraq's combined fifth-plus and sixth licensing round, May 2024

THE PREMISE

The premise of this paper is that China's energy policy in Iraq cannot be understood solely through oil production or trade statistics. Historically, China's Middle East regional policy was seen as guided by its need for energy and, therefore, national security priorities.² While that remains relevant, it also has a much broader strategy that combines commercial investment, infrastructure development, diplomatic engagement, institutional partnerships, and elite networks. These interconnected activities collectively strengthen China's long-term position in Iraq.

Sino-Iraqi Relationship: A Brief History

Understanding China's contemporary strategy requires examining how the relationship evolved historically. China's current position in Iraq did not emerge suddenly after the end of the Ba'athist dictatorship in 2003, but developed through several distinct phases, each expanding the scope of Chinese engagement.

The Sino-Iraqi political relationship began in the late 1950s, when Iraq's political system transitioned from a monarchy to a republic. However, China did not meaningfully engage Iraq economically until much later. Its first foray was a geopolitical significant arms deal during the Iran-Iraq War in the 1980s, before becoming involved in the energy sector during the sanctions period of the following decade.

China had two motivations regarding the war: sell arms to foreign governments and counter the Soviet Union. At the time, the Kremlin appeared to be turning away from Baghdad and toward Tehran. Thinking pragmatically, then-Chinese leader Deng Xiaoping was ready to discreetly arm Baghdad in order to wrestle Iraq from the Soviet sphere of influence.³ The China North Industries Corporation (NORINCO), an ordnance production conglomerate and major arms sales agent with close ties to the People's Liberation Army (PLA), was key to this arrangement. The relationship also brought in hard currency for Beijing.⁴ By selling arms to Iraq, China was able to contain the Soviet Union, open a new market, and maintain the balance between two hostile countries, namely Iraq and Iran.⁵

These early military ties were significant not only because they established bilateral relations. They also demonstrated a recurring feature of Chinese engagement: economic, political, and strategic interests tended to reinforce one another rather than operating separately. This integrated approach would become even more apparent in the energy sector over time.

By selling arms to Iraq, China was able to contain the Soviet Union, open a new market, and maintain the balance between Iraq and Iran.

In the mid-1990s, China actively began to enter the Iraqi oil sector. At the time, Baghdad was severely hampered by UN sanctions. Under the Oil-For-Food Programme, the UN allowed Iraq to sell oil worth up to 2 billion USD over the course of 180 days in 1996.⁶ In June 1997, NORINCO was able to leverage its connections with Saddam Hussein's regime and sign a 22-year production-sharing contract with Iraq, which also involved the China National Petroleum Corporation (CNPC), to develop half of the al-Ahdab field after UN sanctions against Baghdad were lifted.⁷ CNPC and NORINCO formed a new company, al-Waha, to develop this field.⁸

This foray coincided with a strategic shift for China, which saw it begin to invest more heavily in foreign econ-

omies. Known as the "Going Out Strategy" or "外出策略" in Chinese, it was recommended by the 9th Five-Year Plan conference in 1995. Viewed from this perspective, China's entry into Iraq's oil sector was not simply a commercial decision by individual firms; It reflected broader national priorities that used overseas energy investments as instruments for expanding China's long-term geopolitical and economic presence abroad.

Between the arms deals in the 1980s and the oil deals in the 1990s, Iraq built up a large amount of debt owed to China. After the Ba'athist regime fell, the US government urged the Paris Club of debt-holding countries to agree to a reform that allowed an 80% write-off of Iraqi debt. The Chinese government expressed willingness to reassess the debt owed by Baghdad, including all governmental debt.⁹ While using the Paris Club terms for targeted rescheduling, Beijing favored restructuring the debt discreetly on a bilateral basis, which gave it the ability to tailor programs to specific situations and take advantage of Iraqi political conditions.

China also worked to develop relations with the post-Ba'athist elite. In 2007, it invited new Iraqi President Jalal Talabani to visit Beijing. Before the trip, Talabani expressed a desire to have 8 billion USD of debt canceled.¹⁰ According to Jon Lee Anderson, Talabani was a known Sinophile and an avowed admirer of Mao's concept of popular war, which involved waging battles in the mountains against oppressive regimes.¹¹ This successful push-pull approach that took the motivations of the new powerbrokers in Iraq helped to relaunch the relationship with China. Subsequently, Baghdad invited Chinese firms to bid for oil exploration contracts and revived the al-Ahdab field deal that had been signed under the Ba'athist regime. Iraq continued to urge China to forgive its debts¹² and Beijing ended up erasing the vast majority of it.

Therefore, debt relief served a purpose beyond financial restructuring. It helped rebuild political trust between Baghdad and Beijing, creating conditions that facilitated China's return to Iraq's energy sector and opened opportunities for wider economic cooperation. This dynamic has increased in recent years.

In May 2024, Iraq held a combined "fifth-plus" and sixth oil and gas bid licensing round. This event, more than any other, captures the contemporary Sino-Iraqi oil relationship. Throughout the three-day event, international oil companies were invited to bid on 29 projects. Chinese oil companies outbid many of their competitors, including those based in the West. Ultimately, thirteen blocks were awarded and ten went to Chinese firms, which dramatically expanded their footprint in Iraq.¹³ The winners not only included large,

state-backed companies like Sinopec and China National Offshore Oil Corporation (CNOOC) but smaller, private firms like GeoJade and Zhenhua.¹⁴

While its initial entry into the Iraqi energy sector was based on opportunism and the identification of political vulnerabilities,¹⁵ China's domestic policy changes embodied in the "Going Out Strategy" and the increasing demand for oil drove deeper engagement over time.

Iraq needs a comprehensive reconstruction of infrastructure and other facilities, allowing China to cement its relationship with Iraq unlike any other country in the Middle East.

Consolidating the Relationship

From its initial positioning, the relationship between Iraq and China has expanded year after year. China has gone from being a marginal player in the Iraqi oil sector to a leading one in just over a decade. This has created a misapprehension that the overall relationship is primarily driven by energy interests, but this view is limited and only partially correct. Iraq is also a major consumer market for Chinese goods as well. There are two ways to understand the expansion.

One perspective is to view China as a nation undergoing a transition to a capitalist mode of production, a process that began in the late 1970s and has continued since then. To accomplish this, China needs resources, markets, and consumers. One manifestation of this is the Belt and Road Initiative, which brings foreign countries into a close trading relationship with Beijing and gives it the ability to both market goods overseas and secure valuable resources to bring home.¹⁶ It often accomplishes this through state-owned companies, which makes it difficult to draw a separation among state, military, corporate, and other sectors. In this regard, many scholars consider China a neo-mercantilist country.

The second view is that in order for China to secure access to oil, it has to go beyond oil. China's activities in Iraq are interconnected and aimed at securing energy, market access, and influence in society. This approach is also an extension of neo-mercantilism, where energy security, the military, diplomacy, and trade are all combined. This applies both to state-owned enterprises and to nominally independent companies, who have

limited freedom to operate on their own.

This is not a one-sided dynamic. Oil is a national issue for Iraq. In fact, it is framed this way in the Constitution, with Article 111 stating that “oil and gas are owned by all the people of Iraq in all the regions and governorates.”¹⁷ Its economic importance cannot be understated because it is the main source of income for the state and society. It also plays a major political role through the rentier state, which shapes governance.

