

**A RESOURCE
FOR THE FUTURE:**

**AN IRAQI
DIALOGUE
ON OIL**



**FOLKE
BERNADOTTE
ACADEMY**

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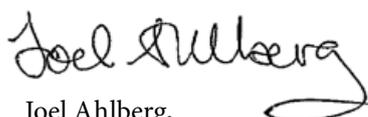
AN IRAQI DIALOGUE ON OIL

It is part of the human experience to live chiefly for the immediate needs of today, while discounting those of the future as being too remote. Mindful of this, the Swedish Folke Bernadotte Academy, in cooperation with its Iraqi partners, has carried out a two-year national dialogue process spanning 2013 to 2015 focused on the future of Iraq's oil. Throughout, we have kept our eye on how Iraq's oil resources can serve the long-term needs of Iraq.

In this publication, we introduce the project and discuss the main themes in more detail. Some of the people who took part in the project will share their insights and recommendations that emerged from the discussions. As the title above suggests, at the heart of this project is the belief that for Iraq both oil and dialogue are resources for the future.

We thank Sida for financing the project, the Swedish and Iraqi embassies in Iraq and Sweden, the Swedish and Iraqi planning team and, most importantly, all of the Iraqi participants, whose sincere contribution ensured the success of this project. Lastly, for their tireless support, we sincerely thank Dr Rowsch Nury Shaways, who served as Deputy Prime Minister of Iraq during the project implementation, and Mr Mohammed Salman, who serves as Advisor to the Prime Minister of Iraq on reconciliation.

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Joel Ahlberg,

Project Manager

Folke Bernadotte Academy

Editing and English language: Nicholas Sergeant

Translation to Arabic: Zein Alabdin Muhammad Ali Omer

Translation from Arabic to English: Joel Ahlberg

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INTRODUCTION BY DR ROWSCH NURY SHAWAYS

First of all, our thanks go to the Folke Bernadotte Academy with special acknowledgement to its representatives for their efforts in arranging a series of meetings and national dialogue conferences, in Iraq and Kurdistan, between 2013-15. The goal of these meetings was to overcome political, economic and social obstacles that still constitute an impediment to the trust and mutual agreement on which genuine reconciliation among all parties and political, religious and ethnic components in Iraq depends.

We continue to believe that reconciliation must be our chief priority. Achieving reconciliation is the challenge that the Iraqi government and all involved Iraqi political groups face as a way toward healing the wounds of the past and addressing the hardships that our country has endured.

We are convinced that achieving progress on this sensitive issue will restore security, stability and normality to life in Iraq by repairing the rifts affecting the country's unity and the integrity of its social fabric. The initiation of this process of repair involves investment and the modernization of the economy as well as progress towards establishing modern civil institutions in a state governed by its Constitution.

The contributors to this publication are correct, in my view, when they refer to the importance of the proper running of the Iraqi economy as being fundamental to improved living standards for all Iraqis. The resulting prosperity can overcome a range of obstacles and resistance to stability in the country and bring about a return to national trust and brotherhood among all sections of society.

In this respect, we do not hesitate to say that we have been slow to implement policies for moving from a rentier economy, heavily dependent on income from the sale of oil, toward an emphasis on diversity and productivity in which agriculture, industry and services underpin economic growth, together with natural resources.

Similarly, for a range of reasons, we have been unable to fulfil our obligation to transform the private sector and upgrade the Iraqi economy to create a true partnership between private business and the state.

Essentially, what has prevented us from attracting foreign investment has been the unstable and volatile security situation in Iraq. Since June 2014, a further complication which creates new problems for decision-makers in Iraq is the fierce war against the terror organisation ISIS following hostile incursions it made into several Iraqi provinces and cities.

This blatant terrorist aggression leaves behind it enormous humanitarian and economic problems. With over three million internally displaced people and billions of dollars needed for the military budget, the situation exceeds the state's capacity to respond.

