

ANALYSIS

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# TURKEY-KRG RELATIONSHIP MUTUAL INTERESTS, GEOPOLITICAL CHALLENGES

KADIR USTUN, LESLEY DUDDEN





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## ABSTRACT

This analysis outlines the main drivers of the relationship between Turkey and the Kurdistan Regional Government (KRG). In less than a week, on September 25, the KRG is planning to hold a referendum on independence from Iraq, barring a last minute cancelation or a postponement. No outside power –other than Israel– appears ready to support a potential declaration of independence by the KRG. Turkey and the U.S. have been pushing hard for a cancelation of the referendum, as it promises to add yet another source of instability in an already destabilized region. Turkey, in particular, is fiercely opposed to the referendum as the KRG’s potential independence declaration threatens Iraq’s territorial integrity. So far, the KRG has refused to cancel the referendum. Although some have argued that Turkey might embrace the KRG’s bid for independence due to Ankara’s close ties with Erbil, the destabilizing impact of a potential declaration of independence is not in Turkey’s favor.

This study should serve as a timely assessment of main areas of cooperation and mutual interests between Turkey and the KRG. We focus especially



**This analysis outlines the main drivers of the relationship between Turkey and the Kurdistan Regional Government (KRG).**

on energy partnership and security cooperation between Turkey and the KRG. In both areas, Ankara and Erbil have a deep and multilayered relationship that has withstood multiple political and security challenges. The pending independence referendum, however, has had a toxic impact on the relationship. A full examination of the independence question is beyond the scope of this study, however, assessing the main drivers of the Turkey-KRG relationship should contribute to our understanding of Turkey's approach to the independence referendum.



## INTRODUCTION

Kurdistan Regional Government's (KRG) planned referendum on independence from Iraq promises to add yet another source of instability to an already destabilized region. No outside power or neighboring country appears ready for a declaration of independence by the KRG. Turkey has expressed its opposition to the proposed referendum mainly because it threatens Iraq's territorial integrity.<sup>1</sup> Multiple calls by Turkey<sup>2</sup> as well as the U.S.<sup>3</sup> to cancel or postpone the referendum have so far been rejected by the KRG and the negotiations with the Baghdad government seem to have failed as well.<sup>4</sup> While some analysts claim that Turkey might be amenable to potential KRG independence because of close ties between Turkey and the KRG, it needs to be noted that the destabilizing impact of a potential declaration of independence is not in Turkey's favor.

1. "Turkey says KRG independence vote threatens Iraq's territorial integrity," Daily Sabah, 13 June 2017, <https://www.dailysabah.com/diplomacy/2017/06/14/turkey-says-kr-g-independence-vote-threatens-iraqs-territorial-integrity>.

2. "Turkey calls on KRG to renounce referendum decision," Daily Sabah, 24 August 2017, <https://www.dailysabah.com/diplomacy/2017/08/24/turkey-calls-on-kr-g-to-renounce-referendum-decision>.

3. "Iraq's Kurds stick to independence vote despite U.S. request to postpone it," Reuters, 12 August 2017, <https://www.reuters.com/article/us-mideast-crisis-iraq-kurds/iraqs-kurds-stick-to-independence-vote-despite-u-s-request-to-postpone-it-idUSKBN1AS06Z>.

4. "Mattis Asks Iraqi Kurds to Put Off Vote on Independence," New York Times, 22 August 2017, <https://www.nytimes.com/2017/08/22/world/middleeast/iraq-kurds-independence-mattis-barzani-tillerson.html?mcubz=0>.

As we head toward the scheduled referendum on September 25, this analysis should serve as a timely assessment of main areas of cooperation and mutual interests between Turkey and the KRG. We focus especially on energy partnership and security cooperation between Turkey and the KRG. In both areas, Turkey and the KRG have a deep and multilayered relationship that has withstood various challenges including the ones posed by the Kurdistan Worker's Party (PKK) and the Islamic State of Iraq and Syria (ISIS). The pending independence referendum will almost certainly be toxic for the relationship as the mutual energy and security interests might be adversely impacted. We should note that a full examination of the independence question is beyond the scope of this study and needs to be discussed separately. However, it will be crucially important to understand the drivers of the Turkey-KRG relationship, as outlined in this study, to assess Ankara's approach to potential declaration of independence by Erbil.

## DRIVERS OF THE TURKEY-KRG RELATIONSHIP

Northern Iraq, administered by the Kurdistan Regional Government (KRG), has confronted the rise of extremist groups such as ISIS and intra-Kurdish tensions in the past few years in contrast to the relative calm in the early years of gaining its autonomous status. Added to these challenges were strained ties with the central government in Baghdad, which negatively impacted general stability in northern Iraq. One of the main factors that had helped the stability and relative success of the KRG was its energy resources, mainly oil and natural gas. The KRG's ability to subsist as an independent outcropping of the Iraqi state has depended on oil and gas revenues. However, the ability of the

KRG to gather revenue from these resources has suffered in recent years. The rapid advance of ISIS across Iraq in 2014, the collapse of oil prices that same year, and the high numbers of Syrian refugees and internally displaced persons (IDPs) all contributed to serious income shortages for the KRG.

## Turkey has expressed its opposition to the proposed referendum mainly because it threatens Iraq's territorial integrity.

The security and socio-economic challenges the KRG faced have actually strengthened the Turkey-KRG relationship as Ankara sought to help stabilize northern Iraq. Turkey's motivations for cementing a strong partnership with the KRG are manifold. The KRG as a viable strong actor not only helps Turkey's security and economic interests but it also prevents a more chaotic situation similar to northern Syria where Turkey has faced huge influxes of refugees, increased PKK dominance, and breakdown of overall governance. Turkey has long been heavily energy dependent, mainly on Russia and Iran, which has pushed Ankara to position itself as a regional energy hub<sup>5</sup> while also trying to diversify its energy sources. Close relations with the KRG bolster Turkey's energy diversification and energy hub strategies. By positioning itself as the KRG's primary partner for transiting and marketing of the Kurdistan Region's energy resources to international markets, Ankara has built its influence over Northern Iraq.

5. John Roberts, "Turkey as a Regional Energy Hub," *Insight Turkey*, Vol. 12: No. 2, (2010), pp 39-48 [http://file.insightturkey.com/Files/Pdf/insight\\_turkey\\_vol\\_12\\_no\\_3\\_2010\\_roberts.pdf](http://file.insightturkey.com/Files/Pdf/insight_turkey_vol_12_no_3_2010_roberts.pdf)

Turkey is both the KRG's largest external trading partner and also its primary source of Foreign Direct Investment (FDI).<sup>6</sup> Turkish goods account for nearly 80 percent of goods sold in the Kurdistan Region, and the annual trade volume between the two neighbors has expanded from \$4 billion in 2009 to \$8.5 billion in 2015.<sup>7</sup> In the early days of the KRG-Turkey relationship, Erbil favored Turkey for several large scale building contracts, the most high profile of which included new airports in Erbil and Sulaymaniyah. Turkish citizens benefit from relaxed visa requirements for entry into the KRG. Visas are available upon arrival into the Region, a special status provided by the KRG to a limited number of foreign nationals, and are good for 14 days. Additionally, requirements for securing both short and long term work permits are relatively easy to obtain.<sup>8</sup> Since as early as 2008, the Kurdistan Region has benefited from an influx of foreign investment from Turkey. "To date, Turkish companies are by far the largest presence in Kurdistan's economic development - surprising but pleasing statistic," Herish Muharam, then Head of the Investment Board of the Kurdistan Region remarked in 2008.<sup>9</sup>

Approximately 1,000 Turkish companies were operating in Kurdistan in 2016, accounting for 40 percent of all foreign firms operating in the region.<sup>10</sup> Turkish companies have been particularly active in the construction sector in Iraqi

6. "Trade and Industry" Kurdistan Board of Investment, accessed 13 March 2017, [http://www.kurdistaninvestment.org/trade\\_industry.html](http://www.kurdistaninvestment.org/trade_industry.html).

7. "Trade volume through Iraqi Kurdistan-Turkey border down by 60%," *E Kurd Daily*, 10 May 2016, <http://ekurd.net/trade-down-kurdistan-turkey-2016-05-10>.

8. Christina Bache Fidan, "Turkish Business In The Kurdistan Region of Iraq," *Turkish Policy Quarterly*, 7 March 2016, <http://turkishpolicy.com/article/790/turkish-business-in-the-kurdistan-region-of-iraq>.

9. Herish Muharam (2008) Interviewed by Qubad J. Talabani & Brendan O'Leary, "The Kurdistan Region: Invest in the Future, Newsdesk Media Inc., [http://cabinet.gov.krd/uploads/documents/Invest\\_in\\_the\\_Future\\_2008.pdf](http://cabinet.gov.krd/uploads/documents/Invest_in_the_Future_2008.pdf).

10. "Kurdistan Review," Invest in Group, (2016), <http://investin-group.org/files/kurdistan-review-2016-SE.pdf>.

Kurdistan. Turkish firms have been involved in much of the infrastructure development in the Kurdistan Region, including investment in and construction of airports in Duhok and Erbil, government buildings, hospitals, hotels, housing projects, industry and infrastructure, power plants, and schools. As described by one analyst, “The Turkish construction sector was the key player in the restoration of the critical infrastructure recovery [after the first Gulf War] necessary for the population [in the Kurdistan Region to secure access to basic services.” This included its position to win bids resulting from the strength of Turkey’s construction sector in other neighboring countries such as Russia, as well as its proximity to the Kurdistan Region.<sup>11</sup>

In addition to the mutual energy interests and business ties, Turkey’s security interests contributed to its political and military support for the KRG. The Qandil mountains along the Iranian-Iraqi border have served as the headquarters of the Kurdistan Workers Party (PKK), an internationally designated terrorist organization that has been in conflict with the Turkish government since 1984. Turkey sees its partnership with the KRG as integral to its continued efforts to marginalize and eradicate the PKK and its affiliated groups on Iraqi soil. Until the mid-2000s, relations between Turkey and the Kurdistan Region were complicated by Turkey’s nerves about its own Kurdish population. Ankara’s Kurdish policy focused on its ability to control its border with Iraq, which the PKK often utilized as a transit way between the Kurdish dominated areas of southern Turkey and its base of operations in the Qandil mountains along the Iran-Iraq border.

In late 2000s, the KRG’s autonomy within the Iraqi state had already become an ever-consolidating reality. The Kurdistan region’s oil revenue sharing deal with the central government in

Baghdad and the Iraqi constitution’s acceptance and recognition of the region’s political reality contributed to the KRG’s position as the main actor in northern Iraq. Turkey revised its Iraq policy to adjust to this reality. Turkey’s economic investments in the region were coupled by high-level diplomatic visits and a political opening to the KRG.<sup>12</sup> As Ankara was trying to expand its regional footprint, it was also placing increased emphasis on solving some of its long-standing domestic issues. This included a new initiative launched in the hopes of ending the PKK terrorism. The AK Party launched a “settlement process” or “Kurdish opening” to resolve the decades-old Kurdish issue. The new partnership with the KRG also meant a shift in the strategic environment that allowed Turkey to pursue a resolution to the Kurdish question more confidently.

In June 2010, then-Prime Minister Erdogan met with the KRG President Barzani in Ankara, the first direct meeting between the two leaders. A year later, on 30 March 2011, President Erdogan made a historic visit to Erbil, the first visit by a Turkish premier to the Kurdistan Region.<sup>13</sup> The move signaled that Turkey had accepted the Kurdistan Region was becoming not only a safe place for trade and commerce, but also a stable economic partner and neighbor, as Baghdad struggled to gain stability and security.<sup>14</sup> At the same time as it was forging a new partnership with Turkey, the KRG was involved in the creation of a new system of norms regarding the production, export, and marketing of

11. Christina Bache Fidan, “Turkish Business In The Kurdistan Region of Iraq,” *Turkish Policy Quarterly*, 7 March 2016, <http://turkishpolicy.com/article/790/turkish-business-in-the-kurdistan-region-of-iraq>.

12. “President Barzani, Turkey’s Foreign Minister Davutoglu hold historic meetings, announce plans to open consulate,” Kurdistan Regional Government, 31 October 2009, <http://cabinet.gov.krd/a/d.aspx?s=02010100&l=12&r=223&a=32216&cs=010000>.

13. “President Barzani and Prime Minister Erdogan open Erbil International Airport and Turkish Consulate,” Kurdistan Regional Government, 30 March 2011, <http://cabinet.gov.krd/a/d.aspx?r=223&l=12&cs=02010100&a=39389&cs=010000>.

