

DEVELOPMENTS IN IRAQ

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GOVERNANCE

Prime Minister Nuri al-Maliki's government this quarter wrestled with unresolved domestic challenges and a deteriorating environment on the country's external borders. At home, mistrust dogged the ruling coalition amid the continued failure to fulfill political compromises that enabled the Prime Minister to retain power following the March 2010 national election; public services, including electricity, remained sporadic; and the Government of Iraq (GOI) continued to grapple with its current abundance of oil riches—still trying to reach agreement on a package of hydrocarbon laws and, at the same time, find ways to develop the potentially job-rich non-oil sectors. Externally, intensified fighting in Syria sent new waves of refugees into Iraq, while Turkey's diplomatic overtures to the Kurdistan Regional Government (KRG) strained GOI ties with one of the country's leading trading partners.

Political Reconciliation Negotiations

GOI-KRG Dispute

Political activity during the quarter played out under the shadow of heightened tensions between the GOI and KRG. Amid a long-standing dispute over the border that separates the Kurdistan Region from the rest of Iraq, the two engaged in an increasingly bitter disagreement over the question of who controls the Region's crude oil wealth. The two also differ in their priorities as they respond to the uprising in neighboring Syria, with the GOI calling for a negotiated settlement and the Kurds backing their Syrian Kurdish brethren's efforts to take advantage of a weakened regime in Damascus to achieve a degree of autonomy. In late July, Iraqi Army and KRG *Peshmerga* forces engaged in a

brief military standoff as both governments rushed troops to Iraq's northern border.²⁸⁶

The oil dispute had simmered since April, when the KRG halted crude oil exports after complaining that Baghdad was months behind in its reimbursement of oil-field development costs. It escalated when Baghdad threatened to retaliate by cutting billions of dollars from the KRG's budget allocation. KRG President Massoud Barzani countered by describing any cut of federal funds as a declaration of war.²⁸⁷

Two other developments increased the stakes for the GOI and appeared to strengthen the KRG's position in the dispute. First, in May, direct Turkish diplomatic contact with the KRG culminated in an agreement to build a new pipeline that would carry oil from the Kurdistan Region on a route directly to Mediterranean ports in Turkey, avoiding any Iraqi territory outside the Region. Then in July and August, three major international oil companies—Total, Chevron, and Gazprom—announced plans to invest in the Region.²⁸⁸

U.S. efforts to cool the confrontation were led by direct appeals to Kurdish leaders from senior U.S. officials, and both sides offered conciliatory gestures. First, the KRG declared it would resume oil exports temporarily in mid-August, pledging a permanent resumption if the GOI reimbursed its costs. Direct GOI-KRG negotiations began under the auspices of GOI Deputy Prime Minister Rowsch Shaways, the most powerful Kurd serving in al-Maliki's government.²⁸⁹

On September 14, the two sides signed a tentative agreement that committed the KRG to restart exports on a more permanent basis. In return, the GOI agreed to reimburse oil-field development cost and resume earlier commitments to supply the KRG with 17% of oil products refined in Iraq as well as 17% of all crude oil delivered to power plants in Iraq for electricity production. Separate

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Peshmerga troops deployed near Iraq's border with Syria display the Kurdistan Region's flag, August 2012. (Reuters photo)

committees drawn from representatives of both governments were formed to monitor adherence to the agreement and troubleshoot potential problems. The Council of Ministers (CoM) ratified the agreement six days later.²⁹⁰

Although the agreement eased the immediate dispute, it is viewed as a temporary arrangement, expedient to both sides as they regroup to work on hydrocarbon legislation.²⁹¹

National Conference

Iraqi President Jalal Talabani returned to the country late this quarter following a three-month absence for extended medical treatment in Germany. His presence and his consultations with leading political figures brought speculation that he might soon call a long-anticipated national conference to foster reconciliation among the country's leading political blocs. Such a conference would address unresolved grievances surrounding deals made in the aftermath of the March 2010 Council of Representatives (CoR) elections that produced a tenuous

government of national unity, but also a string of unfulfilled promises. Issues that remain open include appointment of the Ministers of Interior and Defense—ministries currently controlled by Prime Minister al-Maliki.²⁹²

Sentencing of Vice President

On September 9, Baghdad's Central Criminal Court convicted Vice President Tariq al-Hashimi of operating death squads and sentenced him to be executed. Al-Hashimi, a prominent Sunni political figure, late last year fled first to the Kurdistan Region and then the country before he could be arrested, and he has sought refuge in neighboring Turkey. He was tried and sentenced in absentia. The prosecution of such a senior Sunni political figure and al-Maliki opponent added to sectarian tensions and further unsettled the political environment. Bombings throughout Iraq claimed more than 100 lives on the day of the verdict.²⁹³

The agreement is viewed as a temporary arrangement, expedient to both sides as they regroup to work on hydrocarbon legislation.

Preparations for Elections

Following repeated delays, political maneuvering, and some outside cajoling, the CoR this quarter finalized membership for the Independent High Electoral Commission (IHEC). Included are two members from Prime Minister al-Maliki's Dawa Party, two each from al-Iraqiya and the Kurdistan Alliance, and one member each from the Islamic Supreme Council of Iraq and the Sadrist Trend. The final member, a Turkman woman, was selected several days after the others as the representative of minority groups. With powers to determine both candidate and voter eligibility, the IHEC's influence over the electoral process is considerable. Among its first major tasks, the commission will organize and supervise the country's provincial elections in 2013 and national parliamentary elections in 2014.²⁹⁴

By keeping the size of the IHEC at 9, CoR members rejected efforts by Prime Minister al-Maliki's allies to expand its size to 15—a number opponents worried would be easier for him to manipulate. Pressure on IHEC members is intense, as was underscored this quarter when outgoing IHEC Chairman Faraj al-Haidari was given a one-year suspended prison term following his conviction on graft charges. Al-Haidari frequently clashed with al-Maliki, and the charges were viewed as dubious by opponents of the Prime Minister.²⁹⁵

The outgoing IHEC's original mandate expired in April 2012, which required the CoR to vote short-term extensions as it tried to agree on the size and composition of the new commission. Within one 5-day period in September, the United Nations Secretary General's Special Representative for Iraq, Martin Kobler, issued two statements urging the CoR to break its deadlock over the new commission's size and composition and find a solution for the good of the country. Kobler called the IHEC, "one of the few electoral commissions in the region that safeguards a free, fair and transparent electoral process" and "the most important guarantee of holding free and fair elections in Iraq."²⁹⁶

Council of Ministers

The CoM met regularly through the quarter, including during the month of Ramadan. In addition to approving the agreement that commits the KRG to increase crude oil exports in return for being reimbursed by the GOI for oil-field development costs, the CoM took action across a broad range of issues:²⁹⁷

- approving a draft GOI budget for 2013 totaling \$118.4 billion (for more details, see Section 2)
- naming Dr. Abdul Basit Turki al-Sae'ed as Acting Governor of the Central Bank of Iraq (CBI). As head of the GOI's Board of Supreme Audit, Dr. Abdul Basit this quarter completed an audit of the CBI's weekly currency auctions that concluded that, at most, only 20% of the estimated \$1 billion in U.S. dollars purchased each week at those auctions was used in legitimate transfers. The rest was laundered to get illicit money out of the country. At an October 24, 2012, news conference, Prime Minister al-Maliki said a warrant had been issued for the arrest of dismissed CBI Governor Sinan al-Shabibi in connection with the currency auctions.
- authorizing the Ministry of Oil to sign technical services contracts for three exploration blocks awarded at the fourth oil and gas licensing round in May 2012. Signing of a fourth contract with the Kuwait Energy Company for a block north of Basrah was delayed.
- adopting a new 10-year national strategy for education and higher education for the years 2012–2022
- authorizing the chairman of the National Investment Commission to negotiate and sign a draft agreement encouraging and protecting investment between the GOI and the People's Republic of China
- authorizing the Ministry of Culture to redirect \$4.2 million from its operating budget to finance a museum documenting the crimes of Saddam Hussein's regime through its fall in 2003

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Minister of Communications Mohamad Tawfiq Allawi, a member of the Sunni-supported al-Iraqiya bloc, submitted his resignation this quarter, accusing the Prime Minister of political interference. According to one account, the move came after al-Maliki refused to discipline a director general in the ministry whom Allawi claimed no longer followed his orders and was building an independent power base, apparently on al-Maliki's behalf. The GOI issued a statement distancing the Prime Minister from the dispute, declaring he had no role in the director general's appointment to the ministry. At the time of his resignation, Minister Allawi was presiding over several high-profile issues, including the expected initial public offerings of equity shares on the Iraq Stock Exchange by the three mobile-telephone carriers operating in Iraq. The ministry is also scheduled to auction a fourth mobile-telephone operating license in the country before the end of 2012.²⁹⁸

Another senior Sunni political figure, Deputy Prime Minister Salih al-Mutlaq, returned to the cabinet in August, eight months after criticizing Prime Minister al-Maliki as a “dictator” in a public spat across sectarian lines. Al-Mutlaq's departure last December came as several leading Sunni political figures protested the warrant issued for the arrest of Vice President al-Hashimi.²⁹⁹

Prime Minister al-Maliki this quarter continued to serve as Minister of Defense and Minister of Interior, with no separate appointments made for those positions.³⁰⁰

Council of Representatives

The CoR met for 23 days during the quarter. Ten of those sessions occurred during Ramadan.³⁰¹ During this period, representatives voted 23 draft bills into law, but delayed action on key draft legislation, including an Amnesty Law and enabling legislation to govern the Federal Supreme Court. The CoR's work during the quarter raised the total number of laws enacted during 2012 to 77.³⁰² An additional 80

separate draft laws now under consideration by the CoR have undergone at least one reading; 59 have gone through a second reading.³⁰³

A special five-member bipartisan CoR committee began work this quarter to bridge political divisions and build support for legislation that would set the basic rules for Iraq's hydrocarbon sector. The legislation requires lawmakers to address sensitive unresolved constitutional issues, including the distribution of state power, that divide the KRG and the GOI. The outcome could determine who ultimately controls the country's oil riches as well as the fate of Iraq as a federal state. The committee includes members of the major political blocs, Iraq's Minister of Oil and Kurdistan's Minister of Natural Resources. Competing versions of the Hydrocarbon Laws already exist, with one draft stemming from late 2006.³⁰⁴

Among the laws passed this quarter were two amendments to the existing Election Law, which were passed in advance of provincial elections currently planned for April 2013. One increased the number of seats reserved for minorities on provincial councils; the other refined the process of compiling accurate voting rolls.³⁰⁵ Two laws—passed as a package—eliminated the Ministry of Religious Affairs and placed the Sunni and Shia Endowments under direct control of the CoM. Funding for the two endowments will be stipulated in the annual federal budget and be disbursed to each directly.³⁰⁶ Another new law provides Iraqi students grants to study at colleges and universities within the country.³⁰⁷

The CoR took these additional actions this quarter:

- passed a resolution, by a margin of 101 to 98, expressing support in principle for the idea of privatizing the electricity sector³⁰⁸
- (following extensive debate and repeated delay) finalized membership for the IHEC³⁰⁹
- ratified an agreement with Kuwait negotiated earlier in 2012 that provides a payment of \$300 million to Kuwait and another \$200 million to help establish a joint Iraqi-Kuwait airline.

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(Under terms of the accord, the payments would resolve a claim of more than \$1.2 billion in compensatory damages against Iraqi Airways for the loss of Kuwait Airlines commercial aircraft that occurred during Saddam Hussein's 1990 invasion of Kuwait. Because the claim won international recognition, it severely hampered efforts by Iraq's national airline to resume flights on key international routes out of concern its aircraft might be seized.)³¹⁰

- ratified an agreement negotiated in late 2010 to support Arab cooperation to fight money laundering and funding of terrorism³¹¹
- failed to pass a supplementary 2012 budget request of \$9.3 billion (The draft law was subsequently withdrawn. It had included funds to finance electricity projects, support the public distribution system of basic food commodities, and provide additional funds for defense.)³¹²
- withdrew a draft Amnesty Law offering freedom to a majority of prisoners held in Iraqi jails except those accused or convicted of major crimes, including terrorism, murder, and kidnapping (The Minister of Justice declared conditions in the country were “unsuitable to put the law to a vote.”)³¹³
- delayed a vote on draft legislation supported by the government that would authorize a three-year, \$30-plus billion infrastructure construction program to be financed through loans guaranteed by the GOI. The draft law includes \$3 billion for the construction of new hospitals and other healthcare facilities. Supporters of the law say the government-backed loans—known as sovereign guarantees—are required to develop non-oil sectors of the economy because large international banks and institutions such as the U.S. Export-Import Bank will not finance large projects without such protection. Opponents of the draft argued the law could lead to Iraq incurring heavy debt.³¹⁴



The Inspector General meets with Qubad Talabani, head of the KRG's Department of Coordination and Follow-Up, in September 2012.

