

Foreign Direct Investment and the Kurdistan Region's Oil Industry: Economic Potentials and Second Emerging Challenges

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Abstract

This paper attempts to investigate the impact of Foreign Direct Investment (FDI) on economic development in the Kurdistan Region of Iraq. Also, this study focuses on the relationship between FDI and energy industry's production, and its implication on the Kurdistan Region as a booming economy in Iraq. Additionally, the paper highlights the importance of the International Oil Companies (IOCs) in the Kurdistan Region, and the challenges that the IOCs faces, while investing in the Kurdistan Region. Ultimately, the paper takes a look at the security situation as the main barrier for the foreign direct investment in the region.

Keywords: *Foreign Direct Investment, Kurdistan Region, Petroleum Sector, Economic Development, International Oil Companies*

Purpose of the Study:

The main purpose of the current paper is to clarify the main concepts and estimations of the Foreign Direct Investment. This study analyzes the Foreign Direct Investment situation in the Kurdistan region of Iraq in regard to economic development and the oil sector.

An Overview of Oil and Gas Industry in the Kurdistan Region

The Kurdistan Region of Iraq is endowed with abundant resources, with the most untapped and unexplored energy reserves in the whole of Iraq. Nevertheless, just like most of the developing countries with evolving economies where much of the world's proven reserves are located, the Kurdistan Region has more than its fair share of problems. It has been highlighted by the British Minister of Energy, Matthew Hancock "The region is not only thought to be one of the largest untapped areas of oil in the world, but also has significant gas potential."¹ Despite the fact that the Kurdistan Region is considered as one of the richest petroleum regions in Iraq, its petroleum sector is relatively underdeveloped. The exploration of oil in the Kurdistan Region goes back a few years when, in June 2004, the KRG signed "the first contract with DNO, a Norwegian oil company and the KRG was more willing and accurate in exploiting its oil assets."² Decentralization process was one of the most eagerly awaited events in the history of the energy industry for the region. However, the actual

¹ Matthew, Hancock's speech at the 4th Kurdistan-Iraq oil and gas conference . (December 2014). Department of Energy and Climate Changes. UK, accessed on April 16, 2015, Retrieved from: <https://www.gov.uk/government/speeches/matthew-hancock-speech-at-the-4th-kurdistan-iraq-oil-and-gas-conference>.

² Thomas, Strouse. (2010). *Dependent aspirations: the oil policies of the Kurdistan Regional Government*. The Institution for the Middle East Studies, May, P.3.

capacity and the economic potential of the new blocks in the Kurdistan Region are subject to intense speculation as "it was official state policy during the previous Ba'ath regime to not carry out oil exploration in the Kurdistan Region."³ Even though, the proven oil reserves in the Kurdistan Region are still modest, yet the official and unofficial estimations seem extremely promising and have attracted many international oil companies to the region. In the post invasion period, the region's two leading parties the Patriotic Union of Kurdistan (PUK) and Kurdistan Democratic Party (KDP) have worked hard to attract and bring in foreign investors primarily from the West. Since the region, in its short history has suffered from wars and sanctions, both sides generated oil to renovate the economy from the scratch. It was not easy to attract foreign investors to the region since; many companies avoid the hazard of war on their property. Logically, the high risk after the invasion was a challenge for investors looking to explore for energy in the Kurdistan Region. Because, "one does not know how much oil or gas is under the ground until drilling begins."⁴ Additionally, several major players have expressed their willingness to invest in petroleum sector in the Kurdistan Region. It is important to address the Investment law of the Kurdistan Regional Government, which is in favour of foreign investors, and it has created a friendly environment for the investors.

In contrast to what the federal government of Iraq practices in terms of petroleum industry, in the KRG, the oil and gas transactions are generally carried out either through a Production Sharing Contract or through a production sharing agreement (PSA). Moreover, there continue to be valuable reasons for the foreign investors to look at the onshore oil reserves in the Kurdistan Region. The KRG oil and gas law paves the way for the KRG to deal with foreign oil investors, and the law gives a legal framework to the existing PSA with international oil companies. Regardless of it being a landlocked region, KRG's law asserts its constitutional right to get revenues from the current and future energy fields. This, despite the claim of the federal government that the regional contracts are illegal and invalid. According to Article 112 of the Iraqi constitution, "the federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields."⁵ In this debate, the KRG as an autonomous region has the legal right to develop its oil fields, since these do not fall under the definition of "present fields" as quoted above from the constitution.