Iraq's particular history and context has contributed to a culture of suspicion of western IOCs, which gives China, with its ideology and anti-colonial history, a massive advantage. This is particularly potent among the new Iraqi Shia elite, which was pressured by Iran to exclude US oil majors.¹⁸ Therefore, it is not surprising that they favored non-western companies, like those from China, from the beginning.

Beyond straightforward oil deals, the Iraqi government has also relied on China for loans to facilitate development funding. The Iraqi government has realized that it cannot build the country on its own, given that 61.7% of its budget is spent on operating expenditures like salaries, pensions, social security, and subsidies.¹⁹ As a result, it has turned to Beijing for loans to build major infrastructure projects.

Moreover, it continues to identify and work with friendly elites. According to Mazhar Mohammed Salih, an advisor who served across several different Iraqi cabinets, the

man responsible for the blossoming of the China-Iraq relationship over the past decade is Adil Abdul-Mahdi, who is, like Talabani, an Iraqi Sino-phile. During his tenure as oil minister and then prime minister, he developed a program known as “oil for infrastructure.”²⁰

Once China became an accepted energy partner, cooperation naturally expanded into infrastructure financing and development as well. This represented a qualitative shift in the relationship: oil was no longer merely the object of cooperation, but became the mechanism through which broader economic ties were financed.

Oil was no longer merely the object of cooperation, but became the mechanism through which broader economic ties were financed.

Iraq's 2015 decision to sign up to the Belt and Road Initiative exemplifies this exchange. Abdul-Mahdi argued that “together with our Chinese friends, we tried to seize this historic opportunity for development in Iraq. We proposed the idea of using oil for construction because Iraq requires comprehensive reconstruction of infrastructure and other facilities.”²¹ This allowed China to cement its relationship with Iraq unlike any other country in the Middle East — and in a manner that provides mutual benefits.

How China Manages Iraq

If energy serves as the entry point into Iraq, the next question is how China sustains and protects these interests over time. The answer lies in a multilayered strategy that combines diplomacy, institutional engagement, commercial presence, and soft power.

China has an embassy in Baghdad and two consulates. The consulate in Erbil opened in 2014,²² with the goal of ensuring China's interests through the cultivation of relationships with local elites. The consulate in Basra opened in 2023²³ and its activities are primarily focused on oil and gas. Cultivating elites and focusing on critical economic sectors are not mutually exclusive; in fact, they are compatible and all of China's diplomatic posts in Iraq fulfil both missions.

China also networks with and trains junior and middle-ranking Iraqi bureaucrats and oil workers through extensive invitation programs, which is an approach that it has used for the last two decades. In doing so, it expands its network and familiarizes Iraqis from many walks of life with China. However, this structured program rarely lets visiting Iraqis see beyond official propaganda. This imbalance has a direct impact on the nature of the relationship.

Another distinctive feature of China's approach is the integration of commercial actors into broader state objectives. Chinese oil companies, engineering firms, construction con-

tractors, equipment suppliers, financial institutions, and diplomatic missions often operate in parallel, reinforcing one another's activities even when pursuing different commercial objectives.

The answer lies in a multilayered strategy that combines diplomacy, institutional engagement, commercial presence, and soft power."

For instance, large upstream investments create demand for Chinese engineering services, which are often accompanied by infrastructure construction, telecommunications cooperation, technical training, and expanding commercial trade. This interconnected model allows China to build an economic ecosystem, which operates strategically, rather than as a collection of isolated projects. Consequently, Iraq's growing dependence on China extends beyond a destination for crude oil exports to one that involves infrastructure, technology, consumer markets, electricity, and industrial development. As a result, China's long-term strategic leverage has grown.

This broader strategy is reflected in the diversity of Chinese corporate actors operating in Iraq. State-owned enterprises, private firms, engineering companies, and service providers together create an extensive commercial ecosystem.

TABLE 1. CHINESE COMPANIES OPERATING IN IRAQ'S PETROLEUM SECTOR BY SEGMENT (2026)

COMPANY	OWNERSHIP	PRIMARY SEGMENT	MAIN ACTIVITIES IN IRAQ
China National Petroleum Corporation (CNPC)	State-owned	Upstream	Parent group; operates in Iraq primarily through subsidiary PetroChina (see below) and various CNPC-affiliated service arms
PetroChina	State-owned (CNPC subsidiary)	Upstream	Operator, West Qurna-1 (took over from ExxonMobil, Jan. 2024); joint operator of Rumaila via Basra Energy Company Ltd. (BECL), a 50/50 JV with BP; contractor at Halfaya oilfield
China National Offshore Oil Corporation (CNOOC)	State-owned	Upstream	Lead contractor and 63.75% stakeholder, Missan oilfields (since 2010 TSC); won Block 7 (Diwaniyah) in the latest licensing round
Sinopec (China Petroleum & Chemical Corporation)	State-owned	Upstream / Downstream	Exploration, development, refining cooperation, petrochemicals; won Somar block (Muthanna) in recent licensing round
Zhenhua Oil	State-owned	Upstream	Exploration and production; awarded Abu Khema field in fifth-plus licensing round
Geo-Jade Petroleum	Private	Upstream	Exploration and production
United Energy Group (UEG)	Private	Upstream	Operator of Siba and Block 9 (Faihaa) fields; also holds Sindbad and Fao blocks — all in Basra province, southern Iraq
Zhongman Petroleum & Natural Gas Group (ZPEC)	Private	Upstream	Exploration, drilling and field development
Hilong Holding Group	Private	Upstream / Services	Drilling, OCTG, field development
Anton Oilfield Services Group	Private	Oilfield Services	Integrated oilfield services, production support; awarded Dhufriyah field in fifth-plus licensing round
Jereh Group	Private	Midstream / Downstream / Services	Gas processing, EPC, storage facilities, refinery support
Bohai Drilling Engineering Company (BHDC)	State-owned (CNPC)	Oilfield Services	Drilling contractor
Great Wall Drilling Company (GWDC)	State-owned (CNPC)	Oilfield Services	Drilling and well services
BGP Inc.	State-owned (CNPC)	Oilfield Services	Seismic acquisition and geophysical surveys
China Petroleum Engineering & Construction Corporation (CPECC)	State-owned (CNPC)	Midstream / Downstream	Pipelines, gathering systems, storage facilities, refinery EPC
China Petroleum Pipeline Engineering Co. (CPP)	State-owned (CNPC)	Midstream	Pipeline engineering and construction
China Petroleum Pipeline Bureau (CPPB)	State-owned (CNPC)	Midstream	Oil and gas pipeline construction
China Huanqiu Contracting & Engineering Corporation (HQCEC)	State-owned (CNPC)	Downstream / Midstream	Refineries, gas-processing plants, EPC projects
Daqing Oilfield Engineering Company	State-owned (CNPC)	Oilfield Services	Technical and engineering services
Kerui Petroleum	Private	Midstream / Downstream / Services	Surface facilities, pipeline equipment, EPC
Honghua Group	Private	Oilfield Services	Drilling rigs and equipment manufacturing
China Oilfield Services Limited (COSL)	State-owned (CNOOC)	Oilfield Services	Technical oilfield services (limited Iraq activities)
PetroChina International Iraq FZE	State-owned	Trading	Crude oil marketing, procurement and logistics
Unipecc (Sinopec International Petroleum Exploration & Production Corporation)	State-owned	Trading	Crude oil trading and marketing
ChinaOil	State-owned (CNPC)	Trading	International crude oil trading and logistics

Source: Compiled by research assistants of the Dhia Jafar Center for Energy & Natural Resources, based on Iraqi Ministry of Oil licensing data, company reports, annual reports, and public announcements.