Kurdistan Update

Following his return this quarter from Germany, Iraq's President and Patriotic Union of Kurdistan (PUK) Chairman Jalal Talabani met with senior members of the Change List (*Goran* in Kurdish), the region's main opposition party. The meeting took place amid signs of a possible realignment of political forces in the Kurdistan Region, where an alliance of the PUK and its rival Kurdistan Democratic Party (KDP) has long dominated political life. Talabani declared he favored changes in the formal PUK-KDP power-sharing agreement. The Change List's strong showing in 2009 regional elections came primarily at the PUK expense in areas around Sulaymaniyah, where both enjoy support.³¹⁵

Talabani's son, Qubad Talabani, also returned to the Kurdistan Region this quarter following six years as the KRG representative in Washington, D.C. He now heads the Department of Coordination and Follow-Up within the KRG Office of the Prime Minister. In a recent meeting with SIGIR, Qubad Talabani said that this new interagency policy coordination unit was established to boost communication between ministries and improve

Talabani declared he favored changes in the formal PUK-KDP power-sharing agreement.

FIGURE 4.1
SATISFACTION WITH PUBLIC TRANSPORTATION, EDUCATION, AND AFFORDABLE HOUSING
IN KURDISTAN REGION AND REST OF IRAQ, 2011 VS. 2012

AGENCY	KURDISTAN REGION		REST OF IRAQ	
	2011	2012	2011	2012
Satisfied with public transportation	54%	23%	37%	50%
Satisfied with educational system	64%	61%	36%	48%
Satisfied with availability of affordable housing	53%	30%	14%	21%

Note: Among adults ages 15 or older.

Source: Gallup, "In Iraqi Kurdistan, Satisfaction with Infrastructure Crumbles," 9/7/2012, www.gallup.com/poll/157298/iraqi-kurdistan-satisfaction-infrastructure-crumbles.aspx, accessed 10/4/2012.

efficiencies within the KRG.³¹⁶ The job positions him to build personal ties to KRG political leaders—and the opportunity to establish a political base—after several years out of the region.

A Gallup poll released this quarter found that public satisfaction in the Kurdistan Region with three key government-supplied services declined during the past year (see Figure 4.1). Face-to-face interviews with more than a thousand individuals in the Region found the percentage of those satisfied with public transportation and the availability of affordable housing fell sharply while the satisfaction rate for the region's education system declined marginally. The results of more than 7,000 interviews conducted with Iraqis living outside the Kurdistan Region found just the opposite—that public satisfaction levels with all three services rose significantly during the year.³¹⁷

Displaced Persons

As of mid-October, the ongoing civil unrest in Syria had prompted upward of 82,000 people to flee that country this year for the relative safety of Iraq. More than half were Iraqis who previously had sought refuge in Syria from the 2003 war and the ensuing sectarian violence in their home

country. But almost as many Syrians also streamed into Iraq. For an overview of the flow of returning Iraqis and fleeing Syrians into Iraq this year, see Figure 4.2.

Returning Iraqis

An estimated 2 million Iraqis were displaced to neighboring countries in the aftermath of the 2003 invasion, and two-thirds of those who registered with the United Nations High Commissioner for Refugees (UNHCR) settled in Syria. As their home country became more stable, these displaced Iraqis gradually returned, with almost 11,000 returning in 2010 and more than 28,000 in 2011.³¹⁸ This year's escalating violence in Syria has driven up the rate of return. From July 18 to October 3, for example, 42,860 Iraqis returned to their home country from Syria—exceeding the number who returned in 2011 and 2012 combined.³¹⁹

Almost two-thirds of the returnees reportedly entered Iraq by road at al-Waleed border crossing; 15% entered at Rabeaa, and 6% at al-Qaim; and the remaining 14% returned by air, many on flights paid for by the GOI.³²⁰ According to UNHCR, the Iraqi Ministry of Displacement and Migration (MoDM) has been expediting the registration process for returnees, and this should enable returnees to receive government assistance for their

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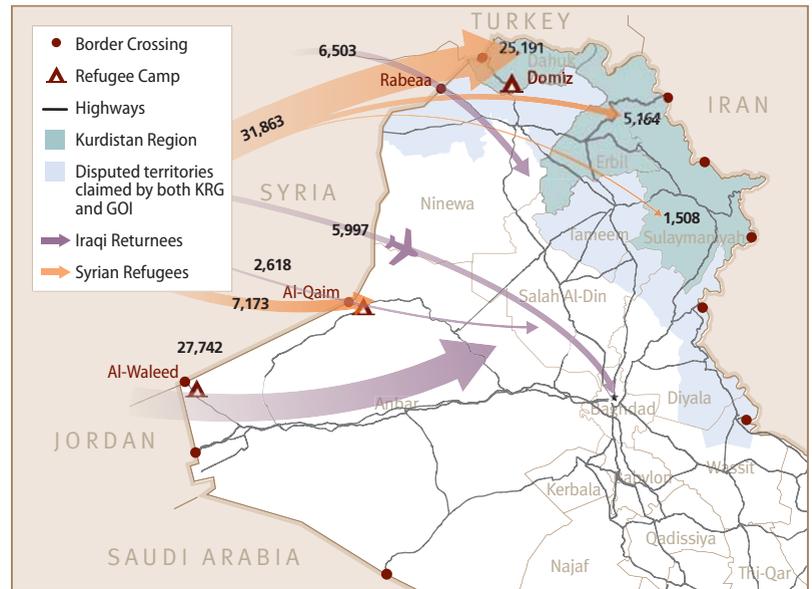
reintegration into Iraqi society. UNHCR reported that it was providing household items to returnees and planned to start a small cash-assistance program for the most vulnerable returnee families.³²¹

In all, 80,850 Iraqi refugees returned to their home country in the year ending August 30, 2012, and 61% of those returnees—48,985—came from Syria. As shown in Figure 4.3, the number of Iraqis who returned from Syria during this 12-month period was almost triple what it was in the previous 12-month period, and it exceeded the number of returnees from all countries combined in that previous period. During the preceding year, 47,180 Iraqis returned, and 16,420 (35%) were from Syria.³²²

Syrian Refugees

As of October 12, almost 341,000 Syrians had fled to neighboring countries because of the upheaval in their country, and about 11% of them were in Iraq. According to UNHCR, almost 25,000 Syrian refugees entered Iraq in the two-month period ending October 12, increasing the total number of Syrian refugees in Iraq to 39,036, as shown in Figure 4.4. The situation has been fluid, and UNHCR's reports have sometimes been difficult to track, but

FIGURE 4.2
FLOWS OF SYRIAN REFUGEES AND IRAQI RETURNEES IN 2012



Note: All locations and routes are approximate. Data for Syrian refugees is current as of October 12; data for Iraqi returnees is current as of October 3. Syrian refugees were residing, as shown, in Anbar and the Kurdistan Region; Iraqi returnees said they were heading to various destinations, with most going to Baghdad, Anbar, and Ninewa.

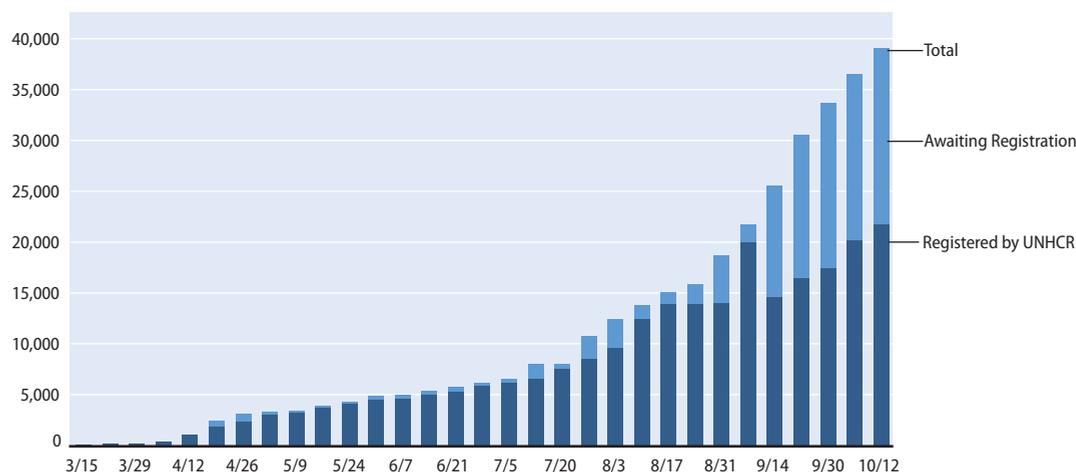
Sources: UN, IAU, "Iraq—Syrian Refugee Camps Map," 8/2012, www.iauiraq.org/documents/1779/IAU_Border_Crossings_Camps_A0_2012_v4.pdf, accessed 10/5/2012; USIP, *Iraq's Disputed Territories: A View of the Political Horizon and Implications for U.S. Policy*, 4/2011, www.usip.org/files/resources/PW69_final.pdf, accessed 4/10/2011.

FIGURE 4.3
IRAQI REFUGEE RETURNS, BY COUNTRY OF ASYLUM, 9/2010–8/2011 VS. 9/2011–8/2012



Sources: UNHCR, "Iraq Operation: Monthly Statistical Update on Return," 8/2011 and 8/2012.

FIGURE 4.4
SYRIAN REFUGEES IN IRAQ, 3/15/2012–10/12/2012



Sources: UNHCR, "Syria Regional Refugee Response: Jordan, Lebanon, Iraq, Turkey," updates, 4/18/2012–10/12/2012; Syria Regional Refugee Response Information Sharing Portal, Iraq Demographic Breakdown, data.unhcr.org/syrianrefugees/country.php?id=103, accessed 10/12/2012.

it appears that roughly half of these refugees were residing in local communities, with the remainder living in refugee camps.³²³ As of September, humanitarian agencies expected the Syrian refugee population in Iraq to grow to 60,000 by the end of 2012, and they estimated that it would cost them about \$47.5 million in 2012 to meet the needs of these refugees.³²⁴

More than 80% of the Syrians entering Iraq this year have been Kurds seeking refuge in the Kurdistan Region,³²⁵ though UN reports on the situation have not specified where these refugees crossed the border. Dahuk, the Region's westernmost province, shares an approximately three-mile-long river border with Syria, and the KRG has generally maintained an open-door policy toward the Syrian Kurds.³²⁶ In addition, the next 90 miles of Syria's border with Iraq are along the disputed territory in northwestern Ninewa province, an area that has been largely under the control of the KRG's *Peshmerga* security forces.

During the first three weeks of August, an average of about 500 Syrian Kurds arrived each week in the Kurdistan Region. At the beginning of September, 500 were arriving each day.³²⁷ By mid-October,

about 13,000 displaced Syrians were staying at the Domiz refugee camp in Dahuk, which is managed by the provincial government and several UN agencies. UNHCR and others were working to provide humanitarian assistance, basic education, and access to water and sanitation.³²⁸ With the continuing influx of refugees, the local authorities and UNHCR were expanding the camp's capacity.³²⁹

The other Syrian refugees entering Iraq have done so mostly at al-Qaim border crossing in Anbar province, where the GOI started setting up a new refugee camp during the summer. Al-Qaim point of entry was opened for the fleeing Syrians on July 24, as were al-Waleed and Rabeaa border crossings. But the GOI halted entry at al-Qaim on August 24, stating that the new camp was not fully prepared to accommodate the growing number of refugees. The GOI partially reopened the crossing on September 18; however, as of mid-October, males ages 16 to 49 were still prohibited from entering through al-Qaim. During the month-long period when the crossing was closed, some 3,000 Syrians became stranded at the Iraqi border and, according to the United Nations Children's Fund (UNICEF), faced "an acute shortage of food and

As of mid-October, males ages 16 to 49 were still prohibited from entering through al-Qaim.