In line with this, Article 115 states: "All powers not stipulated in the exclusive powers of the federal government belong to the authorities of the regions and governorates that are not organized in a region."⁶ This part of the Iraqi constitution stipulates the role of regional government in developing the future oil fields of the Kurdistan Region. To be argued, the main challenge in the development of hydrocarbon in Kurdistan Region, is the disagreement and continuous tension with the federal government. Notably, the KRG challenged Iraq for its decision on Production Sharing Contracts, since Iraq is in a deal with foreign oil companies with Technical Service Contracts (TSCs). To be noted, the Iraqi Constitution,

³ Interview with former executive at the Iraq National Oil Company, Erbil, (15 March 2010). *Due to the level of sensitivity of issues relevant to this paper, many sources in Erbil requested that information be provided "on background."

⁴ Interview with, Tarik Chalabi, (May, 2010). DNO's Iraq General Manager, Erbil, 15 March. Cited in, Thomas, Strouse. (2010). *Dependent aspirations: the oil policies of the Kurdistan Regional Government*. The Institution for the Middle East Studies.

⁵ Article 112/Iraq's Constitution .(2005). accessed on April 18, 2015, Retrieved from http://www.uniraq.org/documents/iraqi_constitution.pdf.

⁶ Ibid/Article 115.

article 141 stipulates " legislation enacted in the region of Kurdistan since 1992 shall remain in force, and decisions issued by the government of the region of Kurdistan; including court decisions and contracts shall be considered valid unless they are amended or annulled pursuant to the laws of the region of Kurdistan by the competent entity in the region, provided that they do not contradict with the constitution."⁷ The Legal perspective of the contracts with foreign companies is rooted in article 141 and it is federally recognized. The federal dispute is to have total monopoly over energy reserves all over the country. Currently, "Kurdistan Region is the home for almost 57 discovered oil and gas fields"⁸ The ongoing tensions are intensified from time to time, and from 2013 to 2015, the federal government suspended the budget to the KRG and bargained on the region due to energy production contracts and revenue return. The rapid growth of the energy sector in the KRG supported the economic development of the region. Additionally, the security and stability of the KRG attracted the leading Energy companies to invest and start exploring for oil and gas.

A General Overview of Foreign Direct Investment (FDI)

The World Bank defines Foreign Direct Investment (FDI) "as a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is in another economy."⁹ At the same time, the BPM5 echoed that "FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor's purpose is to gain an effective voice in the management of the enterprise"¹⁰ Apparently, FDI grows globally, and this helps in globalization and economic integration of the world. In this regard, the OECD (2008) acknowledged the importance of FDI as it "provides a means for creating direct, stable and long-lasting links between economies."¹¹ Respectively, the FDI enhances the economic cooperation and cross-border relations between nations. Similarly, it promotes internationalization of economic benefits, "it is known that FDI is the distinct and most important vehicle for driving the globalisation of the international economy."¹² Ensuring attractive investment climate is a need for host countries, in which affording a favourable climate for FDI promotes more investment, "FDI happens because foreign investors prefer more to operate directly instead of relying on the local financial markets, supplies, or legal arrangements. In high- risk countries, the share of total inflows is higher and the risk is measured by the country's credit ratings."¹³ In practice, Nimal Sandaratne (2011) stated "for the economy to grow by 7 to 8 per cent a year there is a need to invest around 35 to 40 per cent of GDP. National savings fall far short of this by nearly 10 per cent. Foreign borrowing and foreign investments have to meet this investment-savings

⁷ IIG (nd). *Overview: Kurdistan Region Energy*. Invest in Group. Accessed on April 17, 2015, Retrieved from: <http://www.investingroup.org/publications/kurdistan/overview/energy>.

⁸ Ibid

⁹ World Bank, (nd). *What is the difference between Foreign Direct Investment (FDI) net inflows and net outflows?* . The World Bank. Accessed on April 8, 2015, Retrieved from: <https://datahelpdesk.worldbank.org/knowledgebase/articles/114954-what-is-the-difference-between-foreign-direct-inve>.

¹⁰ UNCTAD.(2013). *Foreign Direct Investment (FDI)*. accessed on April 8, 2015, Retrieved from: [http://unctad.org/en/Pages/DIAE/Foreign-Direct-Investment-\(FDI\).aspx](http://unctad.org/en/Pages/DIAE/Foreign-Direct-Investment-(FDI).aspx).

¹¹ OECD (2008). *OECD Benchmark Definition of Foreign Direct Investment*. fourth Edition, p.16.