China's Energy Security Vs. Iraq (Middle East) Insecurity

The expansion of China's presence raises a broader strategic question: which partner ultimately depends more on the other? Conventional wisdom assumes that China relies heavily on Iraqi oil and, therefore, is somewhat at the mercy of Baghdad. However, developments over the past decade suggest that the relationship has become increasingly asymmetric in the opposite direction.

China's energy dependence on the Middle East was regarded as its Achilles heel, especially given the region's instability and Beijing's limited ability to project influence over events there. Counterintuitively, the most recent conflict between the United States, Israel, and Iran has shown that this perspective is no longer accurate and energy-producing states have outsized leverage over China.

In fact, Iraq depends more on China, rather than the other way around. In addition to being the largest destination of Iraq's oil, China is also the

main source for affordable goods for Iraqis. Moreover, Chinese companies are also important forces in the contracting, power, and renewable sectors. As a result, there are real questions about whether Iraq has become overly dependent on China and would have to go through structural changes to ensure it is self-reliant.

Developments over the past decade suggest that the relationship has become increasingly asymmetric in the opposite direction.

Some players in Iraq, particularly the ruling elites and Shia political groups, want China to act as a counterbalance to US dominance in the Middle East region, but China does not share this strategic goal. It believes that bad governance, economic mismanagement by regional state

actors, unreasonable rivalries between them, and frequent geopolitical interventions are the main causes of volatility and instability in the Middle East.

These developments provide important clues about the future trajectory of Sino-Iraqi relations. If current trends continue, China's position is likely to become even more deeply embedded within Iraq's political economy. China is already the biggest international player in Iraq's upstream energy sector.²⁵ It is also better positioned than its competitors in many other crucial sectors, including telecommunications, infrastructure, and the daily goods markets. This provides another layer of opportunities and leverage, in addition to soft power. All together, these factors render China better positioned not only with Iraqi elites but also with the wider society.

Conclusions

The evidence presented throughout this paper suggests that China's rise in Iraq cannot be explained simply through the statistical increase of oil imports or successful bidding rounds. Rather, Iraq illustrates how China uses energy security as the foundation for building a comprehensive network of economic, political, institutional, and diplomatic relationships that reinforce one another over time.

"Making every province an oil province," as the newly appointed Minister of Oil Bassim Mohammed Khudair said in a speech, is a sign that Iraq wants to rely more on

oil.²⁶ That strategy makes Iraq more bound to the energy market and its instabilities, which is a risky bid amid geopolitical changes.²⁷

Therefore, the diversification of the Iraq-China relationship beyond the energy sector is a reflection both of China's strategic thinking and Iraq's unique political system in the region, which allows Beijing to penetrate it at multiple levels and influence elites and the wider society. While energy remains a major part of the relationship, it is hardly the only one that matters these days.

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ENERGY IN NUMB3RS

The Cost of Energy Subsidies in Iraq

BY IEO EDITORIAL TEAM

Iraq's energy subsidy system is one of the largest and most durable in the Middle East. For decades — and with renewed urgency since the 2003 regime change — policymakers, economists, and international institutions have debated its cost, fairness, and intended impact. Despite all this activity, the debate has rarely produced reform.

Iraq's federal government and the Kurdistan Regional Government (KRG) direct a substantial share of public resources toward subsidizing fuel products and electricity. The official rationale is familiar: keeping energy affordable protects household budgets and provides a tangible return to citizens from the country's oil wealth. These are legitimate reasons, but the system as it currently operates is neither efficient nor equitable. Iraq's energy subsidies are overwhelmingly universal and flat. They apply regardless of income level, economic sector, or social need. A wealthy household consuming large amounts of fuel and electricity receives proportionally far more support than a low-income family with modest consumption. There is little

to no targeting, limited transparency, and few mechanisms to redirect support toward those who need it most.

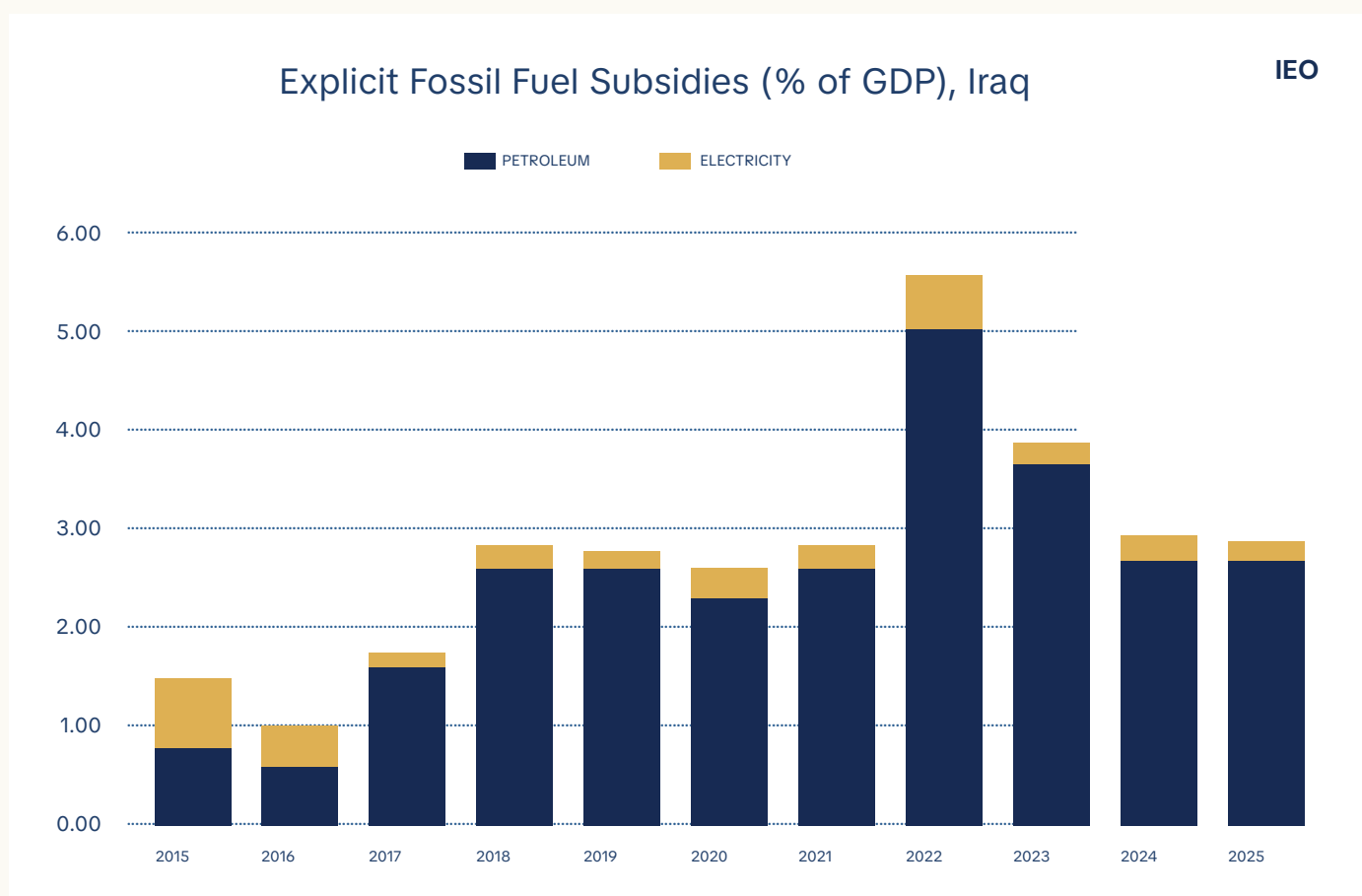
Why raise this issue now when Iraq's economy is under acute strain from regional conflict? The answer is precisely because of that challenge. The subsidy issue is not new, but familiarity should not be mistaken for irrelevance. When oil revenues fall by more than 80% in just one month, the government must face up to the rapid narrowing of its fiscal options, which are hampered in part by its large, untargeted subsidy bill.¹