Likewise, accelerated financial losses over the past year due to a drop in oil revenues have led to a general political crisis associated with monetary liquidity problems in the form of inflation and price increases. With this comes the need for austerity measures which impact both operational expenses and investments, with follow-on effects in the reduction of business, economic activities and overall recession.

On top of this, negotiations between the Federal and Regional governments regarding oil production, exports and revenue to the Region have stalled. The deadlock is largely due to the



lack of oil and gas legislation to ensure the fair distribution of oil revenues.

This, in addition to continuing disputes between the Federal Government and the provinces, is behind delays in transferring responsibility to the provinces and the resulting sharp cuts in their revenue allocations.

At the same time, many development and investment plans are at risk of becoming entangled in instances of corruption in the state's institutions.

Due to all these factors and others, progress on the issue of national reconciliation has halted despite being among the priorities documented in the political agreement that led to the formation of the current government.

Notwithstanding these obstacles, they will not prevent us from seeing national reconciliation as the method and the frame of mind on which to build trust and with it the willingness of all parties to put the interests of the Iraqi people and the country above all. Reconciliation is presently the most urgent issue. There can be no talk of stability, be it political, economic, social or institutional, until reconciliation is achieved.

We have the highest confidence in the ability of the Iraqi people to overcome set-backs and advance toward wide new horizons of development and growth.

We need only consider Iraq's abundant natural resources, and add to that the great human potential available to us, in the form of the scientific, technical and cultural expertise that our people possess. Then we can say that what we now need to overcome our current difficulties and save Iraq from its present crisis is a clear and comprehensive political commitment to shared work on the basis of partnership, consensus, and constitutional fairness.

PROJECT INTRODUCTION

Avenues to political cooperation: national strategies and mechanisms for implementation, 2013–15

Joel Ahlberg has managed the project and collaborated with Iraqi and other counterparts to develop and implement the project, design the process and facilitate the meetings. He is an Arabic speaker with hands-on experience working on conflict resolution and reconciliation issues in Iraq since 2008.

There is an old story of man who sees in a dream a powerful eye and sets out to buy it. When he finally finds it, it is put on a scale. No matter how much gold he puts on the scale it will not budge. Someone comes by and puts a handkerchief over the eye and this immediately tips the scale. It was the eye of insatiable greed.

Our workshops put a handkerchief on Iraq's immediate disputes over oil so we could begin to explore the systemic aspects of the problem. We asked ourselves questions such as, how does oil sit within Iraq's current political, social and economic system? What kind of networks influence oil politics in Iraq? What political agreements need to be in place in order to promote development? We began by working with a mixed group of people, some of whom are well-known experts in oil, and from other academic and professional backgrounds. In this mixed group, we looked for a more dynamic way of understanding the problem, and the resulting account had a complexity unavailable via conventional jargon (such as, "I am the victim and you are the aggressor"). As in the story of the eye, we tend to be short-sighted, seeing the needs of today but blind to the needs of tomorrow.

Departing from the dichotomy of who is "right" and who is "wrong", we asked instead, "what would long-term agreement look like in Iraq?" and "how can it be achieved?" In the meetings, workshops and consultations that we took part in, we agreed on the idea of having a multi-party dialogue on oil. The continuity of these activities helped maintain confidence, because outside of the workshops, on an official level, relations between the Federal Government and the Kurdistan Regional Government were close to boiling point in 2014. The dispute had been dragging on for many years over issues such as, who has the authority to sign contracts with foreign companies, who may export oil, and how to compensate for the costs of oil production. The Region of Kurdistan's budgetary payments were suspended and when the wrangling spread to the international courts Iraq's foreign relations were also affected.

Against the backdrop of these developments, I noticed that another effect of the continuity in the talks was the steady growth of trust in the group and trust in the way we worked on the subject. The support of Dr Rowsch Nury Shaways, a Kurdish leader and at the time the Deputy Prime Minister of Iraq, as well as Mr Mohammed Salman, advisor to the Prime Minister in Reconciliation, lent weight and legitimacy to our project.