¹² Michelle, Hermann., & Others, (2004). *FDI and the Effects on Society*. Proceedings of the Academy for Studies in International Business, New Orleans. Accessed on April 10, 2015, Retrieved from: <http://www.sbaer.uca.edu/research/allied/2004/internationalBusiness/pdf/06.pdf>

¹³ Dinesh, Weeradkkody. (2001), 'Why is FDI so important?' Daily FT, December 9, accessed on April 8, 2015, retrieved from: <http://www.ft.lk/2011/12/09/why-is-fdi-so-important/>.

gap."¹⁴ Moreover, Bengos and Sanchez-Robles (2003) highlighted the fact that FDI has a positive correlation with economic growth, yet the host countries are required to have minimum human capital, economic stability, and liberalized markets for getting long term benefit from FDI."¹⁵ In the developing countries, the role of FDI is effective in creating a better living standard for the people of host countries, since in many cases the domestic investment is not supportive. Importantly, De Mello (1997) acknowledged two channels through which FDI is to be growth-attractive, in terms of knowledge promotion, concerning labour training, skill acquisition and better management."¹⁶ Moreover, FDI supports the implementation of new technology in the production process. Besides, it will promote the competition in the domestic input market."¹⁷ In essence, there are two contradictory notions about FDI, one suggests that FDI helps in the host country's economic development, while the other notion is that FDI supports economic growth but only in the short run and it supports the foreign investors more. The logic behind, being negative towards FDI, is that many developing countries consider the FDIs as a new version of economic colonialism, which will affect not only the economic sector, but political affairs of the host countries too. Hence, "many developing economies have attempted to restrict FDI because of nationalist sentiment and concerns about foreign economic and political influences."¹⁸ As in his analysis, Andrew Summer uttered that the "foreign direct investment is usually defined as money invested by a private sector firm outside its home country where the amount exceeds ten percent of the value of the venture in the foreign country."¹⁹ Within this debate, the role of foreign direct investment has great effect in supporting the economic growth. Collier, 2006; and Glynn, 2009, suggest that the investors are interested in countries with abundance of natural resources that await extraction and development, in particular, of the marketable commodities like oil and gas"²⁰ In fact, Kyla Tienhaara explained that "there are three main types of of foreign investment contracts in the upstream oil and gas sector: (1) concessions or licenses; (2) production sharing contracts (or agreements) ("PSCs" or "PSAs"); and (3) risk-service contracts. In which all three will be subject to association or joint ventures."²¹ Indeed, the economic studies support the idea of foreign direct investment for the country's prosperity in economic terms. The FDI in oil and gas industry had been a means of investment in the long-term, since oil and gas as non-renewable commodities represent

¹⁴ Nimal ,Sanderatne. (2011), 'The importance of Foreign direct investment,' The Sunday Times, May 29, accessed on April,8,2015, , retrieved from: <http://www.sundaytimes.lk/110529/Columns/eco.html>.

¹⁵ Bengos, M., & B. Sanchez-Robles.(2003), Foreign direct investment, economic freedom and growth: New evidence from Latin America,' Eur. J. Political Econ., 19: 529-545.

¹⁶ De Mello Jr., L.R. (1997), 'Foreign direct investment in developing countries and growth: A selective survey,' J. Dev. Stud., 34: 1-34.

¹⁷ Adegbemi B, Onakoya. (2012), 'Foreign Direct Investments and Economic Growth in Nigeria: A Disaggregated Sector Analysis,' Journal of Economics and Sustainable Development, Vol.3, No.10,p.2. , retrieved from: www.iiste.org/.

¹⁸ Polciy Debate, 'Does foreign direct investment hinder or help economic development?; (nd). Economics Resrouce Center. Accessed on April, 5, 2015, retrieved from: http://www.swcollege.com/bef/policy_debates/fdi.html/.

¹⁹ Summer, Andrew. (2005), 'Foreign Direct Investment – A Critical Perspective; A Re-Define Working Paper. Report on Is FDI good for the poor? -A review and stock take,' Development in Practice, Volume 15, June .

²⁰ Collier, P. (2006), 'Economic causes of civil conflict and their implications for policy. Department of Economics,' Oxford University. retrieved from: <http://users.ox.ac.uk/~econpco/research/pdfs/EconomicCausesofCivilConflict-ImplicationsforPolicy.pdf>,

Glynn, A.N. (2009): Does oil cause civil war because it causes state weakness? , retrieved from: <http://scholar.harvard.edu/aglynn/files/OilWeakStatesCivilWar.pdf>.

²¹ Tienhaara, Kyla. (2011) 'Foreign Investment Contracts in the Oil & Gas Sector: A Survey of Environmentally Relevant Clauses,' Sustainable Development Law & Policy 11, no. 3: 15-20, 39-40. Retrieved from: <http://digitalcommons.wcl.american.edu/cgi/viewcontent.cgi?article=1482&context=sdlp>.

potentially the most interesting area for investors. While there was restriction on FDI during the Ba'ath regime, in the recent years and typically after the invasion, Iraq became more open to the FDI.