The subsidy system represents a more subtle expression of the same structural vulnerability that the ongoing regional conflict has laid bare: a chronic liability that intensifies fiscal pressure precisely when the state is least equipped to absorb it. To maintain the status quo, the government must borrow to procure electricity, gas, and premium-grade gasoline, only to sell them at artificially suppressed prices. The system will continue to erode national resources and create fertile ground for waste and corruption without reform that

better targets beneficiaries, advances equity, and redirects support toward job-creating sectors, rather than indiscriminate consumption.

The following figures examine the scale and structure of Iraq's energy subsidies: what they cost the budget, what they cost the broader economy, and how Iraq compares with its regional peers.

The analysis draws on the IMF Fossil Fuel Subsidies Database,² which covers more than 160 countries and combines data on energy prices, consumption, taxation, and environmental costs. A key distinction runs throughout: "explicit subsidies" reflect direct fiscal costs, or money that government spends or forgoes to keep energy prices below their true supply cost; "implicit subsidies" capture broader economic and social costs that never appear in the budget, including environmental damage, health impacts, and the under-taxation of fossil fuels. Together, they reveal a burden that is considerably larger than official spending figures suggest.

Figure 1. Explicit Fossil Fuel Subsidies in Iraq, 2015–2025 (% of GDP) ³

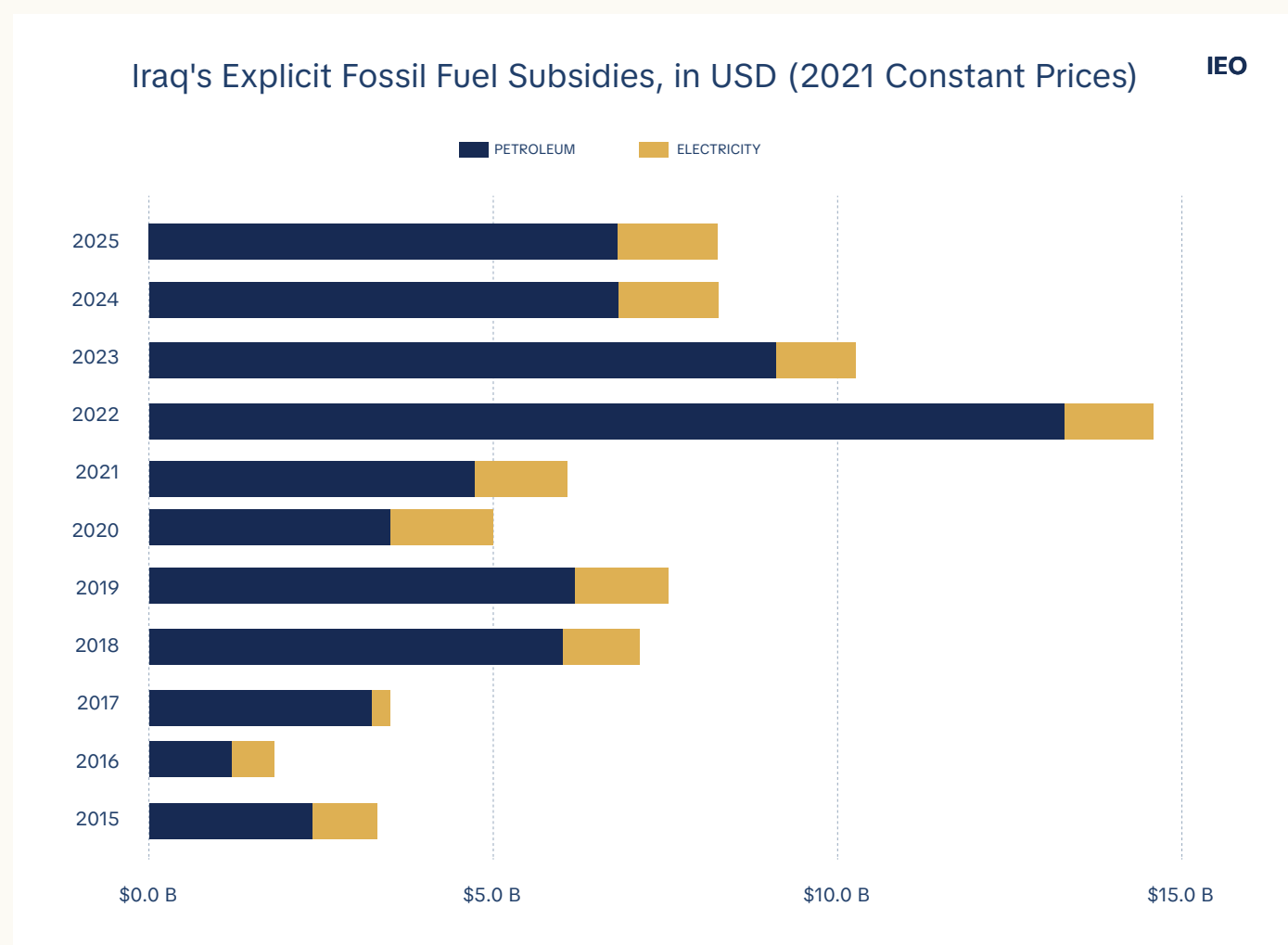
Source: Figure adapted from International Monetary Fund, Fossil Fuel Subsidies, ArcGIS Online, accessed June 8, 2026, The data for 2024 and 2025 are mid-term projections, not finalized historical figures. https://climatedata.imf.org/datasets/d48cfd2124954fb0900cef95f2db2724_0/about

Iraq's explicit subsidy spending as a share of GDP has never been a marginal line item. Over the past decade, this ratio has fluctuated with oil price cycles, but rarely fallen to levels that could be described as a deviation. It represents an indicator of static priorities for a government facing chronic pressure on wages, infrastructure, and public services.