In mid-October, about 7,000 Syrian refugees were living at al-Qaim refugee camp in Anbar province. (UNHCR photo)

medicine,” were drinking untreated river water, and were suffering from a growing number of cases of diarrhea. Both UNICEF and UNHCR appealed to the GOI to allow these people entry to Iraq.³³⁰

By October 12, a second camp had been established at al-Qaim; approximately 7,000 Syrian refugees (including most of those who had previously been accommodated in schools and other public buildings in the area) were residing at the two camps; and there were plans to set up a third camp, which would increase hosting capacity in al-Qaim to as many as 25,000 refugees.³³¹ UNHCR reported that, at the request of the MoDM, relief agencies and local authorities were considering establishing another camp at al-Kasek in Ninewa province.³³²

On October 1, the MOI’s Permanent Committee for Refugees announced that Syrian refugees in Iraq would be granted six-month residency permits, which would give them more freedom of movement and easier access to services.³³³

Relocation of Iranians from Camp Ashraf to Camp Hurriya

On September 16, approximately 680 Iranian Mujaheddin-e Khalq (MEK) members moved from Camp Ashraf to Camp Hurriya in the final major convoy to relocate the group. This followed the August 29 transport of 400 people to Camp

Hurriya. Of the 3,280 residents originally in Camp Ashraf, about 200 remained after September 16, and the UN said it was continuing to oversee the process of closing Ashraf, including the relocation of the remaining residents.³³⁴

In July, the GOI transported 300 additional air conditioners from Camp Ashraf to Camp Hurriya, along with several large water tanks, additional generators, and other goods. It also supplied three specially equipped vehicles for residents with disabilities.³³⁵ The United Nations Assistance Mission for Iraq reported that Camp Hurriya has a dining facility with an industrial kitchen, a fully equipped gym, a mosque, several community centers, and numerous recreational spaces; the residents live in container housing, with three to four people per unit and fully air-conditioned rooms; and the residents receive electric power 24 hours per day.³³⁶

According to the December 25, 2011, memorandum of understanding (MOU) between the GOI and the UN, the relocation to Camp Hurriya is the first step in a process that will include a determination by UNHCR of the refugee status of each of the residents and their eventual safe resettlement outside Iraq.³³⁷ However, shortly after the September 16 transfer, UNHCR noted that “the slow response of resettlement countries in offering places for this caseload remains a challenge.”³³⁸

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Public Services

Electricity

Apparently resulting from the new Ministry of Electricity (MOE) power plants that entered service in May and June and the recent rehabilitation of generating units at several older plants, the total supply of electricity on the national grid surged to another record high this quarter, averaging about 7,300 megawatts (MW). This was a 1,000 MW increase over the average supply last quarter and an almost 1,400 MW increase over the same quarter last year—the largest quarterly and yearly increases ever achieved by the MOE. Electricity imports from Iran changed little from last quarter, and average production from the “powerships” docked in Basrah apparently decreased by about 20 MW (9%). According to the MOE, this quarter’s supply on the grid was enough to provide the average Iraqi consumer with 10–12 hours of power each day.³³⁹

The supply figures do not include electricity production in the Kurdistan Region, which is no longer publicly reported by the MOE, nor do they include the 270 MW that was “exported” this quarter from the Region to neighboring Iraqi provinces.³⁴⁰ According to KRG officials, power

plants in the Kurdistan Region have been producing about 1,950 MW, or 85% of estimated demand in the Region.³⁴¹

Despite the record increase, this quarter’s average supply on the national grid was about 2,000 MW less than what the MOE previously announced it would be during this three-month period. In a May 2012 press release and video, the MOE provided a month-by-month forecast that showed “electricity produced” increasing to 12,330 MW in April 2013.³⁴² But progress has been slower than promised. As shown in Figure 4.5, the actual supply in June 2012 was about 12% below the MOE’s forecast for that month, the amount forecast for June was not achieved until September, and the actual supply in each of the three months of the quarter was about 20% below what had been forecast.³⁴³

In September, the Office of the Deputy Prime Minister (DPM) for Energy Affairs in effect told SIGIR to disregard the MOE’s earlier supply forecast, saying the announcement was “a daily MOE TV program and it’s only theoretical information.” The DPM’s office also said that the companies that have been contracted to build new power plants “are new in Iraq; we don’t expect they will fulfill their commitments according to their contracts obligations and contract period.”³⁴⁴ Separately, but consistent with this observation, Minister of Electricity Karim Aftan said in July that some projects were delayed because contractors were reluctant to work in the high summer temperatures.³⁴⁵

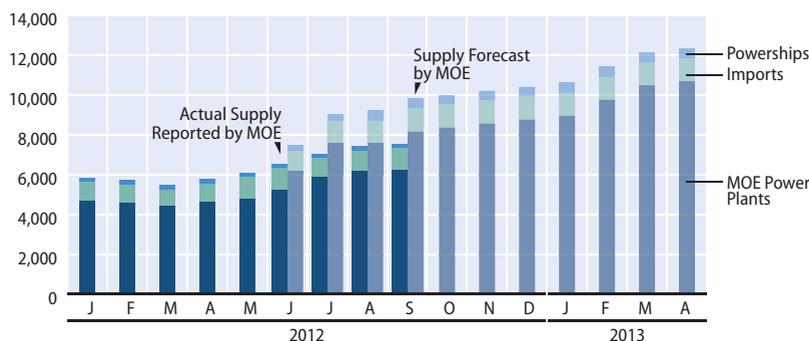
In several public statements this quarter, the MOE also said that the supply shortfall was exacerbated by the Ministry of Oil’s inability to deliver adequate fuel to run power plants. In August, for example, the MOE claimed that power-plant production was at least 1,250 MW below what it otherwise would have been because of a scarcity of oil and low pressure in natural gas pipelines.³⁴⁶

Pending MOE Power-plant Projects

The Office of the DPM for Energy Affairs reported that 41 power plants are currently under construction—3 thermal plants, 19 diesel plants,

The MOE said that the supply shortfall was exacerbated by the Ministry of Oil’s inability to deliver adequate fuel to run power plants.

FIGURE 4.5
ACTUAL AND FORECAST AVERAGE MONTHLY ELECTRICITY SUPPLY ON GOI NATIONAL GRID, 1/2012–4/2013
MW



Note: The “Actual Supply” shown for September 2012 is an estimate based on MOE data for 21 days of that month.

Sources: U.S. Embassy-Baghdad, responses to SIGIR data calls, 4/13/2012, 7/3/2012, and 10/1/2012; GOI, NMC, “Status of the Ministry of Electricity,” selected reports, 6/1/2012–9/30/2012; GOI, MOE, “Ministry of Electricity Announces the Size of the Total Electric Power Produced and Added Throughout the Months,” 5/6/2012, www.moelc.gov.iq/ar/index.php?name=News&file=article&sid=347, accessed 5/14/2012.

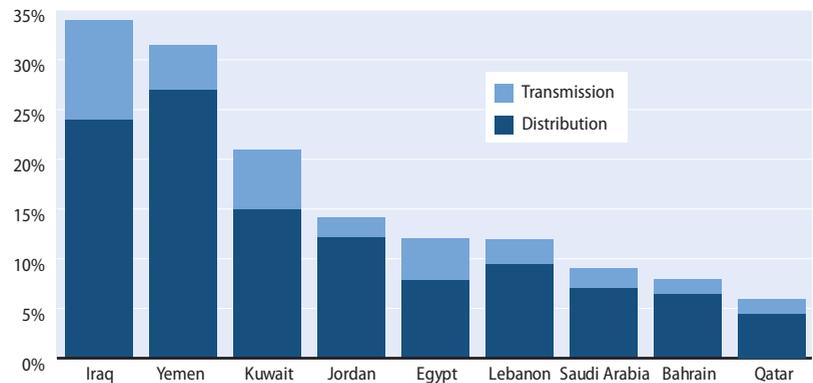
18 combustion-turbine plants, and 1 hydroelectric plant. It also said that the MOE is still expecting the installed (nameplate) capacity on the national grid to reach 27,000 MW and the available (feasible) capacity—the amount that can actually be produced—to reach 22,000 MW by the end of 2015.³⁴⁷ Assuming the planned new capacity is not delayed, the International Energy Agency (IEA) estimates that grid-based electricity generation is likely to catch up with peak demand at that time.³⁴⁸

Although the MOE did not announce the completion of any new power plants this quarter, it did report that it had received bids on three 500 MW combustion-turbine plants: Diwaniyah in Qadis-siya, al-Amarah in Missan, and Nassiriya in Thi-Qar.³⁴⁹ Of the 11 plants designed to use turbines purchased in the December 2008 Mega Deal with General Electric (GE), these three are the furthest behind in the contracting process.³⁵⁰ According to the DPM's office, the MOE also signed a contract in late July with China Machinery Engineering Corporation (CMEC) to build a 1,890 MW plant in Salah Al-Din.³⁵¹ In December 2011, the MOE announced that it had signed a contract with CMEC for construction of this plant, but said the plant would have a capacity of 1,260 MW.³⁵² Apparently the specifications were subsequently modified to increase the plant's generating capacity through the use of combined-cycle technology.

Transmission and Distribution

The Minister of Electricity has acknowledged that additional production capacity alone will not solve Iraq's "power crisis." The country's power transmission and distribution networks also need to be upgraded and expanded so that the output from new power plants, once completed, can be reliably and efficiently delivered to consumers.³⁵³ The IEA has pointed out that the MOE's transmission network is inefficient and the distribution networks are seriously degraded—suffering from poor design, inadequate maintenance, and illegal tapping. The results include wasted energy, low voltage levels, and frequent disruptions of service. As Figure 4.6

FIGURE 4.6
ELECTRICITY TRANSMISSION AND DISTRIBUTION LOSSES
IN SELECTED COUNTRIES, 2010



Note: Between the point of electricity generation and the point of end use, energy is lost due to the resistance of the wires and equipment that the electricity passes through. It also can be lost to theft. Transmission losses occur between the generator and local substation, while distribution losses occur between the substation and final destination. The graph is based on data from the Arab Union of Electricity, though the split between transmission and distribution losses for Saudi Arabia and Bahrain are IEA estimates.

Sources: IEA, *Iraq Energy Outlook*, 10/9/2012, p. 33; Arab Union of Electricity, *Statistical Bulletin 2010*, Issue 19, p. 21.

shows, more than one-third of the electricity that is produced in Iraq is lost before it reaches end users—the highest percentage of transmission and distribution losses among all countries in the Middle East.³⁵⁴

More than one-third of the electricity that is produced in Iraq is lost before it reaches end users.

Developments in the Kurdistan Region

On August 15, for the third time since summer 2011, the KRG announced a new initiative to "export" electricity to a disputed geographical area of Iraq. As directed by KRG President Massoud Barzani, the KRG's Ministry of Electricity began providing 10 MW to Salah Al-Din province's Tuz district. According to the ministry's press release, a delegation from Tuz met with Barzani in July and asked for help in improving basic services.³⁵⁵ In June 2011, Barzani announced that power produced in the Kurdistan Region was being supplied to Tameem (Kirkuk) province;³⁵⁶ and in June 2012, the ministry announced that it was facilitating the transmission of electricity from Turkey to the Mosul area.³⁵⁷ A KRG official told SIGIR that these three initiatives were coordinated with the provincial governments, not with the central

government's MOE.³⁵⁸ Now that Tameem is receiving electricity from both the national grid and the Kurdistan Region, it is an anomaly among the non-KRG provinces in that consumers in Tameem are receiving government-provided electric power about 18 hours per day—50% more than the other provinces served by the MOE's grid.³⁵⁹

The KRG also signed a \$700 million contract this quarter with two South Korean companies—Posco Engineering and Construction Company, Limited, and Korea National Oil Corporation (KNOC)—to build a 300 MW thermal power plant in Erbil and a 400-kilovolt substation in Sulaymaniyah. Posco will build the plants, and KNOC will provide financing in accordance with the terms of its oil-exploration agreement with the KRG.³⁶⁰ Separately, Siemens announced in September that it would be supplying gas turbines and generators for the 980 MW Khurmala combined-cycle power plant being built by the KAR Group in Erbil.³⁶¹

Water

The GOI signed a \$27 million cooperative agreement with the European Union this quarter to improve water-resources management. The program contains three specific components: \$13 million for a groundwater resources management project that involves a survey of available resources that would be shared with planners and academic specialists; \$9 million to establish water supply monitoring systems that include gauging stations; \$5 million to boost public awareness about the need for better water conservation and how to reduce water consumption. The GOI will pay just under one-quarter of program costs.³⁶²

To improve water availability in Iraq's northern provinces, a recent International Organization for Migration (IOM) report on water scarcity recommended further rehabilitation of the traditional underground aqueduct systems, known as karez, that have long been used for transporting well water.³⁶³ According to a 2009 UN Educational, Scientific, and Cultural Organization report, more than 100,000 people in northern Iraq fled their homes between 2005 and 2009 because of a major decline of water flow in karez systems due to drought and the overexploitation of groundwater.³⁶⁴

The IOM report also said there is a need for more artesian wells throughout Iraq, and it recommended initiating a general awareness campaign on the efficient use of irrigation water. On an institutional level, the IOM called for greater broad-based cooperation on water issues among Iraqi agencies and organizations, as well as among the national governments bordering Iraq. UN data has shown that more than one-third of Iraqi households do not have a secure supply of potable water. Less than half of rural households have access to safe drinking water.³⁶⁵

Education

The Ministry of Education signed a memorandum of understanding with the U.S. Agency for International Development (USAID) this quarter to jointly finance a series of education-reform projects focused on strengthening school management and improving primary education and teacher training.³⁶⁶ For more detail on this program, see Section 3 of this Report. ♦

UN data has shown that more than one-third of Iraqi households do not have a secure supply of potable water.