Therefore, the post-invasion period saw a dramatic expansion of FDI, and a strategy of the federal government in tackling the economic development of Iraq by encouraging the foreign firms to invest in Iraq. In essence, the Iraqi oil reserves, which is estimated to be 145 billion barrels, makes Iraq an attractive destination for foreign investors. In addition, the reconstruction of the country is another factor, regardless of the security and political instability. Recent data on FDI show that investment is growing in Iraq, as "the UN Conference on Trade and Development, FDI inflows have increased fivefold from US\$ 300 million in 2004 to more than US\$ 1.6 billion in 2011. Iraq has received a considerable amount of investment from the UK, France, Italy, Turkey, UAE and Iran predominantly in the oil and gas, real estate and construction sectors."²²

Foreign Direct Investment in the Kurdistan Region

The investment process in the Kurdistan Region is enforced by the Kurdistan Region's investment law (law No.4 of 2006), which empowers the Kurdistan Board of Investment. The KRG investment law "stipulates that foreign investors can repatriate their profits in full, are equally treated under the law, are entitled to all the capitals of any project, and enjoy the same rights as local investors to purchase and own land."²³ To date, there have been few empirical researches on the topic of oil investment in the Kurdistan Region, in part because of the difficulty of obtaining reliable data locally and from international indices as well. To examine the multiple challenges confronting the oil sector in the Kurdistan Region as a small oil producer. The first and most serious challenge is the role of the federal government in oil production, thus the oil issue becomes a highly politicized concern. As it is mentioned by Dixit and Pindyck (1994) and Cabrallero (1991, 1992), the Foreign Direct Investors into the oil sector "have modelled investment under uncertainty." The uncertainty in the KRG is not only the security, price and planning, but the most serious issue in the oil industry is the tension with the federal government of Iraq.

Arguably, the Iraqi government is frustrated with the role that the KRG plays regionally and globally. As it is widely acknowledged, foreign investors prefer a safe and a friendly climate for investment, which has been provided by the KRG government, making it a hub of business and investment for Iraq. According to the World Bank's Ease of doing Business Index, the index that gauges the relative conduciveness of the climate in various countries to setting up and running business operations, "Iraq is ranked number 146 out of 189 economies in 2013 and 156 in the same index in 2014."²⁴ This index shows that Iraq drop 10 points from 2013 to 2014, security and safety might move investors to the Kurdistan Region. The lion's share of investment into Iraq goes to the Kurdistan Region, amounting to "investment opportunities worth \$10 billion, mostly in the industrial, tourism, hospitality, construction, infrastructure, agriculture, health care, education and transportation sectors."²⁵ Regardless of

²² IBSI. (nd), 'Foreign Direct Investment,' Iraq Business Solutions International, accessed on April 9, 2015, retrieved from: <http://www.ibsi-co.org/files/foreign-direct-investment.php/>.

²³ IIG (nd), 'Overview: Kurdistan Region of Iraq Economy,' Invest in group, accessed on April 9, 2015, Retrieved from: www.investingrou/.

²⁴ The World Bank. (2014), 'Ease of doing business index,' Accessed on April 9, 2015, retrieved from: <http://data.worldbank.org/indicator/IC.BUS.EASE.XQ/>.

²⁵ Zaher, Bitar. (2015), 'Emaar and Meydan are biggest foreign investors in Middle East Country's autonomous region,' Gulf News Investment, April,1, accessed on April 10, 2015, retrieved from: <http://gulfnews.com/business/sectors/investment/dubai-fdi-in-iraqi-kurdistan-topped-3-5b-1.1483833/>.

the federal-regional tensions of the KRG and Iraq, the volume of investment grows in the KRG. According to the Middle East Business News and Data (MEED), "during the first half of 2012, Kurdistan drew in \$3.4 billion worth of foreign investment, compared to \$3 billion in 2011 and \$4.8 billion in 2010"²⁶ As in 2006 the investment law is passed, KRG has attracted "\$21 billion in foreign and domestic private sector investment", \$12.5 of which has gone to Erbil"²⁷