Between 2017 and 2022, explicit fossil fuel subsidies nearly tripled as a share of GDP, rising from roughly 1.5% to more than 5.5% — the sharpest spike in the series. Following the 2022 oil revenue peak, the ratio retreated and stabilized at around 2.9% of GDP between 2024 and 2025. The fact that subsidies held above pre-

2018 levels even during a period of relative revenue abundance points to structural entrenchment rather than cyclical fluctuation: fiscal relief, when it came, did not translate into meaningful reform.

The fact that subsidies held above pre-2018 levels even during a period of relative revenue abundance points to structural entrenchment rather than cyclical fluctuation.

Figure 2. Explicit Fossil Fuel Subsidies, 2015–2025 (USD, constant 2021 prices) ⁴

Source: IMF Fossil Fuel Subsidies Database; calculations and visualization by the Iraq Energy Outlook (IEO) editorial team. The data for 2024 and 2025 are mid-term projections, not finalized historical figures.

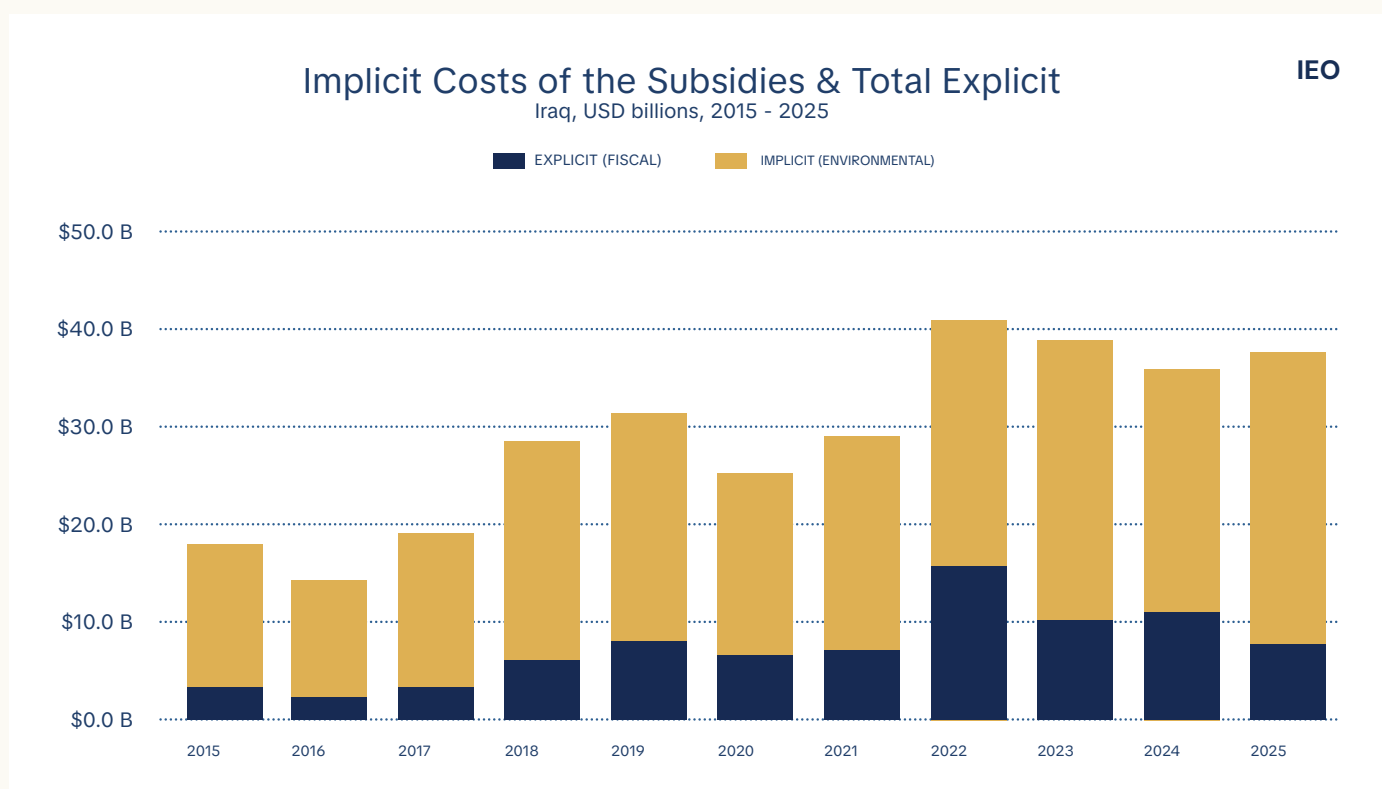
Expressed in real dollar terms, Iraq's explicit subsidy spending reveals a classic pro-cyclical pattern: outlays expand during periods of high oil revenues — notably in 2018–2019 and again in 2022–2024 — rather than holding steady or being reduced when the fiscal position improves. Instead of deploying windfalls to build savings or advance structural reform, the government allowed subsidy spending to scale with income, entrenching a system that becomes politically harder to unwind the longer it persists.

Explicit subsidies peaked at approximately 14.5 billion USD in 2022, falling back to around 8 billion USD by

2025, which is still nearly three times the 2016 level of 1.8 billion USD. Petroleum subsidies consistently account for the largest share of explicit subsidies, with electricity support playing a secondary but non-trivial role. That spending has failed to return to pre-2018 levels despite softer oil prices in 2023–2025 underscores how difficult it is to reverse politically sensitive price supports once they are established.

Rather than using oil windfalls to build resilience, Iraq allowed subsidy spending to grow with revenue, deepening long-term fiscal dependence.

Figure 3. Total Fossil Fuel Subsidies, Explicit and Implicit Combined, 2015–2025 (USD, constant 2021 prices)