When the handkerchief covered the immediate conflicts of today, people were able to attend to more important structural issues. As we sat down in Baghdad in September 2013 to plan the project with our Iraqi partners, we concluded that the issues at stake went beyond any conventional struggle for control. We concluded that a more important challenge for Iraq is to move



its political and economic thinking from a focus on the short-term to a long-term perspective on ways in which oil can support development. It surprised us that this fundamental question received so little mention in public discourse.

Many people involved in the talks expressed other concerns not usually heard in the verbal sniping. For example, many representatives from southern oil-producing provinces expressed great concern over the detrimental effects of the oil industry on the local environment. Basra sustains the rest of Iraq with its oil but at a high cost to its own water reserves and arable land, while at the same time it is not entitled to review the contracts. Many Kurds called for a broader Kurdish participation in the drafting of its oil policies to prevent them becoming an elite-run project. Note that the dominant political parties in the Region of Kurdistan also have financial interests in the oil sector. Our two-year project grew out of three premises that in different ways reflected all of our activities.

Firstly, oil is a geological asset that has the potential to serve human development provided the parties are willing to deal with this commodity with a long-term vision and trust. The willingness and ability to cooperate are a constitutional predicament, not a choice.

Secondly, given that the oil resources belong to all Iraqis and that oil revenue is and will be for the foreseeable future the mainstay of Iraq's national income, it is important to give back to all the people their share by investing transparently in schooling, healthcare and infrastructure.

Thirdly, the oil issue is very complex and any strategy needs to respect that complexity. It is therefore best to see it from a multi-dimensional and integrated perspective which embraces political, economic, legal and developmental concerns. The needs and rights of every citizen are at the heart of any strategy.

Finally, an introduction to this project would not be meaningful without briefly mentioning the dramatic impact that the terror organisation Islamic State and the falling world market prices of oil has had on the Iraqi scene. The invasion of Mosul in June 2014 sent shock waves throughout Iraq and the world. In addition to highlighting the weak condition of state institutions, such as the army, it made Iraqi leaders realize that they have no option but to cooperate with each other. Added to this, the price of oil was steadily decreasing, at great cost to the Iraqi budget which relies heavily on oil revenues. In 2013, when we began the project the average price of oil was about 95 USD per barrel. For the first eight months of 2015, the average price had dropped to about 54 USD. These two factors explain why, in December 2014, the Federal Government and the Regional Government of Kurdistan were able to come to an agreement on oil, at least temporarily.

On the other hand, the war against the organisation Islamic State, combined with falling oil prices, has created adverse conditions for the kind of reform towards long-term policies and development that is needed. For example, 20 percent of the expenditure in the 2015 budget is spent on army and security compared to nine percent on education. More is spent on religious institutions than construction and housing.

However, there is an increasing awareness among concerned parties that Iraq needs to reform. Our work is a humble contribution in that direction and I would like to thank all participants and supporters for their sincere efforts.

SHIFTING FOCUS FROM SHORT-TERM CONSUMPTION TO LONG-TERM INVESTMENT

Kamal Field al-Basri has served as Deputy Minister of Finance of Iraq 2005-7. In 2004, he founded the Iraqi Institute of Economic Reform (IIER). He has previously worked in the finance sector in Great Britain and as a lecturer in economics and researcher in public health issues. He has a PhD from the University of Strathclyde.

Haidar Lapcha is a researcher at Integrity UK and a research fellow at the IIER, currently pursuing a postgraduate research degree at Birkbeck College, UK.

This paper argues that shifting the use of oil revenues from short-term consumption to long-term investment requires strong institutions and a government willing to implement change. We argue that a number of steps are essential for economic reform in Iraq. There must be a gradual shift away from the use oil revenues for operating costs toward investing (within the federal budget) in human development as a priority, and in infrastructure, particularly education in support of improvements in the of rule of law. A Development Bank is necessary for financing investment projects and to buffer the economy from volatile oil prices. It is also essential to upgrade legislation regulating the private sector to promote growth and attract foreign investment – this includes legislation for the “Private-Public Partnership”, a vital step for the rapid development of infrastructure. Failure to implement these reforms is liable to fuel civil strife and increase social fragmentation.