SECURITY AND THE RULE OF LAW

Violence in Iraq this quarter rose to levels not seen for more than two years. The Ramadan season saw a rise in attacks followed by a brief lull and then a return to heightened levels.³⁶⁷

Trends in Attacks and Casualties

During Ramadan (which extended from July 20 to August 19), attacks in Iraq were deadlier than at any time previously this year, and events coinciding with the sentencing of Vice President al-Hashimi pushed September violence even higher.³⁶⁸

The Ministry of Interior (MOI) reported that at least 854 Iraqi civilians were killed and more than 1,640 wounded in violent attacks this quarter. Of the 2,495 total casualties sustained, 1,048 occurred in September alone—the bloodiest month in two years.³⁶⁹

As Figure 4.7 shows, Iraq sustained a series of coordinated bombings nationwide this quarter, as well as assassinations and other smaller daily attacks, mostly in Baghdad, Anbar, Diyala, and Ninewa provinces. An analysis of the last three months supports the concerns expressed by MOI leaders and critics of the government alike: the Iraqi

Of the 2,495 total casualties sustained, 1,048 occurred in September alone—the bloodiest month in two years.

FIGURE 4.7
PATTERNS OF VIOLENCE, 7/1/2012–9/30/2012

July 2012



- Tuesday, July 3:** Attacks in several cities kill 40+ and injure 75+
- Sunday, July 22:** Car bombings kill 20 people and wound 80 in Baghdad; 23 civilians wounded in an IED attack in Najaf
- Monday, July 23:** Bombings in 15 cities kill 113 and wound 259; 14 IA soldiers wounded in mortar attack on their headquarters in Salah Al-Din, and another killed in grenade attack
- Sunday, July 29:** Suicide car bomb kills 2 IA and wounds 4 in Anbar; in Diyala, car bomb kills 6 civilians and wounds 13
- Tuesday, July 31:** Car bombing in Baghdad kills 21

August 2012

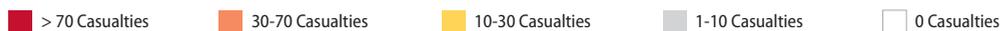


- Thursday, August 2:** Car bomb in Baghdad kills 9+ and wounds 32; in Diyala, 4 IP killed and 2 wounded in Salah Al-Din, 4 IA killed and 4 wounded in IED explosion targeting convoy, and 3 SOI killed and 2 IA wounded in IED explosion and gunmen attack on checkpoint; in Tameem, gunmen kill 1 IA and wound 3 more
- Friday, August 10:** Car bombing in Baghdad kills 2 and wounds 15; in Ninewa, a mosque bombing kills 3 and wounds 20+
- Wednesday, August 15:** Three car bombs in Diyala kill 7+ and wound 25; gunmen kill 5 IA
- Thursday, August 16:** Bombings in central and northern Iraq kill 82 and wound 270+; in Anbar, armed raid kills 25 IP; in Ninewa, two suicide bomb attacks kill 13 and wound 41+; in Tameem, car bomb kills 18 and wounds 25

September 2012



- Friday, September 7:** Attacks on 3 mosques in Kirkuk kill 8 and wound 70
- Saturday, September 8:** Bombings kill or wound 30+ in Diyala; 7 casualties in Syrian mortar attack
- Sunday, September 9:** Iraqi courts hand down death sentence for Vice President Tariq al-Hashimi; bombings in mainly Shia areas all over Iraq kill 100+ and wound 350+; in Salah Al-Din, 9 IA killed in IED and silenced gun attacks
- Friday, September 28:** Mass prison riot and escape in Tikrit kills 12 IP
- Sunday, September 30:** Bombings in ten cities kill 32+ and wound 104



Note: The numbers represented in the calendar graphic are comprehensive estimates of total Iraqi casualties throughout the entire country on that particular day. The text to the right briefly describes significant attacks on select days and does not purport to comprehensively detail all security incidents that occurred on the specified day.

Source: Information presented herein is based on SIGIR's analysis of open-source and official English and Arabic documents, studies, and analyses. All figures based on best available casualty information and represent the sum of killed and wounded for each incident.

Security Forces (ISF) must deal both with the waves of random, but complex, mass-casualty attacks being perpetrated by organized terrorist groups and with small-scale attacks and assassinations.³⁷⁰

This quarter, DoS released a new travel advisory warning of the high level of violence in Iraq. Although the statement acknowledged that attacks in the Kurdistan Region have been less prevalent, a dangerous security situation remains, and violence in the rest of Iraq and the risk of kidnapping for U.S. citizens is such that DoS recommended essential travel only. Moreover, DoS has emphasized that consular services in Iraq have been constrained by the security environment, and “the ability of the U.S. Embassy to respond to situations where U.S. citizens face difficulty, including arrest, is extremely limited.”³⁷¹

Lethal attacks on Iraqi Police (IP) and Iraqi Army (IA) soldiers rose this quarter—and most

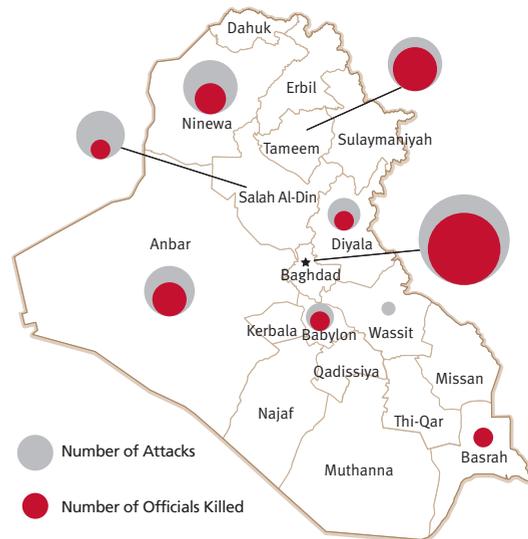
sharply in September, when more than 180 IP and IA personnel were killed and 230 wounded.³⁷² For a comparison of IP and IA casualties this quarter to those sustained six months ago, see Figure 4.8.

Assassinations of government officials and tribal leaders in Iraq continued unabated this quarter. More than 100 senior government officials were targeted for assassination, with 58 killed. These attacks also killed or wounded more than 120 family members, bodyguards, or other citizens who were in the vicinity of the apparently targeted individuals (see Figure 4.9). Ministry officials, judges, members of parliament, tribal sheiks, and senior ISF officials were targeted by bombs and armed attacks (including home invasion). The largest number of attacks on officials and other leaders occurred in Baghdad, with the second-largest number of attacks around Kirkuk.³⁷³

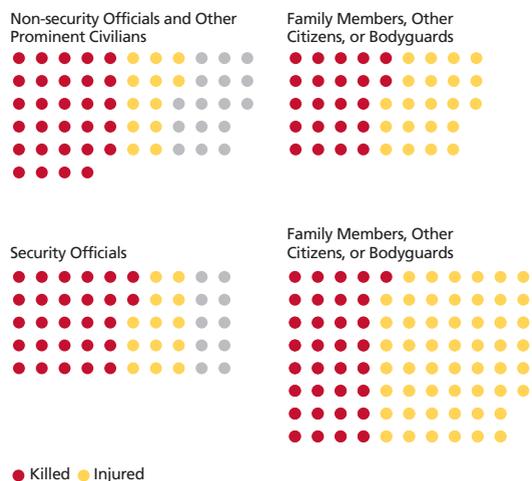
More than 100 senior government officials were targeted for assassination, with 58 killed.

FIGURE 4.9
SELECTED ACTS OF APPARENT TARGETED VIOLENCE AGAINST SENIOR OFFICIALS, 7/1/2012–9/30/2012

Number of Attacks and Officials Killed, by Province



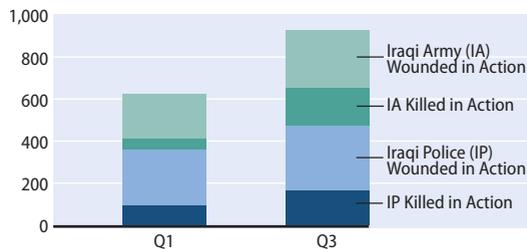
Officials Targeted, Killed, or Injured and Related Casualties



Note: This table provides examples of assassinations, attempted assassinations, and other small-scale acts of violence that appear to have been aimed at specific persons or groups this quarter. It does not purport to be all-inclusive, nor presume to imply the attackers’ respective motives.

Source: SIGIR analysis of open-source documents in Arabic and English, 7/1/2012–9/30/2012.

FIGURE 4.8
IRAQI POLICE AND IRAQI ARMY CASUALTIES,
Q1 2012 VS. Q3 2012



Sources: MOI, information provided to SIGIR, 1/22/2012 and 10/20/2012.

Regional Issues

The conflict in neighboring Syria not only has required Iraq to provide shelter to thousands of fleeing Syrians and to help resettle even more returning Iraqis, but also has raised concerns that the violence and people with violent intent will cross the border into Iraq.

Iraq has expressed concern about the composition of the rebel movement in Syria. Iraq's Ambassador to the United Nations described al-Qaeda as a cancer in Syria.³⁷⁴ In more measured terms, U.S. Secretary of State Clinton stated, "We worry about terrorists, PKK, al-Qaeda, and others taking advantage of the legitimate fight of the Syrian people for their freedom to use Syria to promote their own agendas, and even to perhaps find footholds to launch attacks against others."³⁷⁵ According to Brigadier General Tariq al-Asal, commander of MOI border security, "What's happening [in Syria] now is providing a phenomenal environment for al-Qaeda to exploit in order to regain control [in Iraq]."³⁷⁶

In view of concerns about Syrian violence (and insurgent movements across the border), Iraq stepped up patrols along the Syrian border this quarter.³⁷⁷ Some of the fighting spilled over the border, with a report of at least one civilian death in al-Qaim on September 7, 2012.³⁷⁸ The MOI has expressed serious concerns over the fighting in Syria, describing it as an engine for violence in Iraq

and a vehicle for Sunni extremists to launch attacks against Iraq.³⁷⁹

The prospect that Syrian refugees have been infiltrated by terrorist elements has provided the GOI an ostensible rationale for limiting refugee access in Anbar.³⁸⁰ In the Kurdistan Region, however, the KRG had provided refuge for almost 32,000 as of mid-October 2012—more than four times the number in Anbar.³⁸¹ Most of these refugees in the north were Kurds fleeing the fighting in Syria.³⁸² According to at least one senior KRG official, Kurdish refugees from Syria were receiving military training in the Kurdistan Region.³⁸³

Tensions along the Syrian border also have exacerbated relations between GOI and KRG security forces. Under the Iraqi Constitution, the KRG has sole control of security within its borders.³⁸⁴ The constitution also gives control of the national borders to the federal government.³⁸⁵ On August 6, 2012, after some tension between GOI and KRG security forces, the General Secretary of the Kurdish Ministry of *Peshmerga* and Iraq's Ministry of Defense (MOD) signed a seven-point agreement to resolve the matter. The agreement allows the movement of the ISF personnel to their border posts within the KRG boundaries.³⁸⁶

The conflict in Syria has raised concerns that the violence and people with violent intent will cross the border into Iraq.



The MOI reported in August that its forces had stepped up precautions against attacks by al-Qaeda in Iraq. (GOI photo)



The Inspector General meets with Iraq's Principal Deputy Minister of Interior Adnan al-Asadi, September 16, 2012.

When U.S. forces departed Iraq, they took with them much of the ability to track and penetrate terrorist cells.