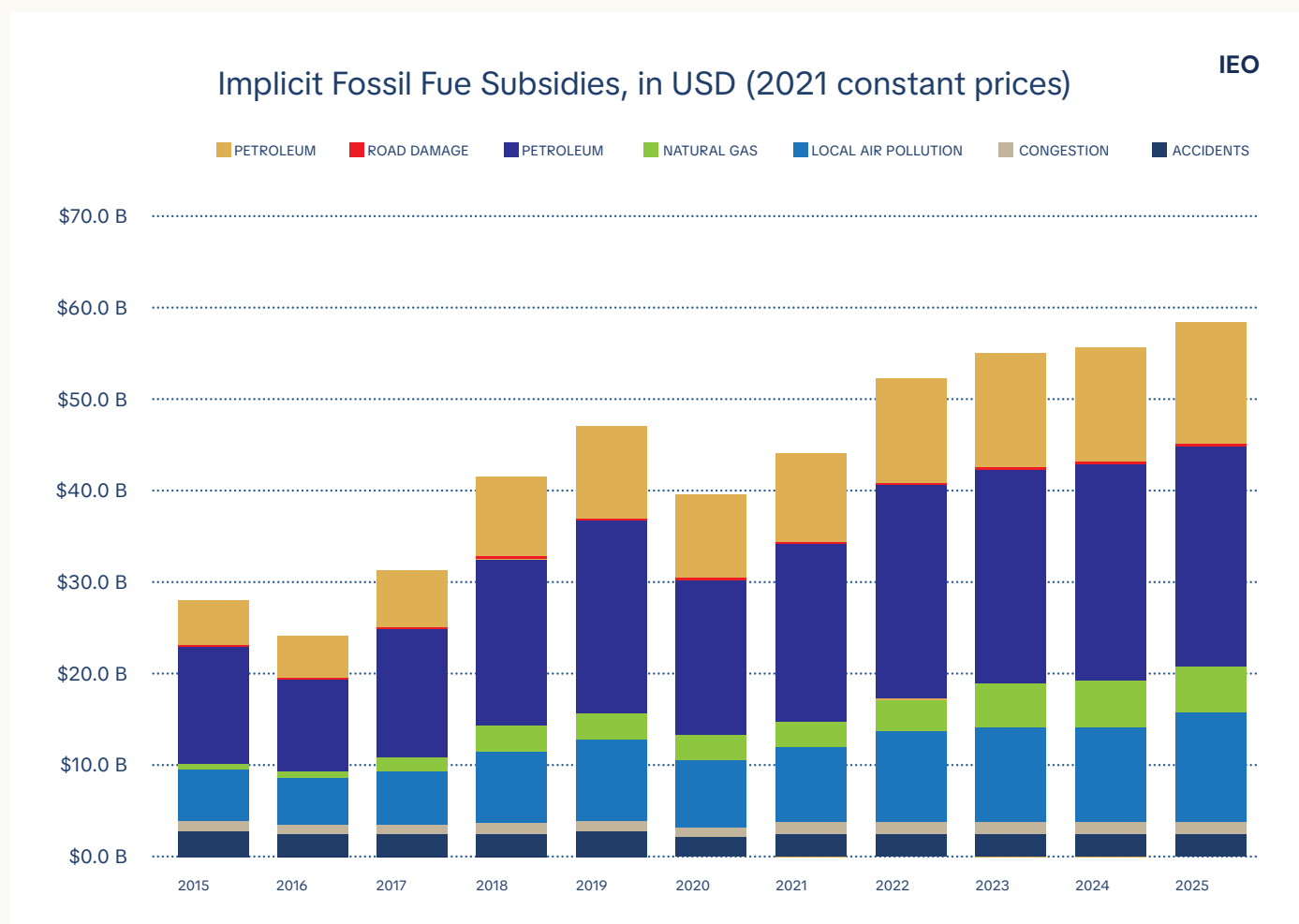
Source: IMF Fossil Fuel Subsidies Database; calculations and visualization by the Iraq Energy Outlook (IEO) editorial team. The data for 2024 and 2025 are mid-term projections, not finalized historical figures.

The budget numbers alone substantially understate the true cost of Iraq's energy pricing system. Adding the implicit subsidy burden — unpriced environmental and social costs — to explicit fiscal outlays reveals a combined figure that dwarfs what appears in government accounts. As the Figure 3 demonstrates, implicit costs are consistently two to three times larger than explicit spending across the entire 2015–2025 period. Even in 2016, the lowest year for explicit subsidies, implicit costs remained above 11 billion USD. By 2025, they approached 30 billion USD on top of an explicit subsidy bill of around 8 billion USD. For policymakers, this is not an abstract accounting exercise. These costs are real, falling on Iraqi society in the form of air pollution, public health burdens, infrastructure

wear, and foregone investment in cleaner alternatives. Cheap energy, in this sense, carries a price — it simply falls elsewhere.

The true cost of Iraq's energy subsidies extends far beyond the budget, with hidden social and environmental costs consistently outweighing direct fiscal spending.

Figure 4. Implicit Fossil Fuel Subsidies by Category, 2015–2025 (USD, constant 2021 prices)



Source: IMF Fossil Fuel Subsidies Database; calculations and visualization by the Iraq Energy Outlook (IEO) editorial team. The data for 2024 and 2025 are mid-term projections, not finalized historical figures.

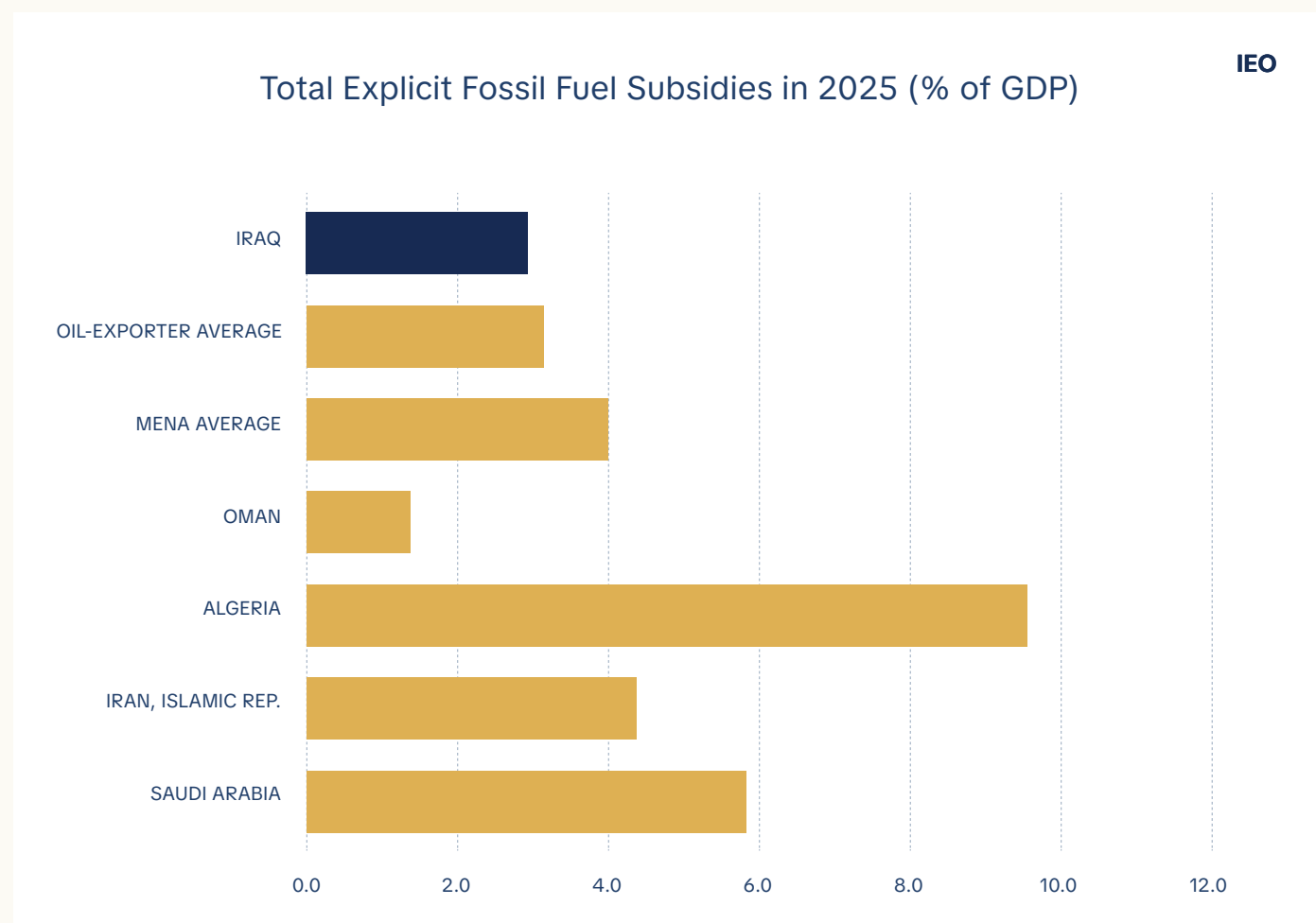
Not all implicit subsidy costs are the same. None of its main components — air pollution, global warming, road congestion, traffic accidents, road damage, and the effective under-taxation of fuel products — appear in energy prices, yet all are borne by Iraqi households, businesses, and public institutions. This matters for policy design, as different categories call for different responses to emissions regulation, fuel taxation, transport investment, and public health spending. Taken together, they show that the consequences of underpriced energy extend well beyond the Ministry of Finance.