BACKGROUND

Prior to 2014, the Iraqi economy saw rapid growth which has primarily been driven by a rapid increase in oil production and exports. However, it is unlikely that this increase in oil revenue will translate into socioeconomic benefits for all citizens. In the last few years it has become clear that the state is failing to deliver basic services. Some obvious reasons for this are, incompetence due to a lack of sound institutions for good governance, inefficient policy on government business practices, and a general lack of effective regulation.

It is well-known from the economic literature that weak institutions play a significant role in hampering economic development. A lack of robust institutions within Iraq, alongside rising oil revenues, will result in a continuation of the poor policies and poor implementation of policies that we have been seeing. Indeed, there is no international evidence to suggest that the democratization of Iraq will in itself naturally lead to growth and prosperity for they can only be achieved through human development, a fundamental element of sound institutions.

ANALYSIS

Currently, Iraq has a higher democracy index than other countries in the region,¹ but its human development index is low (ranked 120 out of 187 countries).² The current government’s spending

1 Democracy Index 2011, Economist Intelligence Unit.

2 Iraq: HDI values and rank changes in the 2014 Human Development Report, UNDP



on education is no more than 9%. In comparison, Algeria's spending is 20% and Saudi Arabia's is 25%. Worryingly, 90% of Iraq's spending on education goes to operational costs, such as government salaries, instead of to essential investments which thus remain under-financed.³ A clear example comes from the Ministry of Education which reports that 8846 schools in Iraq require refurbishing before they can be considered functional. If 90% of government spending is going to operational costs then indispensable improvements such as these cannot be carried out, which could lead to a deterioration of human development in Iraq.

The Federal Budget is the major instrument for economic reform in Iraq and yet it is not being used effectively to create sound economic policies.⁴ The experience of other countries shows that fiscal transparency together with efficient taxation can lead to better government accountability. This is indispensable in ensuring a shift towards coherent economic policy development, something notably missing in Iraq. Currently, the Federal Budget has a transparency index close to zero⁵ and the lack of a properly structured taxation system means that currently the government depends on oil revenue to finance 95% of its spending.

The media can play an important role in addressing the lack of transparency by investigating government policies and spending. From our experience, when the media report on economic affairs they are largely "spoon-fed" information by officials. There is no fact-checking by the media and no further analysis of government policies or indeed any other form of critical engagement. When a democracy lacks proper transparency it is unlikely that its citizens can hold their government accountable. This explains why Iraq still suffers under the so-called "oil curse" which underlies these outdated economic policies.

If Iraq persists in its dependence on oil revenues for funding its current spending policies then it runs a high risk of burning itself out. It is likely that if the government's under-financing of public services, its failure to achieve economic policy reform and neglect of social cohesion continue then this will fuel civil strife.

OPTIONS FOR GOVERNMENT

A shift of focus away from short-term consumption to long-term investment requires a keen determination on the part of the government to adopt policies such as those seen in East Asian countries in the late twentieth century. According to the World Bank's well-known 1993 report, "The East Asian Miracle: Economic Growth and Public Policy", the eight "high-performing Asian economies" (Japan, South Korea, Hong Kong, Taiwan, Thailand, Malaysia, Singapore, and Indonesia) have succeeded through a number of common measures. These include: investment in human capital through education; shielding civil servants from political pressure; creating institutions to strengthen the rule of law; formal cooperation between government and business to create incentives for private initiatives such as farming; creating an effective banking system; and developing economic policies that control inflation while facilitating a competitive exchange rate⁶.