While Shia sentiments in Iraq have been dominated by concerns about al-Qaeda influences in Syria, a number of Sunni politicians have accused Iran of using Iraq as a conduit to supply the Syrian government in its civil war.³⁸⁷ Concerns that Iraq was allowing Iran to use its airspace to deliver weapons to Syria were also raised during the September confirmation hearing of Ambassador Beecroft.³⁸⁸ The GOI stated that “Iraq will not allow any country to supply weapons or fighters through its lands or airspaces to the conflicted parties in Syria.”³⁸⁹

Irrespective of the differing opinions within Iraq on the risks of the Syrian conflict, small-arms smuggling from Iraq into Syria is apparently on the rise. Security officials in Iraq note that the price of a black-market Kalashnikov rifle on the streets of Baghdad has risen from \$150 to \$1,200. The MOI attributes this rise in price to the demand for weapons in Syria.³⁹⁰

Iraqi Security Forces

Iraq has steadily increased the capability of its security forces, incorporating assistance provided

by or purchased from the United States, but it remains vulnerable in any conflict launched from beyond its borders. Land forces are still not capable of mobile conventional warfare, and Iraq remains dependent on its allies for control of its skies. Iraq's transition of all internal defense to the MOI, planned for July 2012, has been postponed; however, the MOI now has 80%–90% responsibility for security in Baghdad.³⁹¹

Ministry of Interior

The MOI remains an effective police agency in many aspects; however, it struggles to prevent both large- and small-scale terrorist attacks. According to the Office of Security Cooperation-Iraq (OSC-I), the single greatest shortfall in the near term is in the gathering and processing of intelligence. When U.S. forces departed Iraq, they took with them much of the ability to track and penetrate terrorist cells.³⁹² Currently, the MOI lacks the equipment and training to intercept communications. Iraqi leadership has also expressed frustration over burdensome requirements for gaining court permission to eavesdrop on communications.³⁹³ The shortfall in the ability to intercept terrorist communications, coupled with a lack of integration between Iraq's intelligence agencies and a lack of forensic analysis capacity, apparently has left the ISF blind to a resurging al-Qaeda in Iraq.³⁹⁴ Thus, although the MOI can react to a terrorist attack after the fact, it is unable to move proactively against nascent terrorist cells.³⁹⁵

A major attack on a jail in Tikrit on September 27, 2012, drew sharp criticism of the ISF. Ten guards were killed, and dozens of inmates escaped.³⁹⁶ Al-Qaeda later took credit for the attack, claiming that it was able to smuggle weapons into the facility.³⁹⁷ A local government official called the incident “a regrettable security breach,” promising that an investigation would begin “starting with the commander of the security forces” at the prison.³⁹⁸

Adequate intelligence is not the only capacity gap facing the MOI. It also lacks the equipment needed to manage its borders effectively to prevent

The Institutionalization of Corruption in Iraq

Corruption and the level of theft of government funds by GOI officials remains a matter of controversy. While both Prime Minister al-Maliki and Chief Justice Medhat al-Mahmoud concede that corruption remains a problem, both state that the pervasiveness of corruption has been exaggerated. Critics of the government, on the other hand, claim that corruption is now worse than it has ever been.³⁹⁹ Dr. Abdul Basit, until mid-October President of Iraq’s Board of Supreme Audit and currently the interim Governor of Central Bank, has told SIGIR that there has been a massive flight of U.S. dollars from Iraq, mostly through money laundering, and that this is evidence of widespread corruption. According to Dr. Abdul Basit, approximately \$1 billion a week is leaving Iraq—80% of it moved through fraudulent documents hiding its true purpose.⁴⁰⁰

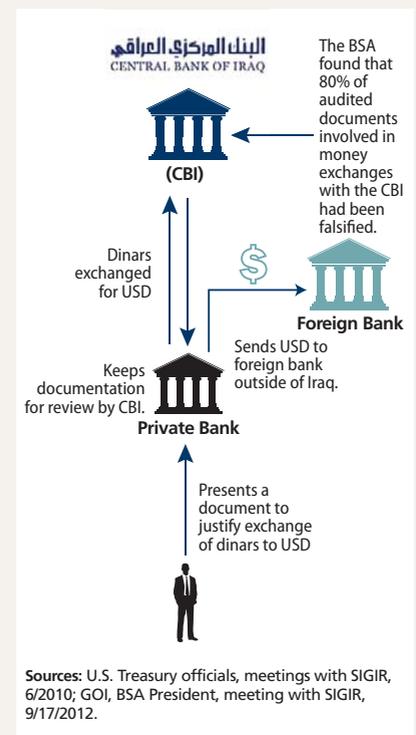
According to several current and former GOI officials, corruption in Iraq is not tied to personal criminal activity but has become ingrained in the government infrastructure through the

political parties.⁴⁰¹ A widespread method to accomplish this corruption has been government contracts, often using shell companies outside of Iraq.⁴⁰² The companies that receive these rigged awards then move the funds outside of the country through fraudulent means.⁴⁰³

In recent interviews with SIGIR, numerous senior Iraqi officials, advisors to Iraq’s anticorruption institutions, and program implementers have pointed to a clear evolving pattern of corruption that has become institutionalized within the government and political system of Iraq. In the view of several officials, corruption has transformed from controlled corruption under a dictatorship, to corruption out of control during a period of lawless violence, to the current situation, where corruption and the patronage it allows has become a means of governing.⁴⁰⁴

A repeated complaint, even among the supporters of the current government, has been the “Quota System,” which is shorthand for the allotment of government posts according to political blocks. Officials who owe their positions, and thus loyalty, to their political sponsors are compelled to siphon government largess

to political backers according to arrangements made outside of public view. In some cases, this practice has nearly swallowed up entire projects and programs, leaving the public to benefit from a small fraction of the money spent.⁴⁰⁶



the smuggling of arms. The United States is assisting the Iraqis in refurbishing 49 sonar backscatter vans and providing 100 smaller devices that will allow for the rapid inspection of incoming vehicles.⁴⁰⁵

Ministry of Defense

OSC-I reported this quarter that the MOD continues to build Iraq’s capacity for external defense across its forces:

- Iraq remains particularly vulnerable in protecting the Port of Umm Qasr and al-Basrah Oil Terminal (ABOT). Two pipes leading to ABOT support 80% of Iraq’s revenues. This facility is

protected by nine patrol boats; three additional boats have yet to arrive.⁴⁰⁷

- Iraq is building the capacity to control its airspace. This quarter, pilots for the first of two squadrons of F-16s were training in the United States. Meanwhile, 350 maintenance personnel began training courses in Jordan, 150 of whom will go on to specialized training for F-16 maintenance. The goal is to have the ability to operate and maintain the aircraft when they arrive.⁴⁰⁸
- The MOD has recognized a shortfall in its armored maneuver forces. It has approached DoD about the possible purchase of additional

Iraq remains particularly vulnerable in protecting the Port of Umm Qasr and al-Basrah Oil Terminal.

Bradley Fighting Vehicles or Stryker armored personnel carriers to increase the mobility of Iraqi infantry units.⁴⁰⁹

Justice System

The Iraqi court system continues to struggle to protect its judges from terrorist activity. Its current force of 7,500 is being supplemented by 2,500 police from the MOI. While the Higher Judicial Council (HJC) believes this to be an adequate force to protect the judiciary, these security personnel lack firearms and other equipment they need to protect staff and facilities.⁴¹⁰

The court system also struggles with human rights issues, including reported acts of torture and retaliatory prosecutions by police and military authorities. The courts have expressed frustration over a lack of legal tools available to confront abuses by security forces.⁴¹¹

Death Penalty

As of October 10, 2012, Iraq had executed 119 people thus far in 2012,⁴¹² up from 68 executions in all of 2011.⁴¹³ In August, during a three-day period, 26 people were executed. In the first week of October, authorities executed another 23 people.⁴¹⁴ The United Nations Special Rapporteur on extrajudicial, summary, or arbitrary executions called on Iraq to halt the executions and review the death-row cases.⁴¹⁵

Other Developments

On October 16, 2012, the Governor of the Central Bank of Iraq, Sinan al-Shabibi, was removed from office.⁴¹⁶ In his place, the CoM installed the President of the Board of Supreme Audit, Dr. Abdul Basit, as a temporary measure.⁴¹⁷ For more on these developments, see Section 1 of this Report.

An outspoken leader of the anticorruption effort, former Commission of Integrity (COI) Commissioner Raheem al-Ugaili has been assigned to the HJC's public prosecution office. He informed SIGIR that he now faces at least 10 charges of "administrative corruption" for allegations such as:⁴¹⁸

- holding press conferences and exaggerating the level of corruption in Iraq
- providing U.S. officials statistics on the performance of the COI—a requirement for receiving U.S. grant assistance through the GoCASE initiative (a computerized case processing system)

A number of other COI officials also have been charged with similar crimes or have been reassigned since al-Ugaili resigned as COI Commissioner in protest, claiming political interference in his duties.⁴¹⁹

The current COI Commissioner, Judge Alla'a Jwad Hameed, completed his first year in office, serving as the third interim commissioner since the last appointed and confirmed commissioner, Judge Radhi Hamza al-Radhi, resigned and fled to the United States in September 2007. Commissioner Alla'a has focused enforcement resources on an antibribery campaign that confronts retail corruption⁴²⁰ and on the requirements that government employees sign a code of conduct and submit financial reports. Only a third of GOI employees have signed the code of conduct.⁴²¹

The most significant corruption conviction this quarter involved a former Financial and Administrative Director General who was sentenced to 15 years in prison for embezzling more than \$430,000.⁴²² The most notable arrest this quarter was of an employee in the state-owned al-Rasheed Bank accused of embezzling approximately \$9.7 million by helping a customer draw checks from accounts with no balance. The criminal case is pending.⁴²³ ♦

A former Financial and Administrative Director General was sentenced to 15 years in prison for embezzling more than \$430,000.

ECONOMY

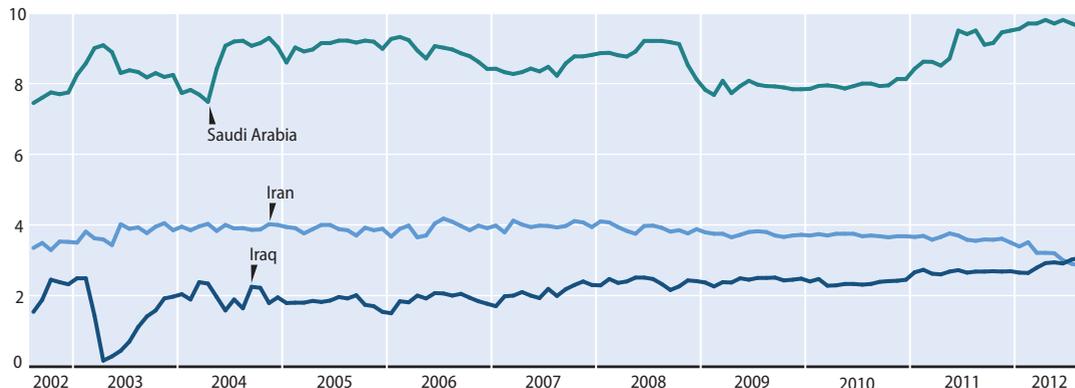
Iraq overtook Iran this quarter as the second-largest producer of crude oil in the Organization of the Petroleum Exporting Countries (OPEC), but still well behind Saudi Arabia (see Figure 4.10). The development occurred as Iraq's average output topped 3.0 million barrels per day (MBPD) over a two-month-long period for the first time in more than two decades. Crude oil export volume also rose to post-1990 record levels. Rising oil output and the launch of several major infrastructure projects helped maintain the double-digit gross domestic product (GDP) growth projected by the International Monetary Fund (IMF) for 2012. Although the revised 10.2% projected growth for 2012 was among the highest rate for oil-exporting nations in the Middle East and North Africa region, the figure is more than 2% lower than the IMF's 12.6% GDP growth projection made earlier in 2012.⁴²⁴ Iraq's longer-term economic prospects remained clouded by a combination of bureaucratic inertia and an increasingly divisive political climate.⁴²⁵

Other key indicators of Iraq's economic position this quarter included:

- **Oil Export Receipts.** The GOI earned \$20.73 billion in receipts from the sale of crude oil during the quarter. The total receipts were 9% less than the previous quarter, because of lower crude oil prices. The income represented a 6% increase above the same quarter in 2011.⁴²⁶
- **Inflation.** Year-on-year core inflation fell to slightly less than 5% in August 2012, after remaining steady around the 6% level for much of the previous quarter. The figure is well below the 10.6% average projected in April 2012 by the IMF for oil-exporting nations in the Middle East and North Africa region. Several factors appeared to contribute to this decline, including lower import costs and a stable exchange rate for the Iraqi dinar. Growth of money supply—a potential source of inflationary pressure—also fell from a year-on-year rate of more than 24% in April and May of 2012 to less than 11% in July, the most recent monthly figure available. There have also been reports of further delays in implementing a long-expected regime of import tariffs that would add to consumer costs once implemented. Even with the expected tariffs,

Crude oil export volume also rose to post-1990 record levels.

FIGURE 4.10
CRUDE OIL PRODUCTION, IRAQ VS. IRAN AND SAUDI ARABIA, 8/2002–8/2012
MBPD



Source: IEA, information provided to SIGIR, 10/8/2012.