14. Marianna Charountaki, “Turkish Foreign Policy and the Kurdistan Regional Government,” *Perceptions*, Winter 2012, Vol. 17, No. 4, pp 185-208, [http://sam.gov.tr/wp-content/uploads/2013/03/8-Marianna\\_Charountaki.pdf](http://sam.gov.tr/wp-content/uploads/2013/03/8-Marianna_Charountaki.pdf).

the Region's energy resources vis-a-vis the central government in Baghdad. Since then and as a result of the mutual interests, the Turkey-KRG relationship only strengthened despite various political and security crises including the Maliki government's sectarian policies, the emergence of ISIS in 2014, and the PKK and its Syrian affiliate PYD's increasing assertiveness in the region. The Turkey-KRG relationship is strengthened by mutual threat perceptions and economic interests, which will continue to determine the relationship despite the recent announcement by the KRG to hold an independence referendum in September 2017. However, instability to be created by a potential declaration of independence, which is likely to be delayed by months if not years after the referendum, might place strains on the Turkey-KRG relationship.

## A BURGEONING ENERGY PARTNERSHIP

Turkey's rapid economic growth over the past decade and a half has corresponded with unprecedented increase in its energy demand. Turkey's economic growth rates during this period often rivaled those of the fastest growing economies including China. This has led Ankara to look to secure energy transport routes through its borders as well as to diversify its sources of energy, as it remained heavily dependent on Russian and Iranian energy sources. Turkey's energy consumption is predicted to reach 218 million tons of oil equivalent (toe) by the country's centennial in 2023, up from 120 million toe in 2012. Turkey is capable of producing only 25 percent of its energy demand.<sup>15</sup> Oil and natural gas remain the primary sources of Turkey's energy consumption and the KRG's desire to export these exact same commodities strategically

aligns with Turkish energy demand and its need for diversification.<sup>16</sup>

**TABLE 1. TURKEY'S ENERGY CONSUMPTION BY RESOURCE IN 2016 (%)**

	2016	2015
Gas	27,5	29,85
Oil	29,87	29,55
Coal	27,84	26,2
Hydroelectric	11,02	11,5
Other	3,77	2,9

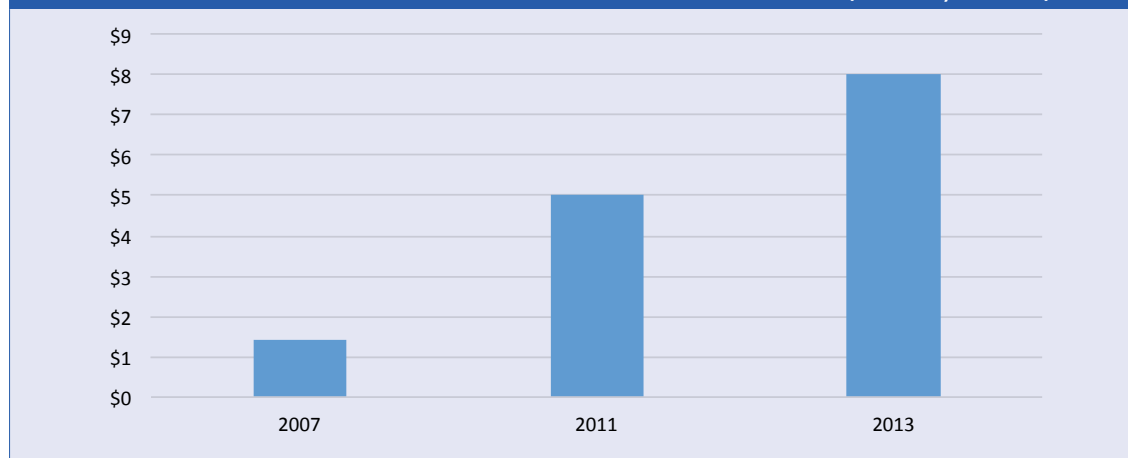
Source: "BP Statistical Review of World Energy," BP P.L.C., June 2017, page 9, <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf>.

From the KRG's perspective, the region's ability to position itself as an alternative source of energy independently of Baghdad is rooted in Iraq's constitution. In 2005, following the U.S. invasion in 2003, Iraq drafted and passed its first constitution. The new document guiding the future of Iraq including the KRG's place within it was the product of a heavy diplomatic lift by the U.S. The Iraqi Kurds were able to negotiate a strong position for their autonomous region in the future of a federated Iraq.<sup>17</sup> The key features of the constitution that benefit the Iraqi Kurds include the guarantee of some semblance of autonomy for the country's three Kurdish dominant provinces alongside loose parameters for the future of Iraq's energy reserves. The constitution also included a statute for the resolution of the status of disputed areas in four additional governorates of Diyala, Kirkuk, Salaheddin, and Nineveh, one of which, Kirkuk, is a coveted area for its oil and natural

15. "Instrument for Pre-Accession Assistance (IPA II) 2014-2020: Turkey Energy Action Document 2015," European Commission, 2015, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/turkey/ipa/2015/ipa2015-038-405.7-energy.pdf>

16. "Turkey's Energy Profile and Strategy," Republic of Turkey Ministry of Foreign Affairs, accessed: 20 July 2017, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

17. Quil Lawrence, "Invisible Nation: How the Kurds' Quest for Statehood is Shaping Iraq and the Middle East," *Walker Books; Reprint edition*, 7 July 2009.

**FIGURE 1. ESTIMATED TURKISH EXPORTS TO THE KURDISTAN REGION (DOLLAR, BILLION)**

Source: Christina Bache Fidan, Turkish Business in the Kurdistan Region of Iraq, *Turkish Policy Quarterly*, 7 March 2016, [http://turkish-policy.com/article/790/turkish-business-in-the-kurdistan-region-of-iraq#\\_ftn22](http://turkish-policy.com/article/790/turkish-business-in-the-kurdistan-region-of-iraq#_ftn22).

gas.<sup>18</sup> Like the KRG, the central government in Baghdad derives the majority of its fiscal reserves from the marketing of these energy resources, thus the status of both Kirkuk and the KRG's energy resources were destined to be sources of contention between Erbil and Baghdad.

The most contested of the constitutional articles today is the loose parameters regarding the governance and sale of energy reserves in the Kurdistan Region. Different interpretations on these parameters have given way to frequent disagreements and negotiations between Erbil and Baghdad over the Kurdistan Region's resources. Under article 112 of the constitution:

The federal government with the producing governorates and regional governments shall undertake the management of oil and gas extracted from current fields provided that it distributes oil and gas revenues in a fair manner in proportion to the population distribution in all parts of the country with a set allotment for a set time for the damaged regions.<sup>19</sup>

In 2007, two years after the constitution came into effect, the KRG passed Law No. 28,

which granted the KRG the power to sign exploration and development contracts with international oil companies (IOCs) independently of Baghdad. Baghdad objected to the move and demanded that the KRG manage oil exports through Iraq's central State Organization for Marketing of Oil (SOMO), as was done by other oil producing provinces in the country. In exchange for adhering to the federal export system, Baghdad reaffirmed that it would allocate 17 percent of the total federal budget to the KRG each year, in line with numbers ordained by the Iraqi constitution, the figure of 17 percent reflects the population of the Kurdistan Region.<sup>20</sup> The agreement went into effect in 2008 and held until July of 2010 when the central government began to accuse the KRG of illegally exporting oil by bypassing the federal system. The KRG maintained that the sales were legal, they were of surplus oil produced from refineries located within the Kurdistan Region, and it continued to allot funds from oil sales to Iraq's federal treasury.<sup>21</sup>

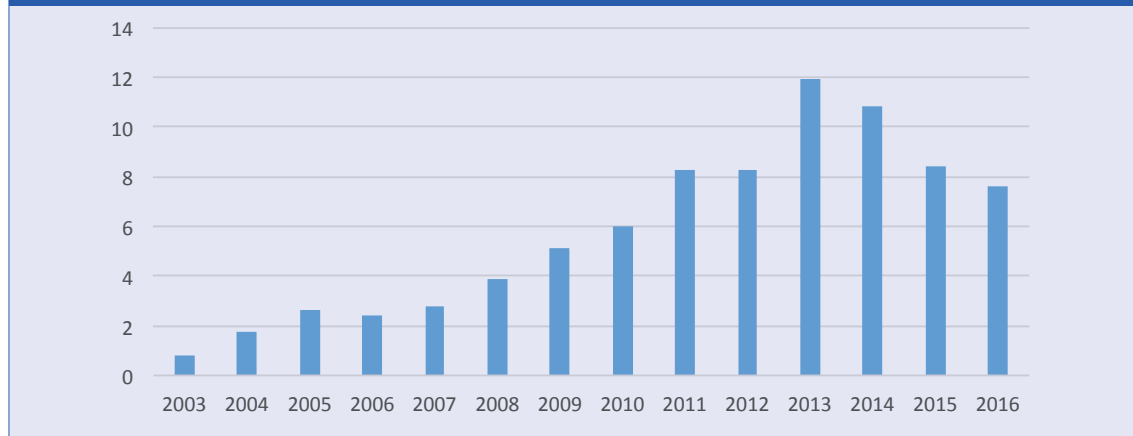
18. "Iraqi Constitution," (2005), [http://www.iraqinationality.gov.iq/attach/iraqi\\_constitution.pdf](http://www.iraqinationality.gov.iq/attach/iraqi_constitution.pdf).

19. "Iraqi Constitution," Article 12, 2005, [http://www.iraqinationality.gov.iq/attach/iraqi\\_constitution.pdf](http://www.iraqinationality.gov.iq/attach/iraqi_constitution.pdf).

20. Maria Lasa Aresti, "Oil and Gas Revenue Sharing in Iraq," Natural Resource Governance Institute, July 2016, <https://resourcegovernance.org/sites/default/files/documents/oil-gas-revenue-sharing-iraq.pdf>.

21. "Iraqi Kurdistan: Baghdad and Erbil dispute over resources," Unrepresented Nations and Peoples Organization, 27 July 2010, <http://www.unpo.org/article/11400>.

FIGURE 2. TURKISH EXPORTS TO IRAQ (USD, BILLION)



Source: Türkiye İstatistik Kurumu, “Ülkelere göre yıllık ihracat (en çok ihracat yapılan 20 ülke),” accessed 25 July 2017, <http://www.tuik.gov.tr/Start.do>.

FIGURE 3. KRG MONTHLY OIL PIPELINE EXPORTS



Source: “Annual Reports,” Kurdistan Regional Government Ministry of Natural Resources, Accessed 26 July 2017, <http://mnr.krg.org/index.php/en/oil/monthly-export-production-data>.

By 2011, Kurdish oil was becoming an increasingly interesting investment prospect for global oil companies. In November 2011, the KRG concluded secret negotiations with ExxonMobil, allowing the international energy giant concessions in 6 oil blocks scattered around the Kurdistan Region, three of which lie along areas still disputed by Baghdad and Erbil.<sup>22</sup> The

magnitude of the agreement paved the way for the construction of a new pipeline linking oil fields in the Kurdistan Region to the Ceyhan Port in Turkey, which is the most accessible outlet for Northern Iraqi oil.<sup>23</sup> Despite Baghdad's objections, the KRG's oil exports led Ankara and Erbil to deepen their burgeoning relationship. In 2012, Turkey became the first national

22. Dmitry Zhdannikov, Isabel Coles, & Ned Parker, “Special Report: How Exxon helped make Iraqi Kurdistan,” <http://www.reuters.com/article/us-mideast-crisis-kurdistan-specialreport-idUSKCN0JH18720141204>.

23. Humeysra Pamuk & Orhan Coskun, “Exclusive: Turkey, Iraqi Kurdistan ink landmark energy contracts,” *Reuters*, 29 November 2013, <http://www.reuters.com/article/us-turkey-iraq-oil-idUSBRE9AS0BO20131129>.



actor to sign an agreement with Erbil on energy resource exports. The deal included provisions under which Erbil would sell natural gas directly to Ankara. This was the Kurdistan Region's first step toward marketing its energy resources independently of Baghdad.<sup>24</sup> At that time, the majority of the oil from the region continued to move through Iraq's national pipeline system, including one direct line between the Tawke oilfield situated far in the north of Kurdistan directly to the Turkish port at Ceyhan at the rate of 60,000 barrels per day (bpd).<sup>25</sup> The Ceyhan pipeline connects much of southern Iraq's and nearly all of the Kurdistan Region's energy resources to international markets and is controlled on the export end by Turkey.<sup>26</sup>

The agreement and the flow of KRG sourced ExxonMobil crude through Turkey were a thorn in Ankara's relations with Baghdad. In September 2012, Prime Minister Erdogan invited Iraqi leader Nouri al-Maliki to visit Istanbul, which might have been interpreted as a positive sign for continued relations between Turkey and the Iraqi state.<sup>27</sup> However, Maliki declined the offer. Turkey's growing relationship with Erbil had cost Ankara its relationship with Baghdad. Baghdad, under Maliki, saw Turkey's direct relationship with Erbil as an insult and a threat to its authority. For its part, Turkey was turned off from partnering with Baghdad over Maliki's sectarian policies inside Iraq, his close ties to Tehran, and his support for the embattled Assad regime.