3 See Federal Budget of Iraq, 2013 and previous years.

4 Over 50% of Iraqi citizens depend on the Federal Budget for salaries, pensions, and general remunerations.

5 Budget Partnership Index, 2013 rankings.

6 World Bank 1993:347-68

Taking the above into account, to sustain economic development Iraq should begin to forge a three-pronged strategy based on investment in the following forms of capital:

i) *Human capital*: Investment in education to teach the necessary skills and instill social standards and values on which to build a brighter future.

ii) *Political capital*: Policy should support building a state with sound institutions whose principles and values agree with international standards of good governance.

iii) *Social capital*: Iraq must tend to the diversity of its people by strengthening social cohesion while protecting the rights of individuals. There is empirical evidence which indicates that without proper social cohesion any government's ability to legislate and implement change will be limited.

In the 1950s, the Iraqi government contributed to economic development by establishing a "Reconstruction Council" to provide leadership and management to economic projects. At that time it was decided that 70% of oil revenue should be directed to investment in infrastructure. This is in marked contrast to Iraq's current practice. The revival of this council or a similar body is needed to put into action the following reforms:

- 1. *Shift the Federal Government allocation of oil revenues away from operating expenses toward investment.*
- 2. *Establish a Development Bank to support investment projects. This should incorporate both private and public funds and ensure that the economy is protected from the volatility of oil prices.*
- 3. *Give priority to human development particularly through investment in education in support of improvements in the of rule of law, as well as in infrastructure.*
- 4. *Upgrade legislation and regulation to promote the private sector, attract foreign investment and also promote the "Private-Public Partnership".*

Without implementing these reforms Iraq's economic situation will go from bad to worse. Currently, in a move to relieve pressure from low oil prices on its finances, the Iraqi government plans a domestic issue of \$5 billion worth of bonds starting in the fourth quarter of this year. Low oil prices mean that oil revenue cannot cover this year's operating expenses. As a result, salaries have gone unpaid and Iraqi citizens are suffering. The \$5 billion bail out has an exceptionally high interest rate of around 10% and it is quite likely that their value will rise to \$20 billion.

It seems inevitable that Iraq has reached this point. The ineffective policies adopted by the Iraqi government since 2005 have riddled the economy with inefficiencies and a lack of sustainability. Resorting to bonds with high interest rates without the reforms we have proposed will lead to the economy crumbling under the burden of increasing debt, volatile oil prices and its own incompetent revenue allocation.

Nevertheless, the economic crisis Iraq is facing should be considered an opportunity to push for the reforms needed to create a healthy society.



OUR SHARED HOUSE, A FRAMEWORK FOR OIL

Dr Wathek al-Hashimi is founder and president of the Iraqi group for Strategic studies. He is a political analyst. He has a diploma in international mediation.

Oil can be either a blessing or a curse. In oil-rich countries such as Iraq it has become a curse due to the way it is managed. Given that oil is a gift and a divine blessing it could, if properly managed, be an engine of development and prosperity. However, instead of this it has bought us an illusory stability and a false prosperity.

Iraq's social fabric is unstable, varying with any fluctuation in the oil sector. Instead of using this resource in a way most likely to achieve sustainable development and a fair distribution of resources within the regions, it has become a liability and a source of conflict. The Iraqi citizen does not benefit from this vast resource since it has been locked into fictitious development within an unproductive rentier economy.

Behind the metaphor of Iraq as a house is the need to re-build Iraq through the just distribution of resources throughout society and the restructuring of the Iraqi economy. The economy must diversify and the Iraqi budget needs to shift from emphasising running costs and salaries to a focus on investment. To respect the rights of future generations and use these valuable resources rationally, a number of political and legal measures need to be achieved.

1. THE POLITICAL DIMENSION

The political and social dimensions of the oil industry are inextricably bound to the economic and technical aspects. Policies that focus on one dimension only and not on the others are at best unproductive but they could also be disastrous. Often, the reality for oil-based nations is that their policies on oil make it a blight inimical to democratic processes which results in retarded development and a higher vulnerability to civil unrest.