Iraq has now paid a total of \$37.6 billion to more than 100 governments and international organizations for distribution to 1.5 million claimants.

however, core inflation is expected to remain around 6% during 2012–2016.⁴²⁷

- **Currency and Interest Rates.** The Iraqi dinar remained stable this quarter, with the official exchange rate holding at 1,166 per U.S. dollar since it was revalued by a token amount of 4 dinars in January 2012. The unofficial market rate for the dinar also moved closer to the official rate.⁴²⁸ The CBI's policy interest rate was also unchanged at 6% for the 10th consecutive quarter.⁴²⁹
- **Stock Exchange.** As Figure 4.11 shows, the Iraq Stock Exchange (ISX) index rose marginally this quarter by just over 1%, but remained 15% lower for the year to date. Once the best-performing equities market in the Middle East region, the ISX so far in 2012 has been among the worst, as political uncertainty and the impact of ongoing slow bureaucratic decision making continue to dampen market sentiment. Participation of foreign investors remained well below levels seen through much of 2011, with their share of total trading volume accounting for 5% or less of the total for several weeks during the quarter. Between mid-2010 and the end of 2011, foreigners' share in total trading volume tended to fluctuate between 8% and 16%.⁴³⁰

- **Debt and Reserves.** The GOI continued its payment of war reparations related to Saddam Hussein's 1990 invasion of Kuwait with a transfer of \$1.3 billion to Kuwait on July 26, 2012. Iraq has now paid a total of \$37.6 billion to more than 100 governments and international organizations for distribution to 1.5 million claimants. About \$14.7 billion in claims remain to be paid, mainly to Kuwaiti claimants.⁴³¹ Even with these payments, Iraq's hard currency reserves held by the CBI remained at \$63 billion during the quarter.⁴³²
- **IMF Stand-By Arrangement (SBA).** The IMF this quarter approved a 7-month extension (to February 2013) of its \$3.58 billion Stand-By Arrangement (SBA) with the GOI. The SBA, effectively a lending facility, was first scheduled to expire in February 2012 and later extended through July 2012. Despite projected budget deficits, the GOI so far has not needed to draw on the SBA mainly because it has been unable to spend large percentages of ministerial capital budgets, resulting in annual surpluses.⁴³³ The key objectives of the SBA are to preserve Iraq's macroeconomic stability and to support Iraq's adoption of policies and measures to ensure sustainable growth and poverty reduction. The program focuses on modernizing Iraq's public financial management system; developing the financial sector, including enhancing CBI operations and restructuring the balance sheets of Iraq's two main state-owned banks; and ensuring transparency and accountability in the oil sector.⁴³⁴ According to the IMF, the extension will give the GOI more time to implement the policy measures needed to complete the IMF's combined third and fourth reviews of Iraq's progress in these areas.⁴³⁵

FIGURE 4.11
IRAQ STOCK EXCHANGE VS. S&P PAN ARAB COMPOSITE INDEX, 1/2012–9/2012
% Change



Note: The S&P Pan Arab indices include stocks from listed companies in the countries of Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the UAE.

Sources: Standard & Poor's, "S&P Pan Arab-Indices," 12/2010, www.standardandpoors.com, accessed 10/4/2011; Standard & Poor's Indices Client Services, information provided to SIGIR, 1/3/2012, 4/3/2012, 7/2/2012, and 10/1/2012; Iraq Stock Exchange, "Indices," www.isx-iq.net/isxportal/portal/sectorProfileContainer.html?sectorid=1, accessed 10/2/2012.

Oil and Gas

Iraq set records for both crude oil production and exports, despite a reduced contribution from the Kurdistan Region for much of the quarter. A mid-September agreement between the GOI and KRG secured, at least for the short-term, the resumption of exports from the Region and the payment of oil companies working there. However, prospects remained uncertain for any compromise on long-delayed legislation that would set basic rules for Iraq's petroleum sector.⁴³⁶ For a more detailed discussion of the issues dividing the GOI and the KRG, see the Governance subsection of this Report.

In October, the International Energy Agency (IEA) published an assessment of Iraq's energy sector, including a set of three projected scenarios for its potential growth through the year 2035. In the central of these growth scenarios, IEA envisions Iraq investing \$530 billion in energy over the 23-year period to generate almost \$5 trillion in revenues. Under this scenario, between 2012 and 2020, Iraq would produce 45% of expected growth in the global supply of crude oil, become self-sufficient, and begin to export natural gas.⁴³⁷ For more on the IEA study, see Section 1 of this Report.

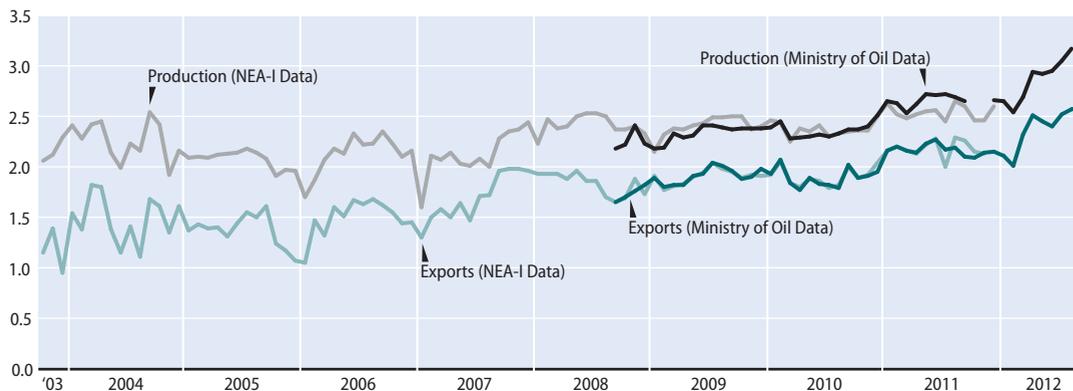
Crude Oil Production and Development

Oil production for the first two months of the quarter averaged 3.11 MBPD, an increase of 15% from the same two-month period in 2011 and more than 6% above the production rate of last quarter (see Figure 4.12). July's production of 3.05 MBPD marked the first monthly output exceeding the Ministry of Oil's 3.0 MBPD average production target for 2012, and August's output of 3.17 MBPD was the highest monthly production in more than two decades. The performance elevated the country to OPEC's second-largest producer. Iraq is one of just two OPEC member nations not limited by a production quota (the other is Libya), and Deputy Prime Minister Hussain al-Shahristani has declared his government will continue to produce as much crude oil as possible—even if global oil markets are oversupplied.⁴³⁸

Continuing the trend of recent quarters, the growth in output came mainly from the large southern fields—including al-Rumaila (BP-led), West Qurna-1 (Exxon-led), and al-Zubair (ENI-led)—which were able to increase production as a result of recent incremental expansion of export capacity. Among other southern fields, Halfaya also continued a gradual increase in production since coming on line in June 2012, registering an output

IEA envisions Iraq investing \$530 billion in energy over the 23-year period to generate almost \$5 trillion in revenues.

FIGURE 4.12
CRUDE OIL PRODUCTION AND EXPORTS, BY MONTH, 10/2003–9/2012
MBPD



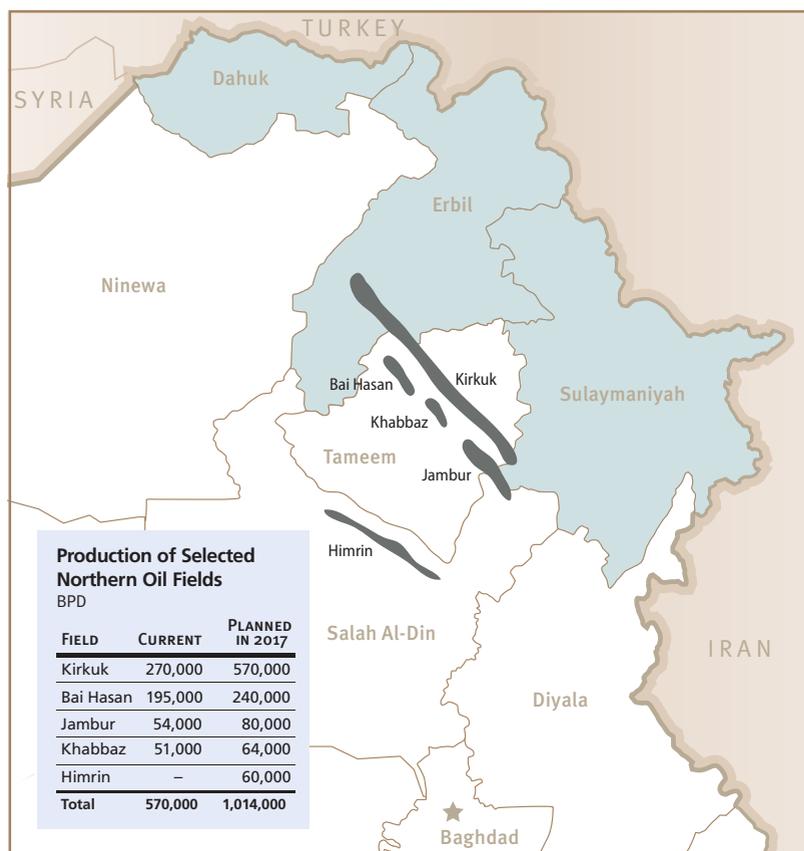
Sources: NEA-I, responses to SIGIR data calls, 6/4/2010, 7/6/2010, 1/11/2011, 4/5/2011, 7/7/2011, 10/17/2011, and 1/6/2012; GOI, Ministry of Oil, "Domestic Consumption," www.oil.gov.iq, accessed 4/23/2012 and 10/8/2012; GOI, Ministry of Oil, "Iraqi Oil Exports for September Elevate to 2.6 Million Barrels per Day," 10/13/2012, www.oil.gov.iq/moo/feeds.php?lang=en&page_name=news&id=491, accessed 10/13/2012.

The GOI's ability to meet a newly declared projected peak production of 9.5 MBPD by 2017 remains questionable.

of 86,000 barrels per day (BPD) this quarter on its way toward a year-end goal of 100,000 BPD. Shell said it expected to make its year-end production target of 175,000 BPD at the large Majnoon field.⁴³⁹

The GOI's ability to meet a newly declared projected peak production of 9.5 MBPD by 2017 remains questionable. The target represents a downward revision from an earlier goal of 12 MBPD, but independent petroleum experts have projected far lower totals. According to the October IEA report, achieving an output of 9 MBPD by 2020 would require matching the highest sustained growth in oil industry history. It suggests a level of just over 6 MBPD is more plausible.⁴⁴⁰

FIGURE 4.13
CURRENT AND PLANNED CRUDE OIL PRODUCTION AT FIVE NORTHERN FIELDS



Note: All locations approximate and do not imply endorsement or acceptance of any positions taken in territorial disputes.

Source: MEES, *Weekly Report*, Vol. 55 No. 34, 8/20/2012, p. 18.

Petroleum specialists cite low GOI ministerial technical capacity and bureaucratic delays that have slowed ministerial decision making for their more conservative projections. For example, the multibillion-dollar Common Seawater Supply Project, needed to boost production in the southern fields, was ready to be offered for competitive bidding nearly two years ago, but it was only in May 2012 that the Ministry of Oil invited 10 companies to bid. A \$170 million consultancy contract for the project was awarded in October 2012. The initial phase of the multi-year project was originally planned to be completed in 2013.⁴⁴¹

Meanwhile, output has been dropping in Iraq's northern fields, with production zones shrinking, geological structures breaking down, and well pressures dropping. This quarter, the GOI considered measures to reverse the decline of its main northern field at Kirkuk as part of a broader plan to nearly double overall production from five northern fields from their current 570,00 BPD to more than 1 MBPD by 2017 (see Figure 4.13).⁴⁴² The Erbil-based Iraqi company KAR, which operates the northern part of the Kirkuk field known as the Khurmala Dome, planned to begin seismic work to map underground oil reservoirs there this quarter as part of a separate effort to increase capacity.⁴⁴³

Fifth Licensing Round

The Ministry of Oil is expected to revise the contract terms for the fifth, but not yet scheduled, petroleum-licensing round to make them more attractive to large international oil companies. A Ministry of Oil critique of the May 30–31, 2012, fourth licensing round concluded that the proposed contract terms were responsible for the auction outcome. Just seven bids were received from the 39 prequalified companies, bidders showed no interest in 9 of the 12 oil and gas exploration blocks that were offered, and no bid was tendered by a major western international oil company.⁴⁴⁴

Crude Oil Exports and Capacity Expansion

The Ministry of Oil reported record crude oil exports that averaged 2.56 MBPD during the quarter—19% more than the same three-month period in 2011 and 4% higher than the previous quarter. It marked the highest export volume in decades. Although exports for the quarter remained below the 2.60 MBPD average for the year assumed in the GOI's 2012 budget, higher-than-projected crude oil market prices during this period generated receipts that remained ahead of budget estimates.⁴⁴⁵

Export growth was driven mainly by higher contributions from large southern fields. At the end of the quarter, just three fields—al-Rumaila, West Qurna-1, and al-Zubair—accounted for about three-quarters of Iraq's total exports. The increase was due to the activation of two additional single-point mooring stations (SPMs) in the Persian Gulf last spring and critically needed new onshore infrastructure, including a new pipeline linking a pumping station at al-Zubair with a crude oil storage facility at al-Faw. A resumption of exports from the Kurdistan Region led to an increase in northern exports.⁴⁴⁶ Figure 4.14 shows the growing disparity between the contribution of northern and southern fields to Iraq's total crude oil exports.