In 2013, the KRG and Turkey joined together to construct a new stretch of oil pipeline that would connect Kurdistan's northern fields to Ceyhan, bringing an additional 10 billion bcms of natural gas from the Kurdistan Region to Turkey. Later, on May 23, 2014, the KRG announced that the first tanker of oil, filled with Kurdish crude oil from the new pipeline, was on its way to Europe via the Turkish port at Ceyhan.<sup>28</sup> While this point marked a dark spot in Erbil-Baghdad relations, it served as yet another opportunity through which the Turkey-KRG partnership on energy could expand. However, 2014 wasn't all golden for Erbil, despite its new energy connection with Turkey. When Erbil failed to meet its contribution levels to SOMO, Baghdad cut off its monthly payments to the KRG. The KRG argued that its decision to bypass SOMO was, in the first place, the result of protracted budget disputes with Baghdad.<sup>29</sup> Baghdad, on the other hand, pointed to Erbil's decision to sell oil via Turkey as the catalyst for it withholding the 17 percent of the national budget constitutionally stipulated for the region.<sup>30</sup> One senior KRG official remarked of the crisis at the time, "Effectively, we have been financially discriminated against for a long time. By early 2014, when we did not receive the budget, we decided we need to start thinking about independent oil sales."<sup>31</sup>

Kurdish oil continued to be exported to the international market via Turkey, but not without challenge from Baghdad. On July 2014, a tanker

24. Daniel Dombey, "Turkey agrees energy deal with Kurdish north Iraq," *Financial Times*, 13 May 2013, <https://www.ft.com/content/bbde0bf6-a859-11e2-8e5d-00144feabdc0>.

25. Evrim Ergin, "Iraqi Kurdistan to sell gas directly to Turkey," *E Kurd Daily*, 3 <http://ekurd.net/mismas/articles/misc2012/7/invest849.htm>.

26. Humeyra Pamuk & Orhan Coskun, "Turkey, Iraqi Kurdistan clinch major energy pipeline deals," *Reuters*, 6 November 2013, <http://www.reuters.com/article/us-turkey-iraq-kurdistan-idUSBRE9A50HR20131106>.

27. Ahmed Hussein, "Turkish Prime Minister Erdogan invites Iraqi Prime Minister Maliki to visit Turkey," *Iraqi News*, 22 October 2013, <http://www.iraqinews.com/baghdad-politics/erdogan-invites-maliki-to-visit-turkey/>.

28. "KRG Statement on first oil sales through pipeline export," Kurdistan Regional Government, 23 May 2014, <http://cabinet.gov.krd/a/d.aspx?l=128&a=51589>.

29. Dmitry Zhannikov, "How Kurdistan bypassed Baghdad and sold oil on global markets," *Reuters*, 17 November 2015, <http://www.reuters.com/article/us-iraq-kurdistan-oil-idUSKCN0T61HH20151117>.

30. Ben Hubbard, "Iraq and Kurds Reach Deal on Oil Exports and Budget Payments," *The New York Times*, 13 November 2014, [https://www.nytimes.com/2014/11/14/world/middleeast/iraq-and-kurds-reach-deal-on-oil-exports-and-budget-payments.html?\\_r=0](https://www.nytimes.com/2014/11/14/world/middleeast/iraq-and-kurds-reach-deal-on-oil-exports-and-budget-payments.html?_r=0).

31. Dmitry Zhannikov, "How Kurdistan bypassed Baghdad and sold oil on global markets," *Reuters*, 17 November 2015, <http://www.reuters.com/article/us-iraq-kurdistan-oil-idUSKCN0T61HH20151117>.

carrying 1 million barrels of Kurdish crude was left at a standstill off the coast of Galveston, Texas when Baghdad sued to prevent the cargo from being offloaded. Baghdad claimed that the oil had been “stolen” and smuggled out of the country via the Ceyhan pipeline. The issue was whether the KRG could legally sell the crude on international markets. The KRG Minister for Natural Resources, Ashti Hawrami, threatened to pursue a counterclaim, arguing that the central government’s failure to provide the KRG with the constitutionally mandated 17 percent of its budget share was against international law.<sup>32</sup> The case was ultimately dismissed after six months with the judge deciding that the U.S. did not have jurisdiction in the matter.<sup>33</sup> However, at the time of the oil’s release, Ankara was experiencing a reprieve from the tension that has often marred its relations with Baghdad. Rather than releasing the proceeds from the sale to the KRG, Turkey continued to hold the money for the time being.<sup>34</sup>

In response to the crisis, Baghdad and Erbil spent the rest of 2014 negotiating a new oil export agreement, which was signed in November 2014. Under the new agreement, the KRG was tasked with exporting 150,000 bpd from Kirkuk in exchange for a one-time payment of \$500 million. A second version of the agreement was inserted into the 2015 Iraqi State Budget. This somewhat watered down version of the original agreement required the KRG to provide 250,000 bpd to SOMO as well as export 300,000 bpd from Kirkuk oil fields. In exchange, Baghdad would resume payments to the KRG out of the 17 percent of the national budget as well as ad-

ditional funds to support Peshmerga, who were now fighting ISIS, which was rapidly expanding across the country. The move by Baghdad to formally and financially support the Peshmerga was crucial as the KRG continued to struggle to make budgetary payments to its fighters during these years of intense economic strain. However, the agreement did not bring an end to disputes between Baghdad and Erbil.

The KRG continued to increase oil production and export levels via Turkey. In 2015, it announced a plan to increase its crude oil export capacity from 700,000 bpd to 1,000,000 bpd by 2019.<sup>35</sup> In 2016 alone, 16,000,000 bpd were added to Ceyhan from Kurdistan oil fields bound for Turkey.<sup>36</sup> The KRG argues that it has done so as a result of the budget disputes with Baghdad. Baghdad, on the other hand, continues to point to Erbil’s decision to sell oil via Turkey as the catalyst for it withholding the 17 percent of the national budget stipulated for allocation to the Region in Iraq’s constitution.<sup>37</sup> Most recently, Iraqi Prime Minister Haider al-Abadi charged the KRG with exporting oil at higher volumes<sup>38</sup> than stipulated by a November 2016 OPEC agreement to cut oil production in the face of plummeting prices.<sup>39</sup>

32. Keith Goldbert, “Kurdistan Government Will Fight \$100M Oil Seizure in Texas,” *Law360*, 30 July 2014, accessed: 1 May 2017, <https://www.law360.com/articles/562394/kurdistan-government-will-fight-100m-oil-seizure-in-texas>.

33. “United Kalavryta Offloads Disputed Cargo,” *World Maritime News*, 4 March 2015, accessed: May 1, 2017, <http://worldmaritimenews.com/archives/153760/united-kalavryta-offloads-disputed-oil-cargo/>.

34. Hugo Cox, “Western oil firms struggle over payment for Kurdish oil,” *Financial Times*, 26 February 2015.

35. “KRG plans 10 bcm in natural gas exports to Turkey in two years,” *Hurriyet Daily News*, 20 November 2015, <http://www.hurriyetdailynews.com/krg-plans-10-bcm-in-natural-gas-exports-to-turkey-in-two-years.aspx?pageID=238&nID=91471&NewsCategoryId=348>.

36. “Monthly Export & Production Data”, Kurdistan Regional Government Ministry of Natural Resources, 9 March 2017, <http://mnr.krg.org/index.php/en/oil/monthly-export-production-data>.

37. Ben Hubbard, “Iraq and Kurds Reach Deal on Oil Exports and Budget Payments,” *The New York Times*, 13 November 2014, [https://www.nytimes.com/2014/11/14/world/middleeast/iraq-and-kurds-reach-deal-on-oil-exports-and-budget-payments.html?\\_r=0](https://www.nytimes.com/2014/11/14/world/middleeast/iraq-and-kurds-reach-deal-on-oil-exports-and-budget-payments.html?_r=0).

38. Coles, Isabel, “Iraqi PM says Kurds exporting more oil than allocated,” *Reuters*, 3 January 2017, <http://www.reuters.com/article/us-iraq-oil-kurds-idUSKBN14O03E>.

39. Nayla Razzouk, Angelina Rascoet, & Golnar Motevalli, “OPEC Confounds Skeptics, Agrees to First Oil Cuts in 8 Years,” *Bloomberg*, 20 November 2016, <https://www.bloomberg.com/news/articles/2016-11-30/opec-said-to-agree-oil-production-cuts-as-saudis-soften-on-iran>.



As a result of the global decline of oil prices and the cessation of budget transfers from Baghdad, as well as a growing number of internally displaced persons (IDPs) and Syrian refugees, the KRG has struggled for the past three years to meet its budget requirements. This has left the KRG behind on payments to international contractors as well as to its own government staff and Peshmerga fighters.<sup>40</sup> While the extraction and export of natural gas is a burgeoning industry for the KRG, its oil sector is its financial lifeline and stake in its hope for independence. Its Ministry of Natural Resources has touted, “By 2019, the region is aiming to produce 2 million barrels daily. By then, we envision the presence of a fully functional oil and gas industry, exporting oil to the world markets.”<sup>41</sup> This ambition may prove difficult to achieve given the difficult history of budget disputes with the Baghdad government, however, it is important to note that the KRG found a reliable partner in Turkey to export its energy resources to the international markets notwithstanding Ankara’s objections to the KRG’s proposed referendum on independence.

## Natural Gas

Turkey’s long-term contracts for gas flows through its robust pipeline system, housed through the state owned petroleum pipeline corporation BOTAS, are scheduled to expire in the coming decade. This includes natural gas contracts with the state’s most prominent sources of natural gas, Azerbaijan (expiring in 2021), Iran (expiring in 2026), and Russia (expiring in 2025).<sup>42</sup>

40. “Kurdistan government needs support to plug \$100 million monthly deficit,” *Reuters*, 13 April 2016, <http://www.reuters.com/article/us-mideast-crisis-iraq-usa-idUSKCN0XA1SQ>.

41. “Oil Vision,” Kurdistan Regional Government Ministry of Natural Resources, 27 April 2017, <http://mnr.krg.org/index.php/en/oil/vision>.

42. “Turkey’s gas demand decline: reasons and consequences,” The Oxford Institute for Energy Studies, April 2017, <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2017/04/Turkeys-gas-demand-decline-reasons-and-consequences-OIES-Energy-Insight.pdf>.

According to Turkish Ministry of Foreign Affairs statistics, Turkey is second only to China in its growing demand for natural gas.<sup>43</sup> The notable growth in Turkey’s natural gas needs began in the late 1980s and has continued to be its fastest growing resource in demand. From 1988 when Turkey began importing natural gas from Russia until 2016, Turkey’s domestic consumption of natural gas increased from a mere 3,252 million cubic meters (mcm) per year in 1988 to a high point of 41,062 mcm in 2015. Demand tapered off somewhat in 2016, coming in at 37,042mcm for the year.<sup>44</sup>

By 2011, Kurdish oil was becoming an increasingly interesting investment prospect for global oil companies.

Turkey imports 99 percent of its natural gas and cultivating diverse sources of gas import is therefore a strategic necessity. Turkey continues to be largely reliant on Russia, Iran, and Azerbaijan for its natural gas needs. In order to mitigate risks posed by such dependence, Turkey seeks to diversify its sources. Since 2001, the Turkish state has worked to decrease reliance on natural gas as a source and instead rely more on domestically produced resources such as hydro-power, lignite, wind, solar, and nuclear energy.<sup>45</sup> This strategy has succeeded in stalling growth of the country’s demand for natural gas, but it remains disproportionately reliant on natural

43. “Turkey’s Energy Profile and Strategy,” Republic of Turkey Ministry of Foreign Affairs, 15 March 2017, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

44. “Domestic Natural Gas Sales By Year,” Botas Petroleum Pipeline Corporation, 17 July 2017, <http://www.botas.gov.tr/>.

45. “Turkey’s gas demand decline: reasons and consequences,” The Oxford Institute for Energy Studies, April 2017.

gas as an energy source.<sup>46</sup> The Kurdistan Region is an immediately appealing prospect for such diversification, as it has an estimated 5 trillion cubic meters of natural gas reserves and 45 billion barrels of oil reserves spread across 18 oil and gas fields.