Figure 4 shows that petroleum-related externalities and global warming costs account for the majority of Iraq's implicit subsidy burden, each contributing roughly 10 billion USD to 23 billion USD annually by 2025, with local air pollution the third-largest and fastest-growing category. This reflects rising vehicle use and power generation in Iraq. Road damage and congestion, while real, remain comparatively minor factors. The dominance of the first two categories means Iraq's implicit subsidy problem is fundamentally a carbon pricing gap: the country effectively charges nothing for the cli-

mate damage embedded in its fuel consumption.

Implicit subsidy figures are model-based estimates from the IMF's Fossil Fuel Subsidies database, not directly observed fiscal data.⁵ They incorporate the IMF's own social cost of carbon, local pollution damage, and congestion cost assumptions — all of which are subject to reasonable debate. For Iraq, the global warming and under-taxation components tend to dominate, producing aggregate figures that can appear very large relative to GDP.

Figure 5. Explicit Fossil Fuel Subsidies as a Share of GDP, Iraq and Regional Peers



Source: IMF Fossil Fuel Subsidies Database; calculations and visualization by the Iraqi Energy Outlook (IEO) editorial team. The data for 2024 and 2025 are mid-term projections, not finalized historical figures.

Placed alongside its neighbors and regional peers of oil exporting states, Iraq's explicit subsidy burden sits in the middle of a crowded field. It exceeds Oman's, but is less than those of Iran, Algeria, and Saudi Arabia. At approximately 2.9% of GDP in 2025, it sits below both the MENA average of around 4% and the oil-exporter average of roughly 3.1%, and well below Algeria's outlier figure of 9.5%.

This relative position may appear reassuring, but it is a weak benchmark. Being near the average in a region that is defined by heavy subsidization offers little comfort. The more

instructive reading is one of reform potential: several neighbors have undertaken subsidy rationalization programs that, with varying degrees of success, offer precedents for what works, what fails, and what political conditions are required to sustain change.

The real comparison is not where Iraq ranks today, but whether it can follow the reform paths already tested by its regional peers

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ENERGY DEVELOPMENTS IN CONTEXT

Iraq Deepens Energy Cooperation with U.S. Companies

BY IEO EDITORIAL TEAM



Iraqi Oil Minister Basim Mohammed Khudair witnesses the signing of a Memorandum of Intent (MoI) between Iraq's Ministry of Oil, BP, and ConocoPhillips during Prime Minister Ali al-Zaidi's official visit to Washington, D.C., in July 2026. Photo credit: Ministry of Oil, Republic of Iraq (Official Instagram Account).

What Happened?

Iraq has taken another step toward attracting U.S. investment into its energy sector. During Prime Minister Ali al-Zaidi's visit to Washington, ConocoPhillips agreed to acquire a 42 percent stake in BP Energy Company of Kirkuk Ltd, joining BP in redeveloping four producing oilfields in northern Iraq: the Baba and Avanah domes of the Kirkuk field, along with Bai Hassan, Jambur, and Khabbaz. The project targets more than 3 billion barrels of recoverable oil equivalent, making it one of the largest upstream investments announced anywhere this year.¹

The deal is not an isolated event. It follows a string of agreements between Baghdad and major U.S. companies over the past year. Chevron has signed framework agreements to study upstream opportunities and strategic pipeline projects, GE Vernova is expanding its footprint in Iraq's power sector, HKN Energy continues to grow its oil investments in the Kurdistan Region, and ExxonMobil, though it has scaled back its direct operating presence, remains engaged through technical cooperation and commercial talks. Taken together, these moves mark a gradual return of American capital to an industry where Chinese and Russian firms used to have dominated foreign investment for years.²

Why It Happened?

The Zaidi government sees foreign investment as essential to lifting production capacity, modernizing infrastructure, and sustaining long-term growth. The recent Strait of Hormuz crisis underscored the risks of relying on a narrow set of export routes and sharpened the case for investment across the whole energy chain, from upstream production to pipelines, gas processing, and power infrastructure.

Baghdad is also pursuing a more balanced investment strategy. Chinese companies will remain indispensable partners in Iraq's oil sector, but the government wants a bigger role for American and European firms too, to diversify sources of capital, technology, management expertise, and geopolitical backing. This is not a rotation away from one set of investors toward another so much as an attempt to build a more competitive, more resilient investment landscape.

Why It Matters?

For Iraq, these agreements are worth more than the capital they bring. A wider mix of international partners sharpens competition, encourages technology transfer, and cuts reliance on any single country for financing or technical know-how. If these projects are carried through, they could lift output from mature fields, expand gas utilization, upgrade energy infrastructure, and reinforce Iraq's standing as one of the world's leading oil producers. They also suggest renewed confidence among international energy companies in Iraq's long-term resource potential, even amid persistent regional instability.

What to Watch Next?

The real test is whether these announcements turn into investment on the ground. Watch for whether ConocoPhillips formally closes on the Kirkuk stake, whether Chevron moves its upstream and pipeline studies from paper to executable projects, and whether other U.S. firms convert memoranda of understanding into binding contracts. Just as important is Baghdad's capacity to deliver regulatory certainty, improve the investment climate, and hold a balanced energy policy that keeps both Western and Asian investors at the table. How fast these deals move from agreement to execution will be the clearest gauge of whether Iraq is truly winning back international investor confidence.

ENERGY DEVELOPMENTS IN CONTEXT

Corruption Crackdown Reaches Iraq's Oil Industry

BY IEO EDITORIAL TEAM



Photo Credit: (Federal Commission of Integrity)

What Happened?

Iraqi authorities have launched an extensive anti-corruption campaign, targeting politicians, senior public officials, and members of parliament. The investigation has now reached Iraq's oil industry directly, with at least eight senior officials from the Ministry of Oil and state-owned oil companies reportedly detained.

The highest-profile arrests include Ali Ma'arij al-Bahadli, Deputy Minister of Oil for Distribution Affairs,³ and Adnan al-Jumaili, former Deputy Minister for Refining Affairs. Several senior executives in state-owned oil companies in Kirkuk, Baghdad, and Basra have been arrested, suggesting the investigation is moving beyond the ministry's leadership into the operational layer beneath it.

Prime Minister Ali al-Zaidi has encouraged citizens to report corruption in exchange for financial rewards and has publicly highlighted the seizure of large cash sums during raids.⁴ He is further signaling that the government intends to recover stolen public assets, not merely remove individuals from office.⁵

Why It Happened?