1.4. The Risks Involved in the Foreign Direct Investments

Security and Political Instability are serious challenge to FDI. It is estimated by Investment Unions Official that 14 billion dollars (16.3trillion Iraqi dinars) was invested in the region in 2013, while the figure fell to 3 billion dollars (3.5 trillion Iraqi dinars) in the first 8 months of 2014."²⁸ Importantly, security is a real threat and a significant challenge for investment. As Adrian Lewers of Lloyd's insurer Beazley acknowledged, "Iraq and Libya are examples of countries which suffer from internal security and unrest, the local reality is both alarming and very complicated, political confusion reigns, but economic activity is intense. There are good risks at good prices in both countries."²⁹ Insurance rate is a concern for the international investors in Iraq, while for the Kurdistan Region the level of threat to security is significantly lower than in the rest of Iraq. The recent Business executive survey conducted by the Economist Intelligence Unit (EIU), "in which 367 senior executives from 52 countries were surveyed on their perception of investment in Iraq, as high as 64% stated that it is still dangerous to do business in Iraq, while 55% acknowledged that the security situation will improve."³⁰ Indeed, the energy sector is a very attractive sector for investment; however it might not be for South and Middle of Iraq, where non-hydrocarbon sector might be much better in the current situation. The sphere of influence of security threats, political instability and insurgency positioned Iraq into the worst geopolitical concern, both politically and economically. In fact, while Iraq is still facing threats from the Islamist extremist groups, in the meantime, the country is grappling with poor political leadership. This has a negative effect on foreign investment in Iraq, since weak government leads to failure for business, besides foreign investors lose trust in the legal system and security of the country. The increasingly visible effects of the rise of the Islamic State of Iraq and Syria (ISIS) at its peak in 2014-2017, brought new concerns for Iraq and the overall environment of geopolitical tension in Iraq means spending more money on local political tensions. No doubt the recent crisis in Iraq did affect the supply of oil for the international markets. It is argued that for "investors and companies thinking on long-term strategic allocation, this is more meaningful than looking at near-term contracts."³¹ With the reliability of supplies from the other parts of

²⁶ Ed James.(2012), 'Kurdistan INVESTMENT levels soar,' MEED, Sept 2. accessed on April 10, 2015, retrieved from: www.meed.com/3149039/.

²⁷ Ibid

²⁸ John, Lee. (2014), 'Unemployment increase in Kurdistan Region,' Iraqi Business News. September 12, accessed on April 5, 2015, retrieved from: <http://www.iraq-businessnews.com/tag/foreign-direct-investment/>.

²⁹ Risky Politics. (2014), 'Challenging times ahead. Lloyd's,' January, 10, accessed on April, 7, 2015, retrieved from: <http://www.lloyds.com/news-and-insight/news-and-features/geopolitical/geopolitical-2014/risky-politics/>.

³⁰ Iraqi Business News, (2010), 'Iraq investors wary but optimistic,' August 23, accessed on April 17, retrieved from: <http://www.iraq-businessnews.com/2010/08/23/iraq-investors-wary-but-optimistic>.

³¹ Anjali, Raval. (2014), 'Oil investors bet on future supply risks,' Finance Time, August 21, accessed on April 10, 2015, retrieved from: <http://www.ft.com/intl/cms/s/0/7c9cf8b2-2909-11e4-9d5d-00144feabdc0.html#axzz3XJs2EAOg/>.

Iraq under a cloud, foreign companies probably will prefer to invest in the KRI for their safety of supply and production.

Undoubtedly, oil supply depends on the oil suppliers' capacity of production to feed the world's energy demand in the world energy markets. Notably, the future crude supplies are currently in crisis, considering Iraq, Yeman, Liybia, Iran, Russia, the question here is can Kurdistan Region become a world energy supplier in the coming years? In parallel with this, International Energy Agency (IEA) has predicted that the supplies of crude fuels will shrink in the coming years, as the demand will rise to 116 million barrels a day by 2030, from 87 million currently. "Two core concerns of the IEA are the aging of oil fields and diminished investment means, should companies struggle to provide the energy markets with the estimated demand in the next two decades."³² Importantly, Pete Stark, vice president for industry relations at HIS, highlighted the importance of production capacity, in which he mentioned that "global discoveries have failed to replace oil production for more than twenty years, while long-term oil demand is expected to increase by about 1.2% per year."³³ The main concern at this point here is, will the conventional oil resources feed the future oil demand or not? As, the oil demand is rising, and the scarcity of oil energy reserves is a future risk. Similarly, aging of global leading energy suppliers is another challenge, therefore; the Kurdistan Region can position itself in this corner well, because the reserves are young and untapped; besides, there is expectation on ground, backed by facts, that more revenues can be generated in the coming years. According to Professor Howri Mansurbag, a university lecturer and specialist in Energy discipline, the Kurdistan Region is currently producing oil in three major fields including; Tawke in Zakho, Khormala and Taqtaq near Koya. He further stated that important fields have been found in Sheikhan, around Erbil, Akre and Garmiyan and works are on-going to produce more oil."³⁴ Accordingly, more oil fields in the Kurdistan region are yet to be discovered. Obviously, the sharp downward revision of oil-supply forecast, and the pessimistic view of the IEA might have real implication for considering support to the landlocked region of Kurdistan, over the objection of the federal government. Very interestingly, Peter Tertzakian in his article "Oil peak perspective" claims that "oil is not a lake into which we thrust a straw, slurping as fast as we wish"³⁵ As this concern goes with the idea of exhaustability of non-renewable energy resources such as oil and gas. In such strategic circumstance, can the KRG oil virgin reserves play a role in future energy supply, logically speaking the future oil supply condition tightens, and the price uncertainty is clear. At the core of the supply assumption, the KRG is working to produce more oil in the coming years, as that the production started at just 200,000 barrels per day to increase to 250,000 in 2013; from where a dramatic surge was anticipated to up to one million barrels per day (bpd) and a staggering 2 million bpd by 2019."³⁶ In fact, this will have been a turning point for the

³² Neil, King, JR., & Peter Fritsch (2008), 'Energy Watchdog warns of oil-production crunch,' *The Wall Street Journal*, May22, accessed on April 16, 2015 retrieved from: <http://www.wsj.com/articles/SB121139527250011387/>.