The risks of Turkey's dependence on Russia for more than 50 percent of its natural gas supply (the world average rests around 20 percent)<sup>47</sup> were laid bare in February 2016 when Gazprom reduced its gas supply to Turkey by 10 percent.<sup>48</sup> The move followed a disagreement over pricing, which corresponded with a breakdown in Ankara-Moscow relations in November 2015 following the Turkish downing of a Russian warplane that had violated its territory.<sup>49</sup> Ankara and Moscow often find themselves on opposite sides in pertinent regional issues, such as the ongoing crisis in Ukraine and the Syrian civil war. While a total breakdown in trade relations would be to the detriment of both countries, it behooves Ankara to lessen its dependence on Russia for natural gas supplies. The same is true for Turkey's position vis-a-vis Iran. While natural gas exports from Iran to Turkey have not been impacted by various rounds of U.S. and UN sanctions, the ever strained relationship between Iran and the West makes it risky for Turkey to rely too heavily on Iran to fulfill its natural gas needs.<sup>50</sup> Any disruption in natural gas supply

from either of these sources could have a profound impact on Turkey's economy. Turkey's electricity demand, which is over 50 percent fueled by natural gas, is expected to rise around 8 percent in the coming decade.<sup>51</sup> Thus, diversification has to be at the forefront of Turkey's regional energy strategy as well as its strategy for maintaining its position as one of Europe's fastest growing economies.<sup>52</sup>

The Kurdistan Region has presented an opportunity for Turkey to achieve some measure of this diversification. However, it has been hindered by a lack of infrastructure as well as political rivalries within the Kurdistan Region. Most of the region's natural gas reserves are located in the south, an area controlled by the Patriotic Union of Kurdistan (PUK), one of the two major Kurdish parties in the region. The PUK has often aligned itself with Tehran over Ankara and also taken a more conciliatory position vis-a-vis the PKK than Ankara is comfortable with. Turkey's strongest relationship in the Kurdistan Region, meanwhile, is with the Kurdish Democratic Party (KDP), the main ruling party. In November 2013, Turkey and the KRG signed an energy agreement focused on increasing flows of both crude oil and natural gas in an attempt to overcome some of these barriers to export.<sup>53</sup> The agreement faced vehement opposition from Baghdad, but was seen as essential by Erbil in its pursuit of its independent energy policy. Beyond committing to pursue exploration and development in the KRG, the agreement contained plans to build new oil and natural gas pipelines

46. Jude Clemente, "Turkey's Rising Natural Gas Demand Needs U.S. LNG," *Forbes*, 7 February 2016, <https://www.forbes.com/sites/judeclemente/2016/02/07/turkeys-rising-natural-gas-demand-needs-u-s-lng/#62611bd72e53>.

47. Jude Clemente, "Turkey's Rising Natural Gas Demand Needs U.S. LNG," *Forbes*, 7 February 2016.

48. Orhan Coskun, "Russia's Gazprom cuts gas supplies to Turkey by 10 percent - sources," *Reuters*, 25 February 2016, <http://uk.reuters.com/article/uk-russia-gazprom-turkey-prices-idUKKCN0VY1WK>.

49. Neil MacFarquhar & Steven Erlanger, "NATO-Russia Tensions Rise after Turkey Downs Jet," *The New York Times*, 24 November 2015, <https://www.nytimes.com/2015/11/25/world/europe/turkey-syria-russia-military-plane.html>.

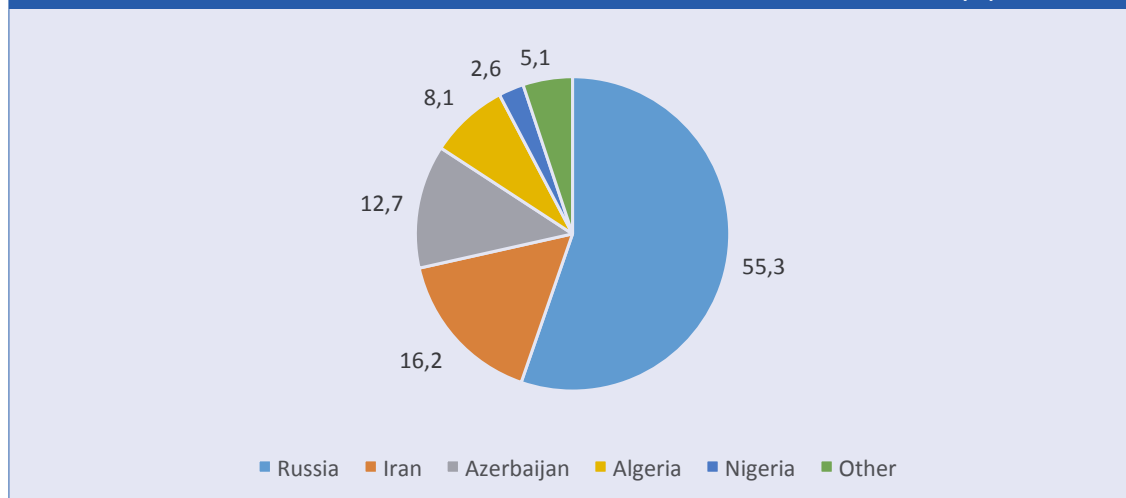
50. Nick Tattersall, "UPDATE 2-Turkey says Iran gas not covered by US sanctions," *Reuters*, 4 December 2012, <http://www.reuters.com/article/turkey-iran-gas-idUSL5E8N432M20121204>.

51. Jude Clemente, "Turkey's Rising Natural Gas Demand Needs U.S. LNG," *Forbes*, 7 February 2016, <https://www.forbes.com/sites/judeclemente/2016/02/07/turkeys-rising-natural-gas-demand-needs-u-s-lng/#2f9d1a902e53>.

52. "Turkey is the third fastest growing economy in Europe," Borsa Istanbul, 15 September 2015, <http://www.ifcturkey.com/view/811/turkey-is-the-third-fastest-growing-economy-in-europe/>.

53. "Iraqi Kurdistan and Turkey sign major energy deals despite central Iraqi government's opposition," IHS Markit, published: 29 November 2013, 10 April 2017, <https://www.ihsmarkit.com/country-industry-forecasting.html?id=1065984856>.

FIGURE 4. TURKEY'S NATURAL GAS IMPORTS BY SOURCE COUNTRY IN 2015 (%)



Source: "Turkey's Energy Profile and Strategy," Republic of Turkey Ministry of Foreign Affairs, accessed: 21 July 2017, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

with the vision of increasing KRG natural gas exports to 4 bcm per year by 2017 and 10 bcm per year by 2020. These projects were seen to go hand in hand with increased production from Miran and Bina Bawi, two of the Kurdistan Region's most lucrative natural gas fields, which are currently contracted to Genel Energy, a major Turkish/American energy player in the Kurdistan Region.<sup>54</sup>

The KRG kicked off 2016 by boasting that it would begin exporting 10 bcm of natural gas per year through Turkey by no later than 2020. The announcement came as the Kirkuk Province Council's energy commission announced that construction on the natural gas pipeline had finally broken ground.<sup>55</sup> The increase in natural gas flows were set to come from the Kurdamir and Topkhana fields as well as Bina Bawi and Miran.<sup>56</sup> Bina Bawi and Miran are both op-

erated by Genel Energy and have an estimated 11.4 tcf of raw gas reserves.<sup>57</sup>

Genel Energy had projected that the fields would be operational by the end of 2016 and has a goal of beginning to export natural gas to Turkey by 2019. The company has also indicated that it will continue to invest in KRG natural gas. The announcement came following negotiations with the Turkish Energy Company (TEC), a state backed company established by Ankara in 2013 with a focus on pursuing Turkish energy interests with the KRG.<sup>58</sup> Turkey receives its natural gas from a series of 6 pipelines and projects that span from Romania through eastern Europe and also lines that run in its east through the Southern Caucasus and Iran. The addition of the Iraqi pipeline, through the Kurdistan Region, would be its 7th official project in the region bringing natural gas to the Turkish market.<sup>59</sup>

54. "Trading and Operations Update," Genel Energy, 14 January 2014, [http://www.genelenergy.com/media/1327/genel\\_-\\_jan14\\_ts\\_final.pdf](http://www.genelenergy.com/media/1327/genel_-_jan14_ts_final.pdf).

55. "Construction on KRG=Turkey gas pipeline begins," *Daily Sabah*, 6 January 2016, <https://www.dailysabah.com/energy/2016/01/07/construction-on-krq-turkey-gas-pipeline-begins>.

56. Nayla Razzouk, "Iraq's Kurds to Start Natural Gas Exports to Turkey in 2019-2020," *Bloomberg*, 15 January 2016, <https://www.bloomberg.com/news/articles/2016-01-15/iraq-s-kurds-to-start-natural-gas-exports-to-turkey-in-2019-2020>.

57. "Snapshot of Genel Energy," GenelEnergy.com, 13 March 2017, <http://www.genelenergy.com/about-us/who-we-are/snapshot-of-genel-energy/>.

58. "Turkish oil group in talks to invest in Genel's Kurdistan gas project," *Reuters*, 27 April 2016, <http://www.reuters.com/article/genel-energy-gas-turkey-idUSL5N17U4KB>.

59. Erdal Tanas Karagol & Salihe Kaya, "Energy Supply Security and The Southern Gas Corridor (SGC)," SETA Foundation, September 2014.

## Oil

As with natural gas, Ankara is heavily dependent on foreign oil. The country is able to produce less than 70,000 bpd domestically and imports 89 percent of the oil it consumes, 43 percent of which comes from Iraq. The next largest providers are Iran, Russia, and Saudi Arabia, although all together they still account for less than the share of oil provided by Iraq.<sup>60</sup> Iraq is central to Turkey's self-proclaimed "vision to become an energy trade hub."<sup>61</sup> The Ceyhan, also known as Kirkuk-Yumurtalik, crude oil pipeline has linked Iraq and Turkey since August of 1976. The 600-mile pipeline is Iraq's largest oil export line, running through both Kirkuk and Mosul into Turkey's Mediterranean Sea terminal at Ceyhan. Thus, as with natural gas, the infrastructure in place from the Kurdistan Region to Turkey via the Ceyhan pipeline is an integral piece for Turkey both in terms of securing its own domestic source of oil as well as serving as a hub for broader regional export of crude resources.

## Iraq is central to Turkey's self-proclaimed "vision to become an energy trade hub."

In June 2014, Turkey announced that it had reached a 50-year agreement with the KRG to export oil via the Ceyhan pipeline.<sup>62</sup> The first transfer of KRG oil through Turkey had taken place just days earlier with an estimated \$110

million worth of oil. The KRG marked its first sales through the pipeline on May 23, 2014, announcing "A tanker loaded with over one million barrels of crude oil departed last night from Ceyhan towards Europe. This is the first of many such sales of oil exported through the newly constructed pipeline in the Kurdistan region."<sup>63</sup> As part of the agreement, payments made to the KRG for its oil are collected in an escrow account, through which Turkey serves as an intermediary between Erbil and Baghdad on payouts of resource sales. "Officials from Baghdad, Erbil, and Turkey supervise the sales and the money from the oil," Turkish Minister of Energy and Natural Resources outlined in May of 2014.<sup>64</sup> Ankara was a key player in brokering the agreement between Baghdad and the KRG on revenue sharing for the exported oil.<sup>65</sup>

Financial challenges facing the KRG intensified Erbil's need to export its own resources. "We faced huge budget deficits in the first half of this year because we only received around 2 billion dollars of the expected 7 billion dollars of oil income. We therefore need to sell our oil by ourselves," KRG's Minister of Natural Resources Ashti Hawrami lamented at the November 2015 Atlantic Council Energy and Economic Summit in Istanbul.<sup>66</sup> By 2016, rumors abounded that the KRG government may have attempted to sell part of its oil field shares to Turkey in March of that year.<sup>67</sup> "We have learnt a lot from the oil

60. "Turkey's Energy Profile and Strategy," Republic of Turkey Ministry of Foreign Affairs, 15 March 2017, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

61. "Turkey's Energy Profile and Strategy," Republic of Turkey Ministry of Foreign Affairs, 15 March 2017, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

62. Dorian Jones, "Turkey, Iraqi Kurdistan Seal 50-year Energy Deal," *Voice of America*, 5 June 2014, <http://www.voanews.com/a/turkey-iraqi-kurdistan-seal-50-year-energy-deal/1930721.html>.

63. "KRG statement on first oil sales through pipeline export," KRG Cabinet, Kurdistan Regional Government, 23 May 2014, <http://cabinet.gov.krd/a/d.aspx?l=12&a=51589>.

64. "Turkish Energy Minister: Kurdish Oil Ready for Sale at Ceyhan," *Rudaw*, 14 May 2014, <http://www.rudaw.net/english/kurdistan/14052014>.

65. "Turkish efforts facilitate export of KRG oil to Europe," *Daily Sabah*, 24 May 2014, <https://www.dailysabah.com/energy/2014/05/24/turkish-efforts-facilitate-export-of-kr-g-oil-to-europe>.

66. John Roberts, "Iraqi Kurdistan Oil and Gas Outlook," Eurasian Energy Futures Initiative, Atlantic Council, 15 September 2016, <http://www.atlanticcouncil.org/publications/reports/iraqi-kurdistan-oil-and-gas-outlook>.