However, major work remains to be done for the southern fields to reach their full export potential:⁴⁴⁷

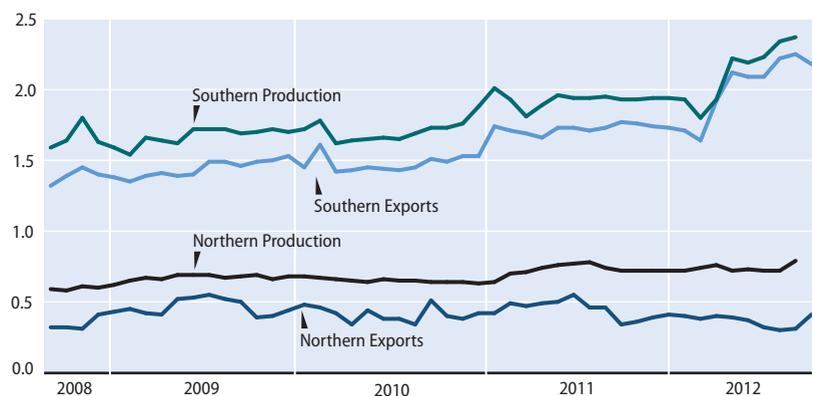
- Additional pumping-station capacity is required to increase the rate at which crude oil moves through the on-shore pipeline network connecting the oil fields with waiting tankers in the Persian Gulf. At present, the lack of this additional capacity means that each of the new SPMs can only operate at half of its 800,000 BPD design capacity.
- Much of the pipeline network is now 10–15 years beyond its planned working life, raising concerns about adding pipeline pressure to accelerate loading rates.
- With less than half the projected 8 million barrels of storage capacity at al-Faw completed so far, crude oil storage also remains a bottleneck.

Export growth was also helped by the KRG's decision in August to resume shipping crude oil temporarily via the Ministry of Oil's pipeline to the Turkish Mediterranean port of Ceyhan as a “confidence-building measure” to ease tensions in its dispute with the GOI over control of Kurdistan's petroleum, a step that led to a GOI-KRG agreement in September. The KRG halted exports in April 2012, claiming a lack of reimbursement from Baghdad and technical glitches, armed attacks, and maintenance closures of the Ceyhan pipeline initially slowed the resumption of exports.⁴⁴⁸ By end of the quarter, KRG exports to Ceyhan were running at about 140,000 BPD and rising quickly.⁴⁴⁹ For details of attacks on the Ceyhan pipeline, see the Security and the Rule of Law subsection of this Report.

KRG officials confirmed reports that a small, but politically significant, direct trade in petroleum transpired this quarter between the KRG and

Export growth was driven mainly by higher contributions from large southern fields.

FIGURE 4.14
CRUDE OIL EXPORTS AND PRODUCTION, NORTHERN VS. SOUTHERN FIELDS, 9/2008–9/2012
MBPD



Note: Oil produced in the Kurdistan Region is included in the data for northern exports but not included in the production data.

Sources: GOI, Ministry of Oil, “Domestic Consumption,” oil.gov.iq, accessed 10/11/2012, and “Iraqi Oil Exports for September Elevate to 2.6 Million Barrels per Day,” 10/13/2012, www.oil.gov.iq/moo/feeds.php?lang=en&page_name=news&id=491, accessed 10/13/2012.

Turkey, with the KRG shipping oil condensates to Turkey in return for refined product. The KRG disputes the GOI's position that the State Oil Marketing Organization has the sole right to export Iraq's oil, arguing that its direct trade with Turkey is legal as long as it is transparent and the revenue is shared with the GOI.⁴⁵⁰

Adjusting to shifting political realities on Iraq's borders, the GOI has reportedly decided to accelerate plans to build a new \$5 billion export pipeline with a capacity to carry 1 MBPD of crude oil from Iraq's northern oil fields and the Kurdistan Region west through Jordan to the Red Sea port of Aqaba. Such a route would reduce the importance of the pipeline that currently transports most of Iraq's northern crude oil through Turkey to Ceyhan. Although it has a theoretical capacity of 1.6 MBPD, years of neglect has reduced the northern pipeline's effective capacity to about 600,000 BPD. The GOI had been planning to expand the Kirkuk-Ceyhan pipeline. It has also shelved, at least temporarily, plans for a new 2.25 MBPD pipeline linking the northern fields to the Mediterranean via Syria, whose government has been in the throes of a prolonged insurrection.⁴⁵¹

Iraq currently exports the majority of its crude oil by sea through the Straits of Hormuz; however, security concerns and Iranian threats to close the waterway in retaliation for the imposition of international trade sanctions has accelerated Iraq's search for alternatives. Iraqi officials this quarter said they were reviewing the option of reviving a long-dormant export pipeline via Saudi Arabia to the Red Sea, although such an option would likely require improving the political relations between the two countries.⁴⁵²

The KRG this quarter announced plans to build a 1 MBPD capacity pipeline connecting oil fields in the semi-autonomous region directly to Turkey. The decision was apparently made without GOI participation. The pipeline would, for the first time, give the KRG a major export route for its crude oil that does not pass through GOI territory outside of the Region. The KRG is expected to put the project

out for tender next quarter, with completion scheduled for 2014.⁴⁵³

Refineries and Petroleum Products

The GOI said it was in preliminary discussions with Chevron Phillips Chemical Company (a joint venture between Chevron and ConocoPhillips) to build a large petrochemical plant in Basrah that would produce olefins and polyolefins. The complex, said to cost around \$20 billion, would be built in two stages and have a maximum capacity of 7 million tons per year. It was unclear how Chevron's decision to invest in the Kurdistan Region's crude oil sector despite GOI threats of retribution might affect the talks. The Basrah petrochemical complex is one of several downstream projects the GOI hopes to build to add greater value to its crude oil wealth and meet domestic demand for oil products. National Investment Commission (NIC) Chairman Sami al-Araji said there were currently plans to build four fertilizer plants, three urea plants, and a phosphate plant.⁴⁵⁴

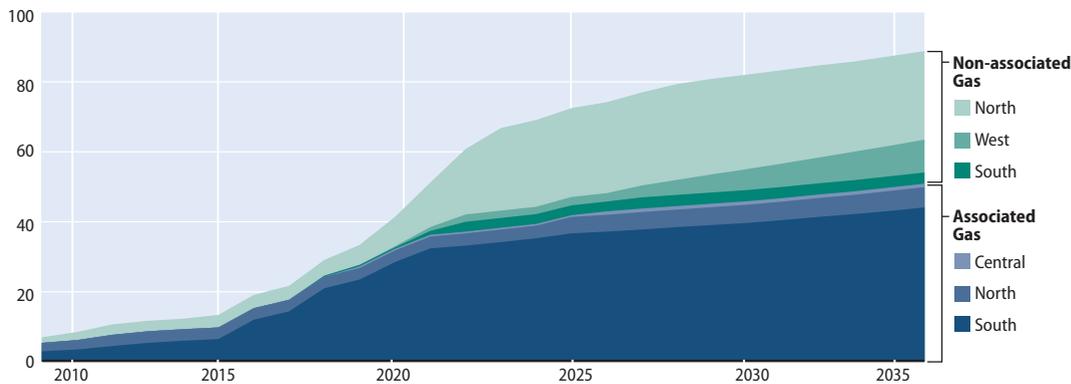
The Ministry of Oil announced this quarter that bidding had opened for the development of the Nassiriya oil field and an accompanying refinery. The announcement said the ministry would invite only prequalified contractors to bid.⁴⁵⁵ The GOI also has had long-standing plans to build four new oil refineries to double existing capacity to 1.5 million barrels per day. Despite improvements in the terms offered by the GOI for these projects over the past year, contracts have yet to be signed.⁴⁵⁶ IEA's October report has projected significant increases in Iraq's refinery capacity through 2035 under two of three growth scenarios.⁴⁵⁷

Natural Gas

Iraq produced an average of 1,838 million cubic feet per day (MCFD) of natural gas during the first two months of the quarter—1,374 MCFD in the south and 464 MCFD in the north. Iraq also set a new record for gas flaring, averaging 1,253 MCFD of gas during the first two months of the quarter, more than 7% above last quarter's average of

The KRG this quarter announced plans to build a pipeline connecting oil fields in the semi-autonomous region directly to Turkey.

FIGURE 4.15
IEA PROJECTION OF IRAQ GAS PRODUCTION, THROUGH 2035
 BCM per Year

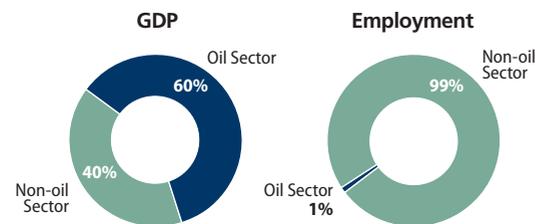


Note: Data reflects IEA "central scenario" estimates.

Source: IEA, *Iraq Energy Outlook*, 10/9/2012, p. 72.

1,167 MCFD. The southern oil fields account for the vast majority of the flaring.⁴⁵⁸ According to Deputy Prime Minister al-Shahrastani, the \$17 billion Shell-led project to capture associated gas currently flared at three of the southern oil fields is on schedule, and Iraq could eventually produce 90 billion cubic meters (BCM) per year of natural gas (equivalent to 8,707 MCFD).⁴⁵⁹ As shown in Figure 4.15, IEA's October report projects Iraq's production of natural gas will increase to almost 90 BCM by 2035 under IEA's central growth scenarios.⁴⁶⁰

FIGURE 4.16
PERCENTAGE OF GDP AND EMPLOYMENT, OIL SECTOR VS. NON-OIL SECTOR



Source: UN, IAU, "Sustainable Development, Green Economy and Oil and Gas in Iraq," 6/2012, iq.one.un.org/documents/469/Sustainable%20Development%20-%20English.pdf, accessed 10/9/2012.

Developments in Non-hydrocarbon Areas

National Development Plan

A \$275 billion GOI *National Development Plan* for 2013–2017 is now in the drafting stage. The plan calls for 50% more investment than Iraq's current development plan, which was to provide \$186 billion for 2010–2014. According to the GOI, the overarching goal of the new plan will be to diversify an economy that today is driven almost exclusively by crude oil income.⁴⁶¹ Economic diversification is important politically and socially because it is a key to

creating the jobs needed to reduce unemployment. Figure 4.16 compares the percentage of GDP and employment that come from the oil and non-oil sectors of the economy.

This quarter, the CoR considered legislation to support a 3-year \$30 billion-plus infrastructure-building program that includes provisions for the GOI to issue sovereign guarantees to back large loans required to finance Iraq's development of non-petroleum sectors of the economy. The absence of loan guarantees, coupled with an antiquated national banking system, has slowed development outside the hydrocarbon sector. The program includes:⁴⁶²

Economic diversification is important politically and socially because it is a key to creating jobs.

Iraq's telecommunications sector is one of the least developed in the Middle East.

- \$5 billion in spending on low-cost housing for the poor—up from an initial earmark of \$2 billion
- \$5 billion for schools and other education infrastructure
- \$12 billion for transportation, including new rail lines, airports, highways, and ports
- \$3 billion on hospitals and other healthcare facilities
- \$5 billion for water-related projects
- \$5 billion for the electricity sector

Communications

This quarter, Iraq's Communications and Media Commission levied fines of up to \$12,800 per day against Iraq's three mobile telephone providers for failing to meet an August 31, 2012, deadline to complete initial public stock offerings (IPOs) on the ISX. The three operators—Asiacell, Zain, and Korek—are obligated under the terms of their operating licenses to offer 25% of their stock to the public. Asiacell, which is owned by Qatar Telecom, this quarter became the first of the three mobile phone companies to gain membership to the ISX. Its IPO is expected before the end of 2012. Zain announced its IPO would take place in early 2013. All three providers have appealed the fines as they work to prepare for their IPOs. The GOI also

reportedly froze Zain's bank assets in connection with a demand the Kuwait-owned mobile provider pay \$262 million in unpaid fines levied for the alleged sale of Subscriber Identity Module (SIM) cards without prior permission from Iraq's telecom regulatory agency, the Communications and Media Commission.⁴⁶³

Iraq's telecommunications sector is one of the least developed in the Middle East. It is also one of the very few non-petroleum-based sectors of Iraq's economy viewed as having strong short- and medium-term growth potential, attracting commercial investors.⁴⁶⁴ Figure 4.17 shows the percentage of market penetration and the average revenue per user in selected Middle East countries.