³³ Jane, Whaley. (2008), 'The Heavy Oil Conundrum,' *The Favorite petroleum Geoscience Magazine*, accessed on April 16, 2015, retrieved from: <http://www.geoexpro.com/articles/2008/06/the-heavy-oil-conundrum/>.

³⁴ Howri, Mansurbeg. (2015), 'History will applaud Nechirvan Barzani for investing in oi. *Kurdish Global*, April 13, accessed on April 16, 2015, retrieved from: <http://www.kurdishglobe.net/article/A2C2053D2448A85B930B20E4F6DBFC76/Dr-Mansurbeg>.

³⁵ Peter, Tertzakian. (2011), Peak oil perspective, UCSD. November 1, accessed on April 16, 2015, retrieved from: <http://physics.ucsd.edu/do-the-math/2011/11/peak-oil-perspective>.

³⁶ Armando, Cordoba. (2013), 'Iraqi Kurdistan expects oil production at 1M barrels by 2015,' *Rudaw Net*, June 6, accessed on April 16, 2015, retrieved from: <http://rudaw.net/english/kurdistan/060620131>.

KRG to be an important segment of the oil market in the near future. On the one hand, the KRG works hard to boost its energy production, while the economists and energy specialists claim the rise of worldwide energy demand, as it "is growing at a never-before-seen pace, just as supplies of inexpensive, light sweet crude are finally tightening and getting more difficult to find."³⁷ Broadly speaking, the industrial countries and the private companies are competing to invest in the remaining world oil fields, "independent oil companies and their state-owned foreign rivals are embarking upon another great scramble for the world's remaining oil concessions."³⁸ Therefore, oil as non-renewable commodity is the main concern for many countries globally. Dealing with such a critical issue for the KRG in the context of Iraq is not easy; letting in more investors from across the world, and planning to produce more oil probably 3 Million bpd as a heading plan, will support world energy markets. However, the political and military events that unfolded following the Kurdistan Referendum for Independet that took place in September 2017, significantly shrunk the oil reserves under KRG as the central Iraqi government forces took control of large swaths of land that was under the control of the Kurdish forces until then. Losing Kirkuk to the Iraqi forces literally means losing control over oil reserves worth 15bn barrels which is two thirds of the entire remaining stocks of UK's north sea."³⁹ At the moment, KRG's oil production has been reduced to around 383 bpd which represents a major setback from the much anticipated plan by KRG's Ministry of Natural Resoources.⁴⁰ Therefore, the future of oil production in the KRG is highly tied to the relation between Erbil and Baghdad and also to the future of the Article 140, which theoretically may return the control of territories lost to the central government, to KRG. Hence, yet again, significant increase in the oil production.

³⁷ Peter, Tertzakian. (2006), *A Thousand Barrels a second: the coming oil break point and the challenges facing an energy development world*, New York: McGraw- Hill. P.6.