67. "Documents reveal Iraqi Kurdistan govt attempts to sell oil fields to Turkey," *Ekuordaily.com*, 27 December 2016, 21 April 2017, <http://ekurd.net/kurdistan-sell-oil-fields-turkey-2016-12-27>.

price shock, the costs of fighting ISIS, and the burden of some 1.8 million refugees coming to our territory... Reform is a must - we have a lot of debts to deal with," KRG's Hawrami explained in an interview in March 2017. On the extended loan guarantees, Hawrami stated, "It strengthens our fiscal situation. It means we can pay more regularly to the international oil companies working in KRG and we can invest some money in expanding our oil infrastructure."<sup>68</sup>

Baghdad has repeatedly threatened to "blacklist" firms who engaged in what it continued to perceive as illicitly marketed crude from the KRG.<sup>69</sup> For Turkey, oil from the Kurdistan Region is a supplemental supply, still falling below the levels procured from Iraq and Iran.<sup>70</sup> However, in recent years, Israel has increasingly relied on the KRG's crude oil exports. According to reports, Israel imports as much as 75 percent of its oil supply from the Kurdistan Region.<sup>71</sup> The crude passes through Turkey, and at this purchase level, accounts for more than a third of all oil exports from the Kurdistan Region and amounts to around \$1 billion in trade. Speaking to The Jerusalem Post, Eco Energy Financial CEO Dr. Amit Mor asserted, "Although I don't think the Kurds are having major difficulties in exporting their oil these days, it is very sensible for the Israeli refineries to purchase Kurdish oil via Turkey's Ceyhan petroleum port, as it takes only one day of sailing for oil tankers to reach the Ashkelon petroleum port. Such is also the

case for [Azerbaijani] oil." The relationship between Israel and the Kurdistan Region dates back as early as the mid 1960's, but have significantly deepened since the mid-2000s when Israeli Prime Minister Benjamin Netanyahu announced that Israel was in support of the establishment of an independent Kurdish state.

Turkish companies, as well as other companies, operating in the KRG exist as service providers, rather than direct owners of the region's oil and natural gas fields. Thus, they do not play any direct role in strategic decisions made on the fields. However, the Kurdistan region has gone to great lengths to ensure that its service contracts are open and favorable for interested investors. Within these contracts, companies stand to gain a large percentage of revenues from either oil or natural gas extraction, since they are responsible for enduring the risk of exploring for the resources. Inversely, if the company is unable to strike a drilling bonanza it will incur losses without the KRG exposing itself to financial risk.<sup>72</sup> The Kurdistan Region has appealed to leading international oil companies due to the exceedingly low cost of drilling for oil. According to reports, the cost for exploration and extraction of oil in the Kurdistan Region revolved around \$12 per barrel compared to the \$50 per barrel price tag associated with U.S. shale.<sup>73</sup> Such favorable conditions contributed to the development of Turkish interest in the oil sector inside Northern Iraq although Turkey is not a major oil producer on its own. As with the natural gas, Turkey's energy needs both in terms of national demand and diversification and the KRG's need to export its own oil served as the foundation of a strong energy partnership.

68. "KRG negotiates new terms, raises oil pre-payments to \$3 bln," *Hurriyet Daily News*, 01 March 2017, <http://www.hurriyetdailynews.com/krg-negotiates-new-terms-raises-oil-pre-payments-to-3-bln.aspx?pageID=238&cnID=110310&NewsCatID=348>.

69. Ed Vinales, "Major oil groups circle Kurdistan Iraq as 'blacklist' threat takes back seat," *Financial Times*, 23 June 2011, [http://www.ft.com/cms/s/2/69789d60-9da0-11e0-9a70-00144feabdc0.html?ft\\_site=falcon&desktop=true#axzz4frifNC2H](http://www.ft.com/cms/s/2/69789d60-9da0-11e0-9a70-00144feabdc0.html?ft_site=falcon&desktop=true#axzz4frifNC2H).

70. "Turkey's Energy Profile and Strategy," Republic of Turkey Ministry of Foreign Affairs, 15 March 2017, <http://www.mfa.gov.tr/turkeys-energy-strategy.en.mfa>.

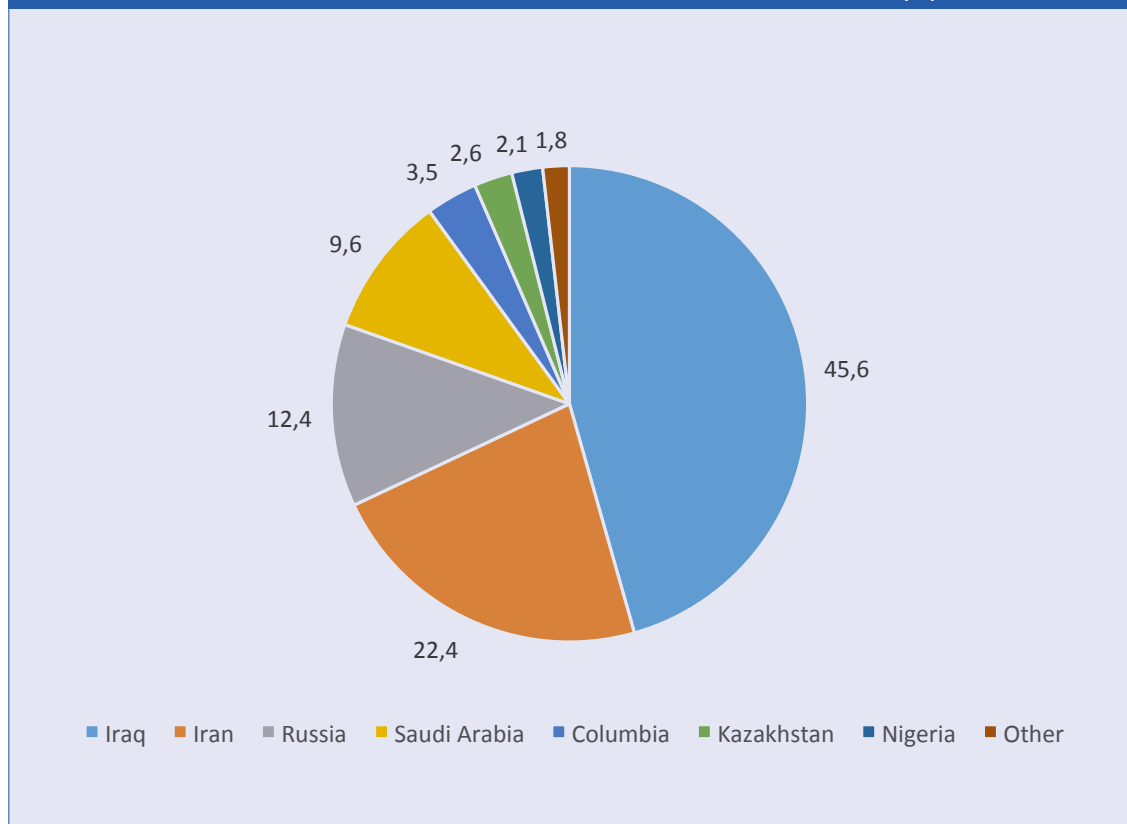
71. Sharon Udasin, "Report: Majority of Israeli Oil Imported From Kurdistan," *The Jerusalem Post*, 25 August 2015, <http://www.jpost.com/Business-and-Innovation/Israel-importing-77-percent-of-its-oil-from-Iraqi-Kurdistan-report-says-413056>.

72. Till F. Paasche & Howri Mansurbert, "Kurdistan Regional Government-Turkish energy relations: a complex partnership," *Eurasia Geography and Economics*, 26 August 2014, <http://dx.doi.org/10.1080/15387216.2014.942339>.

73. Hugo Cox, "Western oil firms struggle over payment for Kurdish oil," *Financial Times*, 26 February 2015, <https://www.ft.com/content/af244a78-e74c-3a93-9c8f-206714b79a6a>.



FIGURE 5. TURKEY'S OIL IMPORTS BY SOURCE COUNTRY IN 2015 (%)



Source: "BP Statistical Review of World Energy," BP P.L.C., June 2017, page 9, <https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf>.

## SECURITY COOPERATION

Turkey and the KRG has cooperated on confronting the PKK, as it has constituted a common threat to both trade and pipeline security at the expense of Ankara and Erbil. The PKK's presence in northern Iraq was the fulcrum of Turkey's policy toward the Kurdistan Region for decades. Operating since 1978, the organization has engaged in frequent terrorist attacks as part of its militant campaign against the Turkish state. It includes a number of sister organizations, under the umbrella of the Kurdistan Communities Union (KCK), established in 2007, which include the Sinjar Resistance Units (YSB) in Iraq, the Democratic Union Party (PYD) and Kurdistan Democratic Solutions Party (PCDK) in Syria as well as the Kurd-

istan Free Life Party (PJAK) in Iran. The PKK is headquartered in the Qandil mountains along the Iranian and Iraqi border, but has also set up a number of training camps throughout the mountains between Turkey and Iraq.<sup>74</sup>

As Turkey has maintained that it will not allow the PKK to consolidate its position in Sinjar,<sup>75</sup> the KDP demanded the PKK's withdrawal from the region as well. "They [the PKK] have brought their own problems into our territory. We hope they listen to what the people

74. James Brandon, "The PKK and Syria's Kurds," The Jamestown Foundation Terrorism Monitor, Vol. 5, Issue 3, 15 February 2007, <https://web.archive.org/web/20071107082810/http://www.jamestown.org/terrorism/news/article.php?articleid=2370250>.

75. Enes Kaplan & Sinan Uslu, "Daesh, PKK in Iraq 'unacceptable': Turkish PM," *Anadolu Agency*, 8 January 2017, <http://aa.com.tr/en/middle-east/-daesh-pkk-in-iraq-unacceptable-turkish-pm/722873>.

of Sinjar have to say,” Barzani stated during his May trip to Washington.<sup>76</sup> However, while the KRG and the ruling KDP maintain that the PKK is unwelcome in the country, other major parties in the region are less vocal against it. The PUK, which has close relations with Iran, has historically better relations with the PKK than it has with Ankara. As recently as late 2016, the PKK was seen acting alongside PUK politics. A PKK group was dispatched to mediate internal factionalization with the PUK in October 2016.<sup>77</sup> Thus, the PKK not only sought to undermine Turkey’s unity through a terrorist campaign but it also functioned as a spoiler and a counterproductive force in intra-Kurdish politics, contributing to the destabilization of the Kurdistan Region.

### Trade and Pipeline Security

Trade volume between Turkey and the Kurdistan Region faced occasional setbacks as a result of renewed violence between Turkey and the PKK. According to the KRG’s Directorate of the border crossing at Ibrahim Khalil (Habur), the return to conflict has caused as much as a 60 percent decrease in cross border trade between Turkey and the KRG in 2016.<sup>78</sup> In northern Iraq, the PKK presence in Sinjar facilitated trade between the PKK and the PYD/YPG in northern Syria. Such trade routes have up until now been effectively stymied through the efforts of the KRG’s Peshmerga forces. However, as noted in a recent International Crisis Group report, “The KRG’s limiting of trade between northern Iraq and YPG-held areas of Syria carries an unintended consequence: it increases the strategic importance of the

PKK’s presence in Sinjar.”<sup>79</sup> As such, the PKK not only threatens Turkey’s security, it also causes damage to the KRG through its disruptive attacks on trade routes.

**Turkey and the KRG has cooperated on confronting the PKK, as it has constituted a common threat to both trade and pipeline security at the expense of Ankara and Erbil.**

One of the key issues for energy transport between Turkey and the KRG will continue to be ensuring the security of the Ceyhan pipeline. Disruptions in the flow of crude through the pipeline quickly take a severe financial toll. In April of 2017, the pipeline was shut down for several days to undergo repairs. It has been estimated that the shutdown cost the KRG up to \$23 million per day.<sup>80</sup> A similar disruption occurred in February when the pipeline fell victim to sabotage by the PKK, which resumed open hostilities with Ankara in 2014. In that instance, the pipeline remained offline for weeks costing the KRG an estimated \$14 million in revenue per day.<sup>81</sup> PKK attacks on the pipeline are not isolated. In August 2015, the PKK disrupted oil flows for several days costing an estimated \$250 million, according to the KRG

76. Masrour Barzani, “Iraq After ISIS Is Defeated in Mosul: A View from Kurdistan,” Heritage Foundation, Washington, DC, 16 May 2017, <http://www.heritage.org/event/iraq-after-isis-defeated-mosul-view-kurdistan>.

77. PKK delegation in Sulaimani to mediate in PUK dispute,” *Rudaw*, 9 October 2016, <http://www.rudaw.net/english/kurdistan/100920162>.

78. Ibid.

79. “Fighting ISIS: The Road to and beyond Raqqa,” International Crisis Group, 28 April 2017, <https://www.crisisgroup.org/middle-east-north-africa/eastern-mediterranean/syria/b053-fighting-isis-road-and-beyond-raqqa>.