Officially, the campaign follows an expanding judicial investigation into corruption and abuse of public office. The breakthrough reportedly came after Jumaili's arrest, which provided testimony that implicated a broader network spanning multiple political blocs.

Observers also read the campaign as a calculated effort by the new government to establish credibility, demonstrate accountability, and differentiate itself from its predecessors. Iraq is trying to improve its governance-reliability and investment climate by reassuring its international partners that it is taking systemic problems like corruption seriously.

Why It Matters?

The campaign strikes at Iraq's most strategically sensitive sector. Oil generates roughly 90% of federal revenues, making governance failures in that sector more fiscally damaging than in almost any other part of the state.

If the investigation proceeds transparently and applies consistently across political affiliations, it will have positive governance-effects that begin to build institutional credibility in a sector long-associated with rent-seeking and opaque procurement procedures. If it is instead perceived as selective, it risks deepening political polarization while leaving the structural roots of corruption untouched.

What to Watch Next?

Arrests are the easy part. The campaign's real test will be whether it produces prosecutions, credible convictions, and meaningful asset recovery. A big question is whether scrutiny extends to state-owned company procurement networks and general directors, not just ministerial appointees. The crackdown's long-term significance will not be measured by how many officials are detained, but whether the process strengthens the rule of law, accountability, and institutional reform that will prevent officials from stealing billions of IQD in the future.

ENERGY DEVELOPMENTS IN CONTEXT

Iraq's New Cabinet Program Signals a Shift Toward Energy Sector Reform

BY IEO EDITORIAL TEAM



On 14 May 2026, Prime Minister Ali al-Zaidi presented his cabinet and government program to the Council of Representatives, where they received parliamentary approval. Photo Credit: Official Facebook Page of the Council of Representatives of Iraq.

What Happened?

The Iraqi Parliament approved Prime Minister Zaidi's cabinet program in May 2026, outlining the government's strategic priorities for the next four years.⁶ The energy chapter occupies a prominent position within the program, covering electricity, oil, gas, refining, petrochemicals, renewable energy, and private-sector participation. The program places particular emphasis on electricity sector reform, natural gas self-sufficiency, energy security, export diversification, downstream industrial development, and attracting private investment into the energy sector.

While the document presents an ambitious agenda, most of its major energy priorities are not new. A comparison with the cabinet program of former Prime Minister Mohammed Shia al-Sudani reveals substantial continuity in policy direction. This shows that the energy-policy priorities of this cabinet remain similar to those of the previous cabinet.

Why It Happened?

Iraq's core energy challenges remain largely unchanged. The country continues to face chronic electricity shortages, dependence on imported gas, inadequate refining and petrochemical capacity, limited export diversification, and the absence of a national oil and gas law. These structural constraints have shaped the priorities of successive governments regardless of political leadership. As a result, many of the energy commitments contained in the Zaidi program represent either a continuation or refinement of objectives already identified by previous governments. The new program nevertheless includes several notable additions. It places greater emphasis on economic efficiency, cost recovery, smart-grid deployment, electricity tariff reform, and regional energy integration. It also introduces plans for gas import and export facilities at the Grand Faw Port, reflecting a longer-term ambition to position Iraq as a regional energy hub.⁷

Why It Matters?

The significance of the new program lies less in its headline objectives than in its policy approach. Roughly 70% of the energy chapter reflects continuity with previous government strategies, but Zaidi's program (to some extent) shifts attention toward the economics and governance of the sector.⁸ The introduction of smart grids, improved revenue collection, cost-reflective pricing, and efficiency-based electricity reform shows a growing recognition that Iraq's energy challenges are not solely the result of insufficient investment, but also of institutional weaknesses and inefficient resources-management. If implemented effectively, these reforms could improve fiscal sustainability, reduce system losses, strengthen energy security, and create a more attractive environment for private investment.

What to Watch Next?

The most important question is not whether the program identifies the right priorities, but whether Iraq's institutions can deliver them. Iraq has produced dozens of well-designed strategies, roadmaps, and reform plans over the past ten years. Most of them have been neglected or only partially implemented. The passage of a national oil and gas law, progress toward gas self-sufficiency, electricity tariff reform, and the deployment of smart-grid technologies will provide the earliest indications of whether the government intends to move beyond policy commitments and undertake genuine structural reform. Ultimately, implementation — not ambition — will determine whether the 2026 cabinet program becomes a turning point for Iraq's energy sector or is simply another on a long list of unrealized strategies.

ENERGY DEVELOPMENTS IN CONTEXT

Beyond The Strait of Hormuz: Iraq's Bid to Secure Its Oil Revenues

BY IEO EDITORIAL TEAM



A convoy of tanker trucks carrying Iraqi heavy fuel oil to Baniyas Port in Syria, following the launch of Iraq's overland fuel exports via Syria in April 2026. Photo Credit: Syrian Arab News Agency (SANA).

What Happened?

Iraq has pursued a two-track strategy to reduce its dangerous dependence on a single oil export corridor through its Basra ports and the Strait of Hormuz. On the northern front, Baghdad has persuaded the international oil companies operating in the Kurdistan Region to resume production, with the goal of lifting combined Kirkuk and Kurdistan crude exports as much as possible through the Iraq-Türkiye Pipeline to Ceyhan. To the west, it is preparing to export roughly 50,000 bpd of crude oil through Syria's port of Baniyas on the Mediterranean.⁹

The Syrian move is framed as a permanent addition to Iraq's export architecture, not a temporary crisis response. It comes following four months of successful naphtha and heavy fuel oil shipments through Baniyas¹⁰ and is accompanied by early discussions with Washington over rehabilitating the historic Iraq-Syria pipeline.

Why It Happened?

The recent Iran-Israel-US conflict exposed a vulnerability that Iraqi energy planners had long acknowledged but rarely acted on: over 90% of Iraq's crude exports flow through the southern Basra terminals and the Strait of Hormuz. Previous national energy strategies had gestured toward diversification, but political and institutional factors, along with corruption, delayed meaningful reform. The de-facto closure of the Strait changed the calculus overnight, converting what had been a long-term aspiration into an operational necessity, giving Baghdad the political leverage to accelerate both the northern and western corridors simultaneously.

Why It Matters?

Taken together, the two initiatives represent the most concrete diversification push Iraq has made since the crisis of the Strait of Hormuz started. The northern corridor is particularly significant: the Iraq-Türkiye Pipeline has a long history of interruptions, most recently a shutdown that stretched from March 2023 to September 2025 — costing Kurdistan and Kirkuk fields more than two years of export revenue.

The Syrian route, though modest in initial volume, establishes a Mediterranean foothold and signals a credible commitment to reducing chokepoint exposure. For an economy where petroleum revenues finance over 90% of the federal budget, every additional corridor represents fiscal insurance against the next disruption.

What to Watch Next?

The long-term ceiling on Iraq's diversification ambitions remains the Basra-Haditha strategic pipeline, designed to carry up to 2.5 million bpd of southern crude northward and westward. ¹¹ Without it, the country's largest producing fields — concentrated in the southern province of Basra and accounting for roughly 83% of national output — cannot reach Mediterranean or Red Sea outlets at scale.

Progress on this pipeline, already planned, will determine whether Iraq's current diversification drive represents a structural shift or remains constrained by the infrastructure gap between its producing heartland and its emerging export corridors.

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