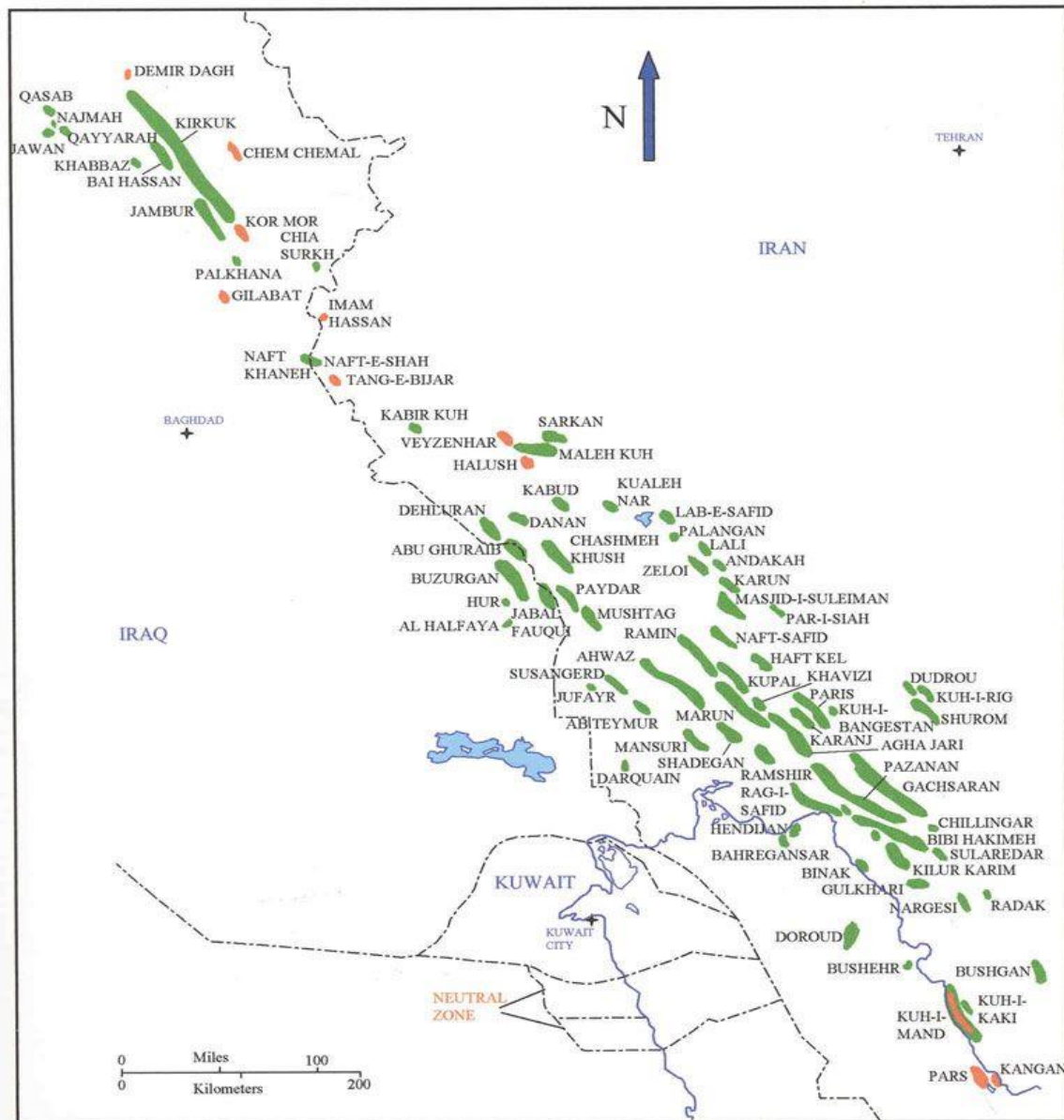
³⁸ *Ibid*, p.189.

³⁹ Andrew, Critchlow. (2014), 'Kurdistan eyes oil export jump in the shadow of global price war,' *The Telegraph*. December 18, accessed on , April 17, 2015, retrieved from:
<http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/11300152/Kurdistan-eyes-oil-export-jump-in-the-shadow-of-Opec-price-war.html>.

⁴⁰ Deloitte report on Oil and Gas review in the Iraqi Kurdistan Region - Q3 of 2018, available at:
<http://cabinet.gov.krd/a/d.aspx?s=040000&l=12&a=57589>, accessed on 23rd March 2019

Figure,

(2).⁴¹



From an economic viewpoint, it is noted that "oil has become more difficult and expensive to find, develop, and bring to market. Geopolitical issues still antagonize. Environmental and social pressures are more acute."⁴² For those reasons, the KRG should take both internal as well as external measures, which are required to initiate a real revolutionary change in the energy policy to foster a more promising and rewarding investment climate in the region. At present, the Kurdistan Region still has a significant position, "Kurdistan is thought to have some of the richest untapped oil reserves in the Middle East and major stocks of natural gas"⁴³ Although, the cheap oil price is a risk for investors,

⁴¹ See: <http://ekurd.net/mismas/articles/misc2012/1/invest796.htm>.

⁴² Peter, Tertzakian. (2006), *A Thousand Barrels a second: the coming oil break point and the challenges facing an energy development world*, New York: McGraw- Hill, P.190.

⁴³ Andrew, Critchlow. (2014), 'Kurdistan eyes oil export jump in the shadow of global price war,' *The Telegraph*. December 18, accessed on , April 17, 2015, retrieved from: <http://www.telegraph.co.uk/finance/newsbysector/energy/oilandgas/11300152/Kurdistan-eyes-oil-export-jump-in-the-shadow-of-Opec-price-war.html>.

especially for the existing companies in the KRG currently including, Genel Energy, Chevron, ExxonMobil, Rosneft, Dana Gas yet, the current crisis has little impact on the international oil companies' (IOCs) investment interest in the KRG's energy industry. According to the formal website of the Ministry of Natural Resources of the Kurdistan Region, the region since explored energy, more than 100 contracts are signed with various international companies.⁴⁴