80. “Exports of oil from Kurdistan resume through Kirkuk-Ceyhan pipeline,” *Rudaw*, 12 April 2017, <http://www.rudaw.net/english/business/12042017>.

81. “Pipeline sabotaged by PKK costing KRG \$14m a day losses: minister,” *Rudaw*, 12 February 2016, <http://www.rudaw.net/english/kurdistan/230220165>.

Ministry of Natural Resources.<sup>82</sup> Similar disruptions have occurred since the pipeline was completed in April of 1984.<sup>83</sup> In February of 2016, the spokesperson for the KCK threatened, “We will not accept such an agreement to bolster Turkey and to let it stand on its feet since this agreement is a conspiracy putting lives of the Kurdish nation at risk,” targeting an agreement that had recently been signed between Turkey and the KRG to build on natural gas pipeline construction.<sup>84</sup>

In August 2015, The KRG Ministry of Oil and Resources added a special caveat to their monthly expense report. Accounting for the nearly 9 days during which the Ceyhan pipeline was taken offline by attacks, the report reads, “These recent attacks on the pipeline in Turkey combined with the global fall in the oil price have added to the economic crisis faced by the KRG and have severely impaired its ability to pay government salaries, fund the fight against ISIS terrorism and help provide for the Region’s 1.8 million refugees and internally displaced people.”<sup>85</sup> Overall in that month, exports were 3 million barrels less than they would be the next month, which saw 2 disruptions due to attacks. The economic toll on the KRG revenues caused by these disruptions indicate the importance of the security of the pipeline as well as the KRG’s dependence on it for economic stability. Preventing the PKK attacks has been a common concern for Turkey and the KRG, creating a necessity for security cooperation.

82. “KRG says PKK oil pipeline sabotage cost \$250M,” *Rudaw*, 3 August, 2015, <http://www.rudaw.net/english/kurdistan/030820152>.

83. Denise Natali, “PKK, Pipeline Attacks and Iraq Oil,” *Al-Monitor*, 30 July 2012, <http://www.al-monitor.com/pulse/originals/2012/al-monitor/pkk-iraq-oil-and-pipeline-attack.html>.

84. “PKK official says group opposes KRG-Turkey natural gas agreement,” *Rudaw*, 18 February 2016, <http://www.rudaw.net/english/kurdistan/180220161>.

85. “Monthly Export Report: August 2015,” Kurdistan Regional Government Ministry of Natural Resources, 3 September 2015, <http://mnr.krg.org/images/pdfs/EXPORTs/2015.09.03%20August%20Monthly%20Export%20Report%20Updated.pdf>.

**TABLE 2. ATTACKS ON IRAQ-TURKEY PIPELINE 2010 - 2017 \***

DATE	GROUP RESPONSIBLE	ESTIMATED REVENUE LOST
June 9, 2010	Unidentified	Unavailable
July 1, 2010	PKK	Unavailable
August 11, 2010	PKK	Unavailable
March 9, 2011	Unidentified	Unavailable
April 5, 2012	PKK	Unavailable
July 21, 2012	PKK	Unavailable
August 6, 2012	PKK	Unavailable
January 19, 2013	PKK	Unavailable
April 25, 2013	Unidentified	Unavailable
May 6, 2013	Unidentified	Unavailable
July 28, 2013	Unidentified	Unavailable
August 6, 2013	PKK	Unavailable
August 21, 2013	Unidentified	Unavailable
November 2, 2013	Unidentified	Unavailable
March 19, 2014	ISIS	Unavailable
June 9, 2015	ISIS	Unavailable
July 28, 2015	PKK	\$250 million
July 29, 2015	PKK	Unavailable
February 16, 2016	PKK	\$200 million
February 25, 2016	PKK	Unavailable
May 5, 2016	ISIS - oil field attack	Unavailable
June 9, 2016	ISIS	Unavailable
October 27, 2016	PKK	Unavailable
February 25, 2017	PKK	Unavailable



## Sinjar:

### Preventing Another PKK Stronghold

Sinjar is one of the disputed territories in northern Iraq, whose communities include Yazidis and Muslim Kurds.<sup>86</sup> Under Article 140 of Iraq's constitution, the status of Iraq's disputed areas are meant to be resolved via a referendum. Sinjar lies in Nineveh province, which was under Kurdish control until provincial elections in January 2009. Factions from the KDP, the PUK, and now the PKK continue to control large swaths of territory in the province.<sup>87</sup> In early August 2014, the PKK moved into Sinjar as the United States conducted aerial bombardments against ISIS positions in an effort to allow thousands of Yazidis trapped on Mount Sinjar to evacuate the area. While this was originally meant to assist the Peshmerga, it also benefited the PKK.<sup>88</sup> Since then, the PKK and its Yazidi branch, the Sinjar Resistance Units (YBS) have sought to consolidate their control of the area in an attempt to create a new stronghold similar to the PKK's traditional mountain base in Qandil.<sup>89</sup> After ISIS was ousted from Sinjar, the PKK quickly established its position as the most organized party in the province while the PUK and KDP moved into the region to try and grow their own support amongst the area's Yazidi population.<sup>90</sup>

86. Carlo Munos, "Pentagon warns Iraqi militias to 'fall in' behind Baghdad, amid growing sectarian tensions," *The Washington Times*, 30 May 2017, <http://www.washingtontimes.com/news/2017/may/30/pentagon-warns-iraqi-militias-fall-behind-baghdad/>.

87. Nada Bakri, "Land Dispute Between Arabs, Kurds Simmers in Iraq," *The Washington Post*, 18 May 2009, [http://www.washingtonpost.com/wp-dyn/content/article/2009/05/17/AR2009051702210\\_2.html](http://www.washingtonpost.com/wp-dyn/content/article/2009/05/17/AR2009051702210_2.html).

88. Dexter Filkins, "An Early Success For The Kurds In Sinjar," *The New Yorker*, 19 December 2014, <http://www.newyorker.com/news/news-desk/early-success-kurds-sinjar?mbid=rss>.

89. Matthew Barber, "The end of the PKK in Sinjar? How the Hashd al-Sha'bi can help resolve the Yazidi Genocide," *NRT*, 30 May 2017, <http://www.nrttv.com/en/birura-details.aspx?Jimare=6196>.

90. Saad Salloum, "Yazidi infighting disputes over Sinjar stall battle against Islamic State," *Al-Monitor*, 18 August, 2015, <http://www.al-monitor.com/pulse/originals/2015/08/kurdistan-yazidis-armed-forces-influence-sinjar.html>.

On April 24, 2017 Turkish warplanes struck PKK positions in Sinjar. President Erdogan had previously vowed that Sinjar "would not become another Qandil," referencing the notorious PKK hideout along the Iranian-Iraqi border.<sup>91</sup> The strikes on Sinjar indirectly killed 5 Peshmerga soldiers and were greeted with indignation by nearly all parties in the Kurdistan Region as well as the central government in Baghdad. The KRG was quick to declare that the PKK presence in Sinjar has been "problematic for the people of the Kurdistan Region and, despite broad calls to withdraw, [PKK] refuses to leave Sinjar."<sup>92</sup> While tensions flared between Ankara and Erbil over the strikes, President Barzani limited the escalation of rhetoric. Both President Erdogan and Prime Minister Yildirim called President Barzani in the aftermath of the attack, ensuring the strikes were "absolutely not an operation against the Peshmerga."<sup>93</sup>

In addition to the PKK presence in Sinjar, the Shia militia group Hashd al-Shaabi's activities have also been a concern for both Turkey and the KRG. According to one Iraqi lawmaker from the region, "They [both the PKK and the Hashd al-Shaabi] are working hand-in-glove in the region." "This new practice of raising the Iraqi flag [over their respective positions] shows the coordination between them."<sup>94</sup> On May 31, 2017 U.S. General Stephen Townsend, the commander of U.S.-backed Operation Inherent Resolve, met with KRG President Barzani in Erbil. The two

91. "Erdogan says Sinjar will not be 'new Qandil' for PKK," *Anadolu Agency*, 27 October 2016, 28 April 2017, <http://aa.com.tr/en/politics/erdogan-says-sinjar-will-not-be-new-qandil-for-pkk/673511>.

92. "Statement by KRG Ministry of Peshmerga Affairs on Turkish airstrikes," Kurdistan Regional Government, 26 April 2017, <http://cabinet.gov.krd/a/d.aspx?s=040000&l=12&a=55534>.

93. "Turkey informed Russia, US, Northern Iraq before hitting PKK, Erdogan says," *Daily Sabah*, 25 April 2017, <https://www.dailysabah.com/war-on-terror/2017/04/25/turkey-informed-russia-us-northern-iraq-before-hitting-pkk-erdogan-says>.

94. Idris Okuducu, "PKK raises Iraq flag in Sinjar to avert Turkish strikes," *Anadolu Agency*, 2 May, 2017, <http://aa.com.tr/en/middle-east/pkk-raises-iraq-flag-in-sinjar-to-avert-turkish-strikes/809872>.

discussed concerns about the rise of Shia forces in areas near Sinjar calling Hashd Al-Sha'abi's activities "a threat that puts at risk the stability of the liberated areas in the province of Nineveh."<sup>95</sup> President Barzani has also characterized the continued presence of Hashd forces in the region as an unacceptable reality. "The presence of the PMUs south of Sinjar was a big violation of an agreement we made with the Americans and the Iraqis," he has stated, "If the PMU is going to stay in that area and exercise governance, they are going to create a lot of problems."<sup>96</sup>

### Kirkuk: Managing Ethnic Tensions

Turkey values its relationship with the KRG, especially as it eyes oil and natural gas development and other investment opportunities in the region. However, there may be limits to what Ankara will support as the KRG continues to consolidate and solidify its self-rule in northern Iraq. One such contentious issue is Turkey's wariness to the KRG's potential annexation of Kirkuk. Since the fall of Saddam Hussein, Turkey has viewed Kurdish acquisition of Mosul as a pronounced threat to its own security. This policy is based on the view that the control of Kirkuk's vast energy resources could serve as a catalyst for an independence push<sup>97</sup> and endanger ethnic diversity of the city, in particular putting Turkmen in a disadvantageous situation in the region.

The city is one of two main epicenters of Iraq's oil industry, a pivotal piece of the country's economy, and a hotly contested home to several ethnic groups - Turkmen, Arabs, Kurds, Assyrians, and Armenians. This makes Kirkuk

one of the most diverse provinces in northern Iraq. The ethnic makeup of the region has been further complicated by decades of displacement and replacement of ethnic groups. The city experienced a program of "Arabization" during the Saddam Hussein era, in which many families - especially Kurds - were pushed out to make way for Arab Iraqis. In 2003, this process was reversed and Kurds flocked back to the city; Kirkuk has since struggled to reconcile displaced populations with the city's newer inhabitants. This process has not been made any easier by the rich oil fields of the province, which are coveted by all involved.<sup>98</sup>

As previously noted, Kirkuk is one of the country's disputed provinces under the 2005 Iraqi constitution. Under the terms of Article 140, the final status of the city - whether it would join the provinces of the semi-autonomous Kurdistan Region or remain a province singularly adherent to Baghdad - was to be decided by a referendum no later than 2007. However, amidst the deteriorating security situation in the region that year, a product of rising tensions over the issue,<sup>99</sup> the referendum was delayed and has yet to take place. The delay was seen, in part, as a failure to reach consensus on the "relative weight of each community - Kurds, Arabs, and Turkmen."<sup>100</sup> Turkey was a proponent of delaying the referendum, a position that was seen as indicative of Turkish concerns over the city and its vast energy resources coming under the control of the Kurdistan Region at the expense of Turkmen. Turkey has long supported the territorial integrity of Iraq, and perceived Kurdish

95. "Barzani meets U.S. general expresses concern over Sinjar advances," *NRT*, 31 May 2017, <http://www.nrttv.com/EN/Details.aspx?Jimare=14792>.

96. Masoud Barzani, 12 June 2017, Interviewed by *Foreign Policy*, <http://foreignpolicy.com/2017/06/15/masoud-barzani-why-its-time-for-kurdish-independence/>.

97. "Iraq: Allying Turkey's Fears Over Kurdish Ambitions," Report No. 35, 26 January 2005, <https://www.crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/iraq/iraq-allaying-turkeys-fears-over-kurdish-ambitions>.

98. "Claims in Conflict: Reversing Ethnic Cleansing in Northern Iraq," *Human Rights Watch*, August 2004, Vol 16, No. 4(E), <https://www.hrw.org/reports/2004/iraq0804/iraq0804.pdf>.