It was not immediately clear how the resignation this quarter of Minister of Communications Tawfiq Allawi would affect the ministry's plans to award a fourth mobile phone operating license before the end of 2012.⁴⁶⁵ For details on this resignation, see the Governance subsection of this Report.

Transportation

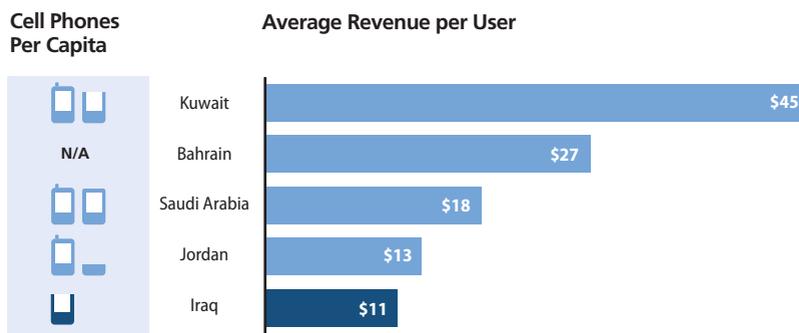
Railroads

The Iraqi Republic Railway Company inaugurated two U.S.-funded system upgrades, with a combined cost of \$65 million, in a formal ceremony this quarter. The U.S. projects provided the company with system-wide control over rail movements as well as microwave radio communications along rail lines running from Iraq's southern port city of Umm Qasr to the town of Rabeaa on Iraq's northwestern border with Syria.⁴⁶⁶

Aviation

This quarter, the CoM and CoR both approved a \$500 million agreement struck in principle earlier this year with Kuwait to resolve \$1.2 billion in outstanding claims against Iraqi Airways for the seizure of Kuwaiti aircraft following Saddam Hussein's 1990 invasion of the emirate. International acceptance of the claim's legitimacy had restricted efforts by Iraqi Airways to resume a service to key

FIGURE 4.17
MOBILE TELEPHONE MARKETS, SELECTED MIDDLE EAST COUNTRIES



Note: Market coverage in excess of 100% indicates cell phones per capita in the defined market exceeds 1.

Source: Dunia Frontier Consultants, *Iraq Market Tracker*, "Introduction to Iraqi Telecoms," 6/22/2012.

destinations, including London. Under the agreement, \$300 million will be paid directly to Kuwait, while \$200 million will be used to launch a new jointly owned Iraqi-Kuwaiti airline.⁴⁶⁷

Middle East regional airlines continued to add new commercial service to Iraq this quarter. Dubai-based Emirates began flights from Dubai to Erbil, while Bahrain-based Gulf Air resumed service to Iraq with flights to Baghdad, Basrah, Najaf, and Erbil. Iranian carrier Mahsan announced plans to begin a Tehran-Erbil service.⁴⁶⁸

Construction of the Kurdistan Region's third large commercial airport began this quarter in Dahuk province. Completion of Dahuk International Airport, now projected for 2015, would give international travelers direct air connections with each of the Region's three provinces. The other airports, at Erbil and Slemani (near Sulaymaniyah), currently have direct flights to more than 25 destinations in the Middle East, Europe, and Asia.⁴⁶⁹

Finance

The CoR this quarter considered draft legislation that would enable the GOI to provide sovereign guarantees—a legally binding commitment that the government will pay money owed to a contractor if the primary obligor defaults. If passed, the law would be a significant step toward resolving the problem of financing large infrastructure-development projects outside the petroleum sector. The GOI's reluctance to provide such backing until now has kept both international commercial banks and government-owned lending institutions, such as the U.S. Export-Import Bank, from playing a major role in financing Iraq's rebuilding efforts. With Iraq's domestic banks either unable or unwilling to issue large loans, funding sources for non-oil development has been largely restricted to international aid, private contractor funds, or GOI cash payments.⁴⁷⁰

With its priority mainly on crude oil development financed by international oil companies, the GOI has so far managed to grow the economy without a modern financial services sector. However, with large infrastructure projects now beginning to



Kurdistan Prime Minister Nechervan Barzani (at podium, right) presides over September 24, 2012, groundbreaking ceremony for a new airport in Dahuk. (KRG photo)

take off, including one million low-income housing units the GOI expects to build in the next several years, many smaller enterprises will need loans to facilitate supply of support goods and services.⁴⁷¹

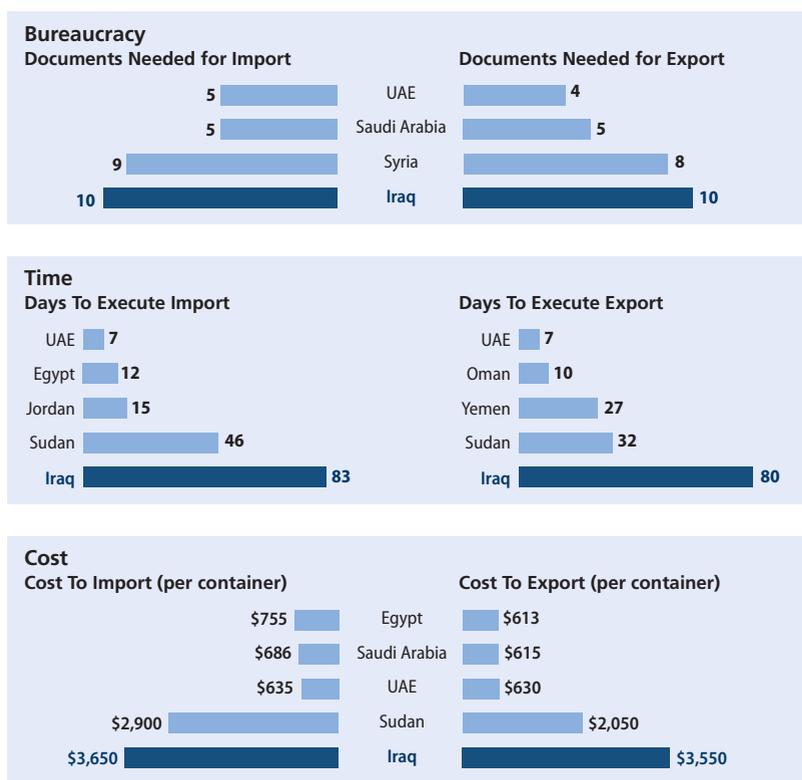
This quarter, the NIC reported that state-owned banks plan to offer home mortgages to the general public for the first time in Iraq. Without a credit bureau or other mechanism to assess a borrower's credit worthiness, initial home loans would be issued to government employees using their salaries as collateral.⁴⁷²

The "Iraq Finance 2012" conference, held in London in September, brought together senior GOI leaders responsible for financial issues and international capital market specialists to discuss steps required to regenerate Iraq's banking and financial services industry. Two state-owned banks, Rafidain and Rasheed, control 90% of the sector despite years of U.S. efforts to strengthen the small group of private banks. The conference produced several recommendations, including a proposal that Iraq's private sector banks play a larger role; however, there were few specifics on how to turn the recommendations into reality.⁴⁷³

The U.S. Department of the Treasury imposed sanctions this quarter against the Elaf Islamic Bank in Iraq for "facilitating significant transactions ... and financial services for designated Iranian

Middle East regional airlines continued to add new commercial service to Iraq this quarter.

FIGURE 4.18
FACTORS AFFECTING INTERNATIONAL TRADE IN IRAQ



Source: The World Bank, IFC, *Doing Business in the Arab World 2012*, doingbusiness.org/~media/FDPKM/Doing%20Business/Documents/Special-Reports/DB12-ArabWorld.pdf, p. 64, accessed 10/9/2012.

banks.” According to Treasury, the bank had conducted “tens of millions of dollars” in business with the Export Development Bank of Iran—an institution that both the United States and European Union named in 2010 as supporting Iran’s nuclear proliferation efforts. Treasury’s action bars the Iraqi bank from access to the U.S. financial system.⁴⁷⁴

Trade and Investment

This quarter, the GOI took steps to facilitate international participation in the country’s development. The NIC said it had worked with the National Security Council to simplify and accelerate the issuing of visas to employees of foreign companies operating or seeking to operate in the country. U.S.

business executives reported some improvement in the visa-issuing process this quarter.⁴⁷⁵

Additionally, USAID signed an MOU with the Office of the Prime Minister to help Iraq reduce the regulatory obstacles for private-sector companies as part of the new Iraq Solution for Regulatory and Administrative Reform program.⁴⁷⁶ For program details, see Section 3 of this Report.

As Figure 4.18 shows, expensive and time-consuming import and export processes have made Iraq among the most difficult nations in the Arab world to trade with.

The U.S. Chamber of Commerce together with the U.S. Kurdistan Business Council organized a senior-level U.S. business delegation to the Kurdistan Region this quarter to meet with ministers in the KRG and learn more about investment opportunities in the semi-autonomous region. The trip included representatives from 30 U.S. companies and organizations and came after KRG officials expressed interest in attracting more U.S.-owned companies to the region. The Baghdad-based U.S. Business Council in Iraq added 5 new member companies this quarter, bringing its membership total to 20. The group plans to offer membership to about 10 Iraqi-owned companies with U.S. business interests.⁴⁷⁷ Figure 4.19 shows some of the commercial agreements concluded in Iraq during the first two months of this quarter.

Notwithstanding these measures to make business in Iraq easier, the ongoing political uncertainty and security problems remain significant deterrents.⁴⁷⁸

Housing and Commercial Development

This quarter, the NIC announced major foreign investment opportunities connected to plans for redeveloping the former al-Rasheed Iraqi military base on the southern outskirts of Baghdad into a modern urban community that would include 50,000–70,000 housing units, shopping centers, cultural event areas, a medical school, and a 60,000-seat stadium.⁴⁷⁹

The NIC said it had worked with the National Security Council to simplify and accelerate the issuing of visas to employees of foreign companies.

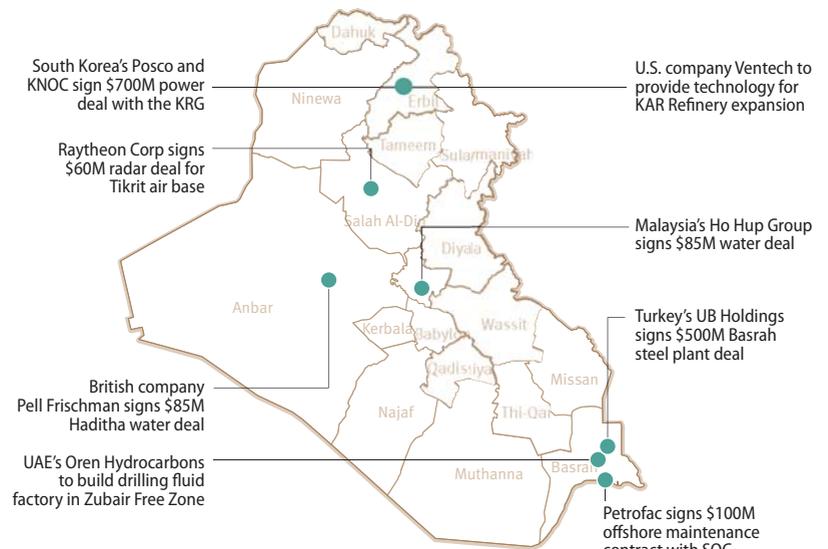
GOI entities awarded contracts for several housing projects this quarter, including:⁴⁸⁰

- a \$185 million deal with the Kurdistan-based KAR Engineering and Construction Co. to build just over 2,000 housing units in northern Baghdad
- a \$180 million contract awarded to the Iraqi company Al-Faheem General Contracting for construction of 2,000 homes in a western Baghdad neighborhood
- a \$247 million contract with Italy's Consorzio Stabile Italia 2010 (agreed in June) for construction of 2,000 residential units in Diwaniyah

State-owned Enterprise Reform

The state-owned enterprise (SOE) working group of the Prime Minister's Task Force for Economic Reform this quarter allocated \$65 million to GOI ministries to prepare 30 selected enterprises to become more attractive commercial investment targets. With limited expertise within GOI ministries for such a task, the funds are expected to be used mainly to engage international consultants to develop specific reform plans. The World Bank, United Nations Industrial Organization, and USAID are planning to support the effort. The CoR has so far failed to act on draft legislation setting a legal framework for private equity investments in the so-called public-private-partnerships with the SOEs.⁴⁸¹ ♦

FIGURE 4.19
INTERNATIONAL INVESTMENT ACTIVITY, SELECTED CONTRACTS,
7/1/2012–8/30/2012



Source: U.S. Chamber of Commerce/Dunia Frontier Consultants, "Iraq Business Activity and Investment Opportunities," 9/2012, p. 4.