Approximately, 50 international oil companies operate in the KRG, despite objection of the federal government. Fortunately, the IOCs are still willing to invest in the Kurdistan Region (KR), regardless of domestic crisis and disagreement with Baghdad, for the "oil that costs companies an estimated \$5 a barrel to develop and produce, compared with a break-even cost for the U.S. shale oil production of between \$50 and \$80 a barrel."⁴⁵

Yet there have been many challenges to FDI in the Kurdistan Region especially with the raise of the Islamic State of Iraq and Syria (ISIS), in which few IOCs have relinquished from certain blocks in the Kurdistan Region like Exxon Mobil that pulled out from Betwata, Arbat and Qara Hanjeer in Sulaimaniyah province and Chevron pulled out from Rovi Block in Dahok province. Concerning relinquishing of IOCs from the Kurdistan Region's oil industry factors including mainly the ISIS, and the sharp decline in the oil prices since 2014. Besides, security, political tension, price is the most essential factor that affects IOCs decision on new investments and withdrawal from existing ones. Indeed, oil price decline was a serious barrier to more investment in the oil sector since 2014, yet oil prices is based on demand and supply which means price can change at any time.

Besides, interest and return from investment in a host country, the IOCs always seek to protect their staff thus during the ISIS war, the companies withdrew part of their staff, as oil price was low this would have been one factor to cut the costs, and there was lack of security, and growing risk to the safety for foreign workers was seriously taken into account by the foreign companies to protect their image as international energy companies. This was more the case as the ISIS was attacking the oil rich regions and cities, thus the IOCs tried to take security measure for their properties and their human resources. Therefore, price and security play hard in the energy sector, in turn, determining the fate of oil-reliant economy. Despite of the ISIS war, and price decline, in the wake of the oil price rise, Rosneft entered the field and signed some contracts to start operating in five oil blocks in the KRG. It is stated that "(t)he company hopes to see full field development by 2021 of the five blocks that contain an estimated 670 million barrels of oil reserves. Rosneft will hold an 80 percent share." (Rudaw, 2017).⁴⁶ In accordance with this, the impact of the oil shock was experienced in the KRG's economy as the region was immersed in a brutal war against the ISIS the same situation that triggered an influx of refugees and displaced people from Iraq and Syria into safe havens of the Kurdistan Region.

⁴⁴ See more at: <http://mnr.krg.org/index.php/en/the-ministry/contracts/pacs-signed>.

⁴⁵ Vivienne, Walt. (2014), 'Iraqi's big Kurdish oil deal. Fortune,' December 3, accessed on April 17, 2015, retrieved from: <http://fortune.com/2014/12/03/iraqs-big-kurdish-oil-deal>.

⁴⁶ Rudaw News, (2017). Rosneft, KRG sign contract to begin work on 5 oil blocks, 18, October, available online at; <http://www.rudaw.net/english/business/18102017>.

Probably, there will be more investment in the coming times as the foreign companies await domestic and political crisis to get solved and to then invest more in the Kurdistan Region. Matthew Phillips, (2013) has alluded to the old saying that the world's last few oil barrels will be in Iraq,⁴⁷ but that will be in the City of Kirkuk and the Kurdistan region, due to late exploration of energy reserves in post invasion which are to be known as 21st century energy revenues.

Conclusion

The international oil companies mostly pursue investment opportunities in the Kurdistan Region. These companies have intensified the development of oil and gas revenues in the region. It can be stated that the oil and gas potential in the Kurdistan Region provides the region with significant opportunities for foreign investors in the future. Additionally, the investment incentives, backed up with security and sizeable reserves have brought the leading energy investors to the region to help in developing the oil and gas sector. Eventually, **when we calculate security risk for foreign investment, it is clear that the KRG has a significant advantage over Iraq,**⁴⁸ Regardless; of current crisis the foreign investors show willingness to stay in the Kurdistan Region and continue working.

While the oil-reliant economy of the Kurdistan Region was hard-hit from a number of ways: the brutal ISIS onslaught on Iraq and the Kurdistan Region; the declining oil prices in global markets; the influx of refugees and displaced people and lastly but, probably, the most importantly, losing Kirkuk control over massive oil reserves in Kirkuk and nearby areas, any positive progress in the FDI largely depends on the political relations between Erbil and Baghdad. Improved political relations are feasible as they will eventually benefit the central government as much as it does to the Kurdistan Region.

⁴⁷ Matthew, Phillips. (2013), 'The real reason Iraqi's oil boom has stalled,' Bloomberg Business. March 19, accessed on April 17, 2015, retrieved from: <http://www.bloomberg.com/bw/articles/2013-03-19/the-real-reason-iraqs-oil-boom-has-stalled>.

⁴⁸ Paul, Beat. (2015), ' Risk management in Northern Iraq/ Kurdistan,' Brecon Group. January 5, accessed on April 18, 2015, retrieved from: <http://www.brecongroup.co.uk/category/ceo-blog/>.