99. Bernd Debusmann, "Kurds rule out referendum delay for disputed Kirkuk," *Reuters*, 18 July 2007, <http://www.reuters.com/article/us-iraq-kirkuk-idUSL1885928120070718>

100. "Iraq: Postpone REferendum on Kirkuk," Unrepresented Nations and Peoples Organization, 18 December 2007, <http://unpo.org/article/7415>.

control of Kirkuk a likely catalyst for the KRG to seek full independence from Baghdad.<sup>101</sup>

The Kurdish Peshmerga seized control of Kirkuk in June 2014 in the midst of a vacuum left by the rapid expansion of ISIS through northern Iraq. “When ISIS attacked this area [west of Kirkuk], the Iraqi army left all their weapons to ISIS, including the anti-tank weapons and vehicles they left the keys in, including Humvees, mortars, and tanks,” recalled Peshmerga commander Kemal Kirkuki.<sup>102</sup> Since then, the KRG has kept the city out of the hands of ISIS.<sup>103</sup> In March 2017, Kurdish forces stormed Kirkuk’s oil fields, halting production in the name of protecting the fields from ISIS attack and to pressure the Iraqi government to build an oil refinery to provide service to the province. Since then, the PUK’s “Black Force” have controlled the oil field, reinforced by additional Peshmerga forces deployed by President Barzani.<sup>104</sup> This further consolidated Kurdish control over the city.

The issue of Kirkuk’s status again became a focal point in Iraqi politics in March 2017 when the KRG flag was raised outside Kirkuk public administration buildings. The KRG’s Kirkuk governor maintained that it is only natural to fly their flag over Kirkuk. The argument was that, since the city was administered by the KRG, it is only right for the KRG to fly its flag. “Our [Kirkuk governorate] security is under the authority of the Interior Ministry of the Kurdistan

Regional Government. Our Peshmerga forces, which have protected Kirkuk including all its different ethnic communities, are under the authority of the Ministry of Peshmerga. And the president of the Kurdistan Region is the commander-in-chief of the Peshmerga forces.” He justified the decision, “Why shouldn’t Kurdistan’s flag be raised in Kirkuk while the administration is practically there in the city?”<sup>105</sup>

**Kirkuk is one of two main epicenters of Iraq’s oil industry, a pivotal piece of the country’s economy, and a hotly contested home to several ethnic groups.**

Ankara viewed the KRG’s focus on its control over Kirkuk as a threat to the unity of Turkmen, Kurdish, and Arab populations that make up a majority of the city.<sup>106</sup> The UN also expressed concern over the move, cautioning that it might jeopardize the “harmony and peaceful coexistence among many ethnic and religious groups that call Kirkuk their home.”<sup>107</sup> Kurdish authorities in control of the city have faced condemnation by international human rights groups, such as Human Rights Watch, for forced displacements of Arab residents of the city.<sup>108</sup> Threatened by the image of the KRG flag

101. Selcan Hacaoglu, “Turkey Wants Kirkuk Referendum Delayed,” *The Washington Post*, 20 February 2007, <http://www.washingtonpost.com/wp-dyn/content/article/2007/02/20/AR2007022000861.html>.

102. Seth J. Frantzman, “Where ISIS Ends and Kurdistan Begins,” *The National Interest*, 4 January 2016, <http://nationalinterest.org/feature/where-isis-ends-kurdistan-begins-14791?page=2>.

103. Tim Arango, Suadad al-Salhy & Rick Gladstone, “Kurdish Fighters Take a Key Oil City as Militants Advance on Baghdad,” *The New York Times*, 12 June 2014, [https://www.nytimes.com/2014/06/13/world/middleeast/iraq.html?\\_r=0](https://www.nytimes.com/2014/06/13/world/middleeast/iraq.html?_r=0).

104. Ahmed Rasheed, “Oil flows resume from Iraq’s Kirkuk fields after Kurdish forces storm facility,” *Reuters*, 2 March 2017, <http://www.reuters.com/article/us-iraq-oil-kirkuk-turkey-idUSKBN1690X1>.

105. “Kirkuk largely under KRG administration, so why not fly the flag, argues Karim,” *Rudaw*, 28 March 2017, <http://www.rudaw.net/english/kurdistan/280320177>.

106. Recep Tayyip Erdogan, “Kirkuk is Historically a Turkmen City,” Presidency of the Republic of Turkey, 4 April 2017, <https://www.tccb.gov.tr/en/news/542/74615/16-nisan-is-dunyasinin-kaderini-ilgilendiren-bir-secimdir.html>.

107. “UNAMI Concerned by Raising Kurdistan Flag in Kirkuk, Cautions Against Unilateral Steps,” United Nations Assistance Mission for Iraq, 21 March 2017, [http://www.uniraq.com/index.php?option=com\\_k2&view=item&id=6489:unami-concerned-by-raising-kurdistan-flag-in-kirkuk,-cautions-against-unilateral-steps&Itemid=605&lang=en](http://www.uniraq.com/index.php?option=com_k2&view=item&id=6489:unami-concerned-by-raising-kurdistan-flag-in-kirkuk,-cautions-against-unilateral-steps&Itemid=605&lang=en).

108. “KRG: Kurdish Forces Ejecting Arabs In Kirkuk,” *Human Rights Watch*, 3 November 2016, <https://www.hrw.org/news/2016/11/03/krg-kurdish-forces-ejecting-arabs-kirkuk>.

over the city, many Turkmen took to the streets to demonstrate against the action.<sup>109</sup> President Erdogan called directly on the KRG to “repeal this wrong decision,” saying that the move risks disrupting ties between Ankara and Erbil.<sup>110</sup> During an interview discussing the possibility of Turkish anti-ISIS military movement into Iraq, President Erdogan likened the KRG flag flying over Kirkuk to a symbol of occupation.<sup>111</sup> Despite these calls, Kurdish council members approved a measure allowing the flag to continue to be flown alongside Iraq’s national flag at public buildings in Kirkuk.<sup>112</sup> Turkish support for the Turkmen has been made abundantly clear by the highest levels of the Turkish government. Prime Minister Yildirim vowed that Turkey will “stand with Iraqi Turkmen” in Kirkuk.<sup>113</sup> Since then, reports have surfaced that Turkey is assisting in training a “special force” of Sunni Turkmen in Kirkuk. The group is thought to number around 400, and has been provided with small arms and will be provided with additional arms following a training by the Turkish military.<sup>114</sup> Turkey is particularly sen-

sitive to the plight of Iraq’s Turkmen population who have throughout history constituted a significant portion of Kirkuk’s population. The marginalization of Turkmen in an independence referendum or the threatening of Turkmen population will likely lead to a sharp rhetorical response from Turkey.

The head of the PUK in Kirkuk, Aso Mամand, has said, “We (PUK) would like to hold a referendum in Kirkuk, but there [needs to be] two referendums: first, to determine whether the Kirkukis want to incorporate into the Kurdistan Region or not, and then the referendum for the independence of Kurdistan.”<sup>115</sup> While it seems unlikely that Kirkuk will be able to conduct a referendum on its own status before the broader Kurdistan referendum, it has been a point of discussion. In April 2017, the Kirkuk Provincial Council (KPC) voted to hold a referendum on the status of the city. Importantly, the vote was boycotted by the city’s Turkmen and Arab council members, and discussion of the issue has fallen to the wayside as momentum for the broader Kurdistan referendum has grown.<sup>116</sup> During his June 2017 interview, President Barzani alluded to the prospect of Kirkuk formally joining the Kurdistan Region. He highlighted concerns raised by the region’s minority communities and suggested that the status of the region should be decided in a separate referendum. “For example, some Arabs, Turkmen, and Christians, if they don’t want to be a part of it [the Kurdistan Region], their destiny should be decided by themselves in another referendum,” Barzani was quoted as saying.<sup>117</sup>

109. Mewan Dolamari, “Kirkuk Turkmen demonstrate against decision to raise Kurdistan flag,” *Kurdistan24*, 29 March 2017, <http://www.kurdistan24.net/en/news/2579bafc-3b04-4c7e-a915-9edf1180e203/Kirkuk-Turkmen-demonstrate-against-decision-to-raise-Kurdistan-flag>.

110. “Erdogan urges Kirkuk council to bring down KRG flag,” *Daily Sabah*, 4 April 2017, <http://www.hurriyetdailynews.com/turkey-assures-iraqi-turkmens-it-wont-allow-fait-accompl-on-kirkuks-status.aspx?pageID=238&nID=111575&NewsCatID=510>.

111. “Second stage of Operation Euphrates Shield to include Iraq and Syria, Erdogan says,” *Daily Sabah*, 4 April 2017, <https://www.dailysabah.com/war-on-terror/2017/04/04/second-stage-of-operation-euphrates-shield-to-include-iraq-and-syria-erdogan-says>.

112. Haydar Hadi, “Amid Kirkuk flag row, Iraqi PM calls for national unity,” *Anadolu Agency*, 5 April 2017, <http://aa.com.tr/en/middle-east/amid-kirkuk-flag-row-iraqi-pm-calls-for-national-unity/789754>.

113. “Turkey assures Iraqi Turkmen it won’t allow fait accompli in Kirkuk’s status,” *Hurriyet Daily News*, 4 April 2017, <http://www.hurriyetdailynews.com/turkey-assures-iraqi-turkmens-it-wont-allow-fait-accompl-on-kirkuks-status.aspx?pageID=238&nID=111575&NewsCatID=510>.

114. “Turkmen Allied Force in Kirkuk Set To Be Armed By Turkey After Military Training,” *NRT TV*, 17 July 2017, <http://www.nrtv.com/EN/Details.aspx?jimore=15628>.

115. Kamal Chomani, “Kirkuk’s oil to play big role in Kurdish independence,” *Al-Monitor*, 9 June 2017, <http://www.al-monitor.com/pulse/originals/2017/06/kirkuk-iraq-kurdistan-independence-baghdad-oil.html>.

116. “Kirkuk council votes for referendum on joining Iraqi Kurdistan,” *Middle East Eye*, 4 April 2017, <http://www.middleeasteye.net/news/kirkuk-provincial-council-votes-hold-referendum-kurdistan-annexation-1103141687>.

117. Masoud Barzani, 12 June 2017, Interviewed by: *Foreign Policy*, <http://foreignpolicy.com/2017/06/15/masoud-barzani-why-its-time-for-kurdish-independence/>.

## INDEPENDENCE REFERENDUM: A CHALLENGE FOR THE TURKEY-KRG RELATIONSHIP

The KRG has never made its goal of eventual independence a secret. As recently as March 30, 2017, President Barzani's chief of staff, Fuad Hussein, traveled to Washington to ask U.S. officials to consider ending its "One-Iraq" policy. "We suggested that the United States of America should have a broader policy, that it would have to have a two-window policy in Iraq: a window towards Baghdad and a window towards Erbil," Hussein told reporters.<sup>118</sup> The independence aspirations seem to be where Turkey's support for the KRG reaches its limits. Ankara has every interest in promoting the development of a strong KRG capable of safely exporting its energy resources and controlling its territory to keep it free of security threats from ISIS and the PKK, but Turkey ultimately continues to support Iraq's territorial integrity.<sup>119</sup>

For many years now, the KRG officials have highlighted that independence in northern Iraq is their ultimate objective. However, they have been cautious and qualified this by saying that a referendum would only take place when both sides agreed on the parameters of the Kurdistan Region's secession.<sup>120</sup> Some 30 foreign consulates in Erbil, including those of Turkey and Iran, were invited to meetings in Erbil in April 2017 to dis-

cuss the proposed referendum.<sup>121</sup> At that time, Kurdish leaders emphasized that the referendum would be confined to Iraqi Kurdistan territories, in an effort to dispel fears that the Kurdish government may interfere in neighboring countries that have significant Kurdish populations, namely Turkey, Iran, and Syria.

On April 2, 2017, the KDP and PUK, the two largest parties in the Kurdistan Region, released a joint-statement<sup>122</sup> suggesting that the Kurdistan Region would hold a referendum on independence from Baghdad in the fall of 2017.<sup>123</sup> The announcement was preceded by a meeting in March 2017 in Erbil between President Barzani and incoming UN Secretary-General Antonio Guterres.<sup>124</sup> In May 2017, a referendum date was set for September 25, 2017, with parliamentary elections to follow in November 6, 2017. The announcement was met with concern and condemnation in Ankara. Several days following the announcement, the Turkish Foreign Ministry issued a statement calling the move toward independence both a "grave mistake" and a threat to "peace, security, and prosperity in the region."<sup>125</sup> President Erdogan highlighted Turkey's long standing support for the territorial integrity of Iraq, and called the proposed refer-

118. "Kurdistan Region asks US to end on-Iraq policy, KRG senior official," *Rudaw*, 30 March 2017, <http://www.rudaw.net/english/kurdistan/300320173>.

119. Emin Avundukluoglu, "Turkey respects Iraq's territorial integrity: PM," *Anadolu Agency*, 28 February 2017, <http://aa.com.tr/en/middle-east/turkey-respects-iraqs-territorial-integrity-pm/760821>.

120. Masrour Barzani, "Governance and Security in Post-ISIS Iraq," The Woodrow Wilson Center for International Scholars, 8 December 2016, <https://www.wilsoncenter.org/event/governance-and-security-post-isis-iraq>.

121. "Ankara and Tehran threatened Erbil over Kirkuk's Kurdistan flag, official," *Rudaw*, 12 April 2017, <http://www.rudaw.net/english/kurdistan/120420174>.

122. "PUK, KDP issue statement, urge holding referendum; read full text," Patriotic Union of Kurdistan Official Website, released: 2 April 2017, <http://www.pukpb.org/english/cgblog/1087/15/PUK-KDP-issue-statement-urge-holding-referendum-read-full-textenglish>.

123. "Referendum to be held this fall, says Barzani's media advisor," *NRT*, 14 April 2017, <http://www.nrttv.com/EN/Details.aspx?Jimare=13875>.

124. "Barzani, Guterres discuss Kurdistan independence referendum," *The Baghdad Post*, 30 March 2017, <http://www.thebaghdadpost.com/en/story/8806/Barzani-Guterres-discuss-Kurdistan-independence-referendum>.

125. "No: 181, 9 June 2017, Press Release REgarding the Decision to Organize Independence Referendum in the KRG on 25 September 2017," Republic of Turkey Ministry of Foreign Affairs, 9 June 2017, [http://www.mfa.gov.tr/no\\_181\\_-9-june-2017\\_-press-release-regarding-the-decision-to-organize-independence-referendum-in-the-kr-g-on-25-september-2017.en.mfa](http://www.mfa.gov.tr/no_181_-9-june-2017_-press-release-regarding-the-decision-to-organize-independence-referendum-in-the-kr-g-on-25-september-2017.en.mfa).



endum a threat to the fragile stability situation in the region.<sup>126</sup>

GOVERNORATE	VOTED FOR INDEPENDENCE	VOTED TO REMAIN PART OF IRAQ	IN FAVOR OF INDEPENDENCE (%)
Kirkuk	131.274	181	99,88
Nineveh	165.780	111	99,93
Diyala	35.786	627	98,28
Sulaimani	650.000	5.798	99,12
Hawler (Erbil)	622.409	11.289	98,23
Dohuk	368.163	2.247	99,39
Total	1.973.412	20.251	98,88

Source: Kurdistan Referendum Movement - International Committee, Press Release, 8 February 2005, London, accessed: <https://www.indybay.org/newsitems/2005/02/09/17205061.php>

A key point for potential ethnic tensions and conflict centers on the status of Kirkuk. When the KRG announced that Kirkuk would participate in the referendum, Turkey immediately objected, "What really concerned us was that Kurdish leaders want to include Kirkuk in this process while according to the Iraqi constitution Kirkuk is an Iraqi city and is not within Kurdish boundaries." President Erdogan voiced concern, "Arabs in Mosul and Turkmen in Kirkuk live together with Kurds," adding that Kirkuk's participation in the referendum "is not for anyone's benefit."<sup>127</sup> On June 9, 2017, The Turkish Ministry of For-

eign Affairs issued a formal press statement regarding the KRG's recently announced date for its upcoming independence referendum. The statement underscored that Ankara continues to convey Turkey's concerns about the referendum to both the Erbil and Baghdad. "We have been stressing that at a time when critical developments are unfolding in the region, such a move would benefit neither the KRG nor Iraq and that it would have negative consequences which will cause further instability," the statement read.<sup>128</sup>

Days after announcing the September referendum, the KRG President Barzani declared he would not run for president in the next round of presidential elections in November 2017. He explained that, through the referendum process, the Kurdish Region would have a "mandate from the people, to show to the domestic and external players what the Kurdish people want, and that "its results must be implemented."<sup>129</sup> His remarks came amidst speculation as to whether the referendum would serve as a true springboard for independence, or instead was being conducted as a tool to increase Erbil's leverage against Baghdad. At least one of the KRG's regional partners supports its independence referendum; since 2014, Israel, who is also one of the chief procurers of Iraqi Kurdish oil, has supported the Kurdistan Region's plans for autonomy. This sentiment was renewed by Israel in April 2017 when one of the country's ambassador's reiterated the country's official position that an independent Kurdistan could contribute to stability in the region.<sup>130</sup>

128. "No: 181, 9 Jun3 2017, Press Release Regarding the Decision to Organize Independence Referndum in the KRG on 25 September 2017," Republic of Turkey Ministry of Foreign Affairs, 9 June 2017, [http://www.mfa.gov.tr/no\\_181\\_-9-june-2017\\_-press-release-regarding-the-decision-to-organize-independence-referendum-in-the-krg-on-25-september-2017.en.mfa](http://www.mfa.gov.tr/no_181_-9-june-2017_-press-release-regarding-the-decision-to-organize-independence-referendum-in-the-krg-on-25-september-2017.en.mfa).

129. Masoud Barzani, 12 June 2017, Interviewed by *Foreign Policy*, <http://foreignpolicy.com/2017/06/15/masoud-barzani-why-its-time-for-kurdish-independence/>.

130. Baxtiyar Goran, "Independent Kurdistan will create stability in Middle East: Israeli Ambassador," *Kurdistan 24*, 25 April 2017, <http://www.kurdistan24.net/en/news/3e52fa7c-9436-470b-a5da-e52d40b7eadb/Independent-Kurdistan-will-create-stability-in-Middle-East-Israeli-Ambassador>.

126. "Erdogan says Iraqi Kurds' independence referendum 'does not serve anybody's interest,'" *Hurriyet Daily News*, 13 June 2017, <http://www.hurriyetaidailynews.com/erdogan-says-iraqi-kurds-independence-referendum-does-not-serve-anybodys-interest.aspx?pageID=238&nID=114280&NewsCatID=510>.

127. "Kirkuk should not be included in Kurdish referendum, says Turkey," *Rudaw*, 14 June 2017, <http://www.rudaw.net/english/kurdistan/140620173>.

The September 25 referendum on independence of the Kurdish Region will achieve a political goal of great symbolic importance for the KRG government and President Barzani himself. The result will almost certainly be positive with overwhelming support for independence but a declaration of independence may not come immediately, it might actually take months and even years. A positive result would give the KRG leadership a historic yet symbolic success story and political leverage in its bargaining with Baghdad. Yet, a premature declaration of independence might result in disaster for the region, triggering a new chapter in Iraq's long civil war as a result of potential ethnic conflict. The KRG has enjoyed autonomy, if not de facto independence, for a while now. However, Turkey among other regional and global powers worries about potential conflict with a *fait accompli* by the KRG in Kirkuk and beyond. For a country barely able to deal with the ISIS threat, the KRG's move toward independence spells serious risks ahead for regional stability. This is why, the KRG's potential declaration of independence threatens its relationship with Turkey. In the event that the KRG moves forward with a declaration of independence, Turkey will most likely look to secure its trade, energy and security interests as discussed above. At the same time, Ankara will seek to ensure safety and security of Turkmens and to preserve the ethnic pluralism in Kirkuk while insisting on Iraq's territorial integrity.

## CONCLUSION

In this analysis, we have focused on main drivers of the Turkey-KRG relationship, namely a growing energy partnership as well as mutual security interests. This relationship has developed in the context of Turkey's increased demand for energy and the country's need for energy diversification that corresponded to the KRG's efforts to export energy sources on its own. Also, emerging secu-

rity threats by the PKK and ISIS contributed to strengthening of the relationship over the years. Turkish trade and investment complemented the strategic interests in energy and security areas as well. Turkey has been helpful for the KRG in confronting challenges including the fall in global oil prices and threats from ISIS. The KRG has been beneficial for Turkey in confronting the PKK in the region. This mutually beneficial and multi-layered relationship has been challenged at times and it is headed for yet another challenge this month when the KRG is slated to hold a referendum on independence.

Turkey remains committed to the territorial integrity of Iraq but it has also compartmentalized the KRG's independence ambitions away from its trade, energy and security interests. For the KRG, the question of independence is only a matter of time but it is a big mistake from Ankara's perspective, as it could create new tensions and potential conflicts particularly in Kirkuk and the Kurdistan Region. Moreover, it could precipitate another chapter in Iraq's never-ending civil war, especially if there is no agreement with the Baghdad government and backing from major international powers including the U.S. and Russia among others. It is not entirely clear whether the KRG will wait and negotiate its exit from Iraq or go for an immediate declaration of independence. All indications are that a declaration will not immediately follow the referendum as Erbil will seek a negotiated break. Either way, it will remain a seriously destabilizing proposition and outside powers – with the exception of Israel – will continue to favor Iraq's territorial integrity.

Some have argued that Turkey could benefit from and even welcome a potential declaration of independence by the KRG given its wide-ranging ties to the Region. However, these arguments take it for granted that Turkey's energy and security interests could be undermined

impacted by the KRG's potential independence declaration. Furthermore, potential new conflict in the region could hamper the KRG's ability to meet security challenges, conduct business, and export energy resources. A weakened KRG in such a scenario may lose its ability to be a guarantor of stability in northern Iraq. At the same time, it should be noted that Turkey has the ability to adopt if the strategic environment changes. If the KRG is successfully able to negotiate an exit with the Baghdad government and the international community moves towards recognition of an independent Kurdistan – which might still take many years – Turkey could adjust to the new strategic and political realities. Yet, under the current circumstances, Turkey would most likely continue to oppose a declaration of independence even though Turkey's political engagement and rapport with the KRG has been so deep and extensive.

#### \* TABLE 2. SOURCE

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## APPENDIX 1. TURKEY'S TOP EXPORTS (USD)

YEAR	1	2	3	4	5
2007	Germany - 11.9 billion	United Kingdom - 8.6 billion	Italy - 7.4 billion	France - 5.9 billion	Spain - 4.5 billion
2008	Germany - 12.9 billion	United Kingdom - 8.1 billion	United Arab Emirates - USD 7.9 billion	Italy - 7.8 billion	France - 6.6 billion
2009	Germany - 9.7 billion	France - 6.2 billion	United Kingdom - 5.9 billion	Italy - 5.8 billion	Iraq - 5.1 billion
2010	Germany - 11.4 billion	United Kingdom - 7.6 billion	Italy - 6.5 billion	France - 6.05 billion	Iraq - 6.03 billion
2011	Germany - 13.9 billion	Iraq - 8.3 billion	United Kingdom - 8.1 billion	Italy - 7.8 billion	France - 6.8 billion
2012	Germany - 13.1 billion	Iraq - 10.8 billion	United Kingdom - 8.6 billion	United Arab Emirates - 8.1 billion	Italy - 6.3 billion
2013	Germany - 13.7 billion	Iraq - 11.9 billion	United Kingdom - 8.7 billion	Italy - 6.7 billion	France - 6.3 billion
2014	Germany - 15.1 billion	Iraq - 10.8 billion	United Kingdom - 9.9 billion	Italy - 7.7 billion	France - 6.4 billion
2015	Germany - 13.4 billion	United Kingdom - 10.5 billion	Iraq - 8.5 billion	Italy - 6.8 billion	United States of America - 6.3 billion
2016	Germany - 13.9 billion	United Kingdom - 11.6 billion	Iraq - 7.6 billion	Italy - 7.5 billion	United States of America - 6.6 billion

Source: Türkiye İstatistik Kurumu, "Ülkelere göre yıllık ihracat (en çok ihracat yapılan 20 ülke)," accessed 25 July 2017, <http://www.tuik.gov.tr/Start.do>.

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**T**his analysis outlines the main drivers of the relationship between Turkey and the Kurdistan Regional Government (KRG). In less than a week, on September 25, the KRG is planning to hold a referendum on independence from Iraq, barring a last minute cancelation or a postponement. No outside power –other than Israel– appears ready to support a potential declaration of independence by the KRG. Turkey and the U.S. have been pushing hard for a cancelation of the referendum, as it promises to add yet another source of instability in an already destabilized region. Turkey, in particular, is fiercely opposed to the referendum as the KRG’s potential independence declaration threatens Iraq’s territorial integrity. So far, the KRG has refused to cancel the referendum. Although some have argued that Turkey might embrace the KRG’s bid for independence due to Ankara’s close ties with Erbil, the destabilizing impact of a potential declaration of independence is not in Turkey’s favor.

This study should serve as a timely assessment of main areas of cooperation and mutual interests between Turkey and the KRG. We focus especially on energy partnership and security cooperation between Turkey and the KRG. In both areas, Ankara and Erbil have a deep and multilayered relationship that has withstood multiple political and security challenges. The pending independence referendum, however, has had a toxic impact on the relationship. A full examination of the independence question is beyond the scope of this study, however, assessing the main drivers of the Turkey-KRG relationship should contribute to our understanding of Turkey’s approach to the independence referendum.



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