Actual democracy is not just a formality but something essential for reaping the benefits of oil and avoiding its pitfalls. A regulatory framework is necessary for holding both the government and the private sector accountable. An open and rational dialogue that is informed by actual facts will be decisive in achieving this regulatory framework. Such a dialogue can foster consensus on the best possible oil policies and also motivate the community to reject its rent-seeking behaviour.

REVENUES

All oil revenues must come under the jurisdiction of the Federal Government and the supervision of the parliament. This is stipulated in the Constitution. Transparency and the careful handling of the budget are both necessary for the successful management of oil revenues. The proper preparation of a budget requires exact and reliable information on the production of oil and gas including sales and tax figures and other expenses. This task is the responsibility of the Ministry of Finance and relevant parliamentary committees. There are a number of approaches to the allocation of revenues between regional authorities and the central government. This is

because allocation has to take into account levels of production and population densities. It also has to consider the needs of some regions for compensation proportional to any detrimental treatment received in the past.

The establishment of an oil fund dedicated to achieving equality and fiscal stability while protecting the dinar from the effects of foreign currencies is an urgent requirement. This fund must be subject to the highest standards of transparency and accountability and be incorporated into the budget process.

It is important to remember that while the allocation of revenues should abide by the principles of fairness and development for all, this is no substitute for the pressing need to respect the heritage of the past. The rebuilding of trust among different groups and between these groups and the central government must continue.

In addition, after five Iraqi governments since 2004 it is essential to enlist the Constitutional Revision Committee to the task of correcting all the legal misinterpretations made by these governments and to put these revisions to the service of a new Iraqi house. These revisions should start with the assumption that no areas are off-limits even where some parties benefited under the law.

With strong legal foundations the house of Iraq can withstand the most difficult challenge of all, that of framing oil and gas legislation, as well as regulations governing political parties, the Federal Council Court, and the Service Council.

The Constitution has the last word on all these problems with the proviso that disputants abide by the decision of the federal court.

2. THE LEGAL DIMENSION

Iraq's oil and gas are owned by the people of Iraq in all the regions and governorates, as article 111 of the Constitution stipulates.

Proper application of the articles of the Constitution is decisive in the resolution of conflicts today. The oil fund mentioned above is essential for the security of the resources and their fair distribution.

Making use of Iraqi skilled workers in Iraq and abroad is of great importance in developing the country and its infrastructure.

Investment in the oil sector is fundamental to rebuilding the state.

The oil state demands considerable capital investment together with industry experience and the latest technology. This is in order to accomplish its aims and ensure growth. Thus, investment in the oil sector is important in changing the economy which is still rooted in a rentier past. This will make oil a resource available for the promotion of development in other sectors.



OIL, DIALOGUE AND NATIONAL COOPERATION

Nashat Skpan al-Mansoury is the chairperson of the planning committee, al-Basra provincial council.

Oil is one of the most important and at the same time highly sensitive issues in Iraq. The country has a vast oil reserve and the yearly budget depends chiefly on income from the oil industry including the sale of crude oil. Some commentators believe that if this resource is not properly and equitably managed, it will negatively impact the development of Iraq as a state. It will result in Iraq becoming a society dependent on consumption and be a main reason for internal conflicts.

Consequently, in order to create stability and promote development as well as a productive workforce, it is necessary to consider the political, economic, legal, technical and social aspects in the study of oil in Iraq.

CONSTITUTIONAL CONNECTION BETWEEN OIL AND SOCIETY

Considered to be the most respected document in the country, the Iraqi Constitution demands strict compliance to all of its articles. Article 13 stipulates that all powers, laws and regulations emanate from the Constitution itself and no article or decision may contradict the Constitution. Some clauses and articles point to the relationship between the state and society on one hand and oil on the other hand. Article 111 is one such which asserts the following: oil and gas are owned by all the people of Iraq in all the regions and governorates. It is a forceful paragraph that insists on justice in the distribution of resources. However there are two reservations:

Firstly, Iraq is a country with abundant minerals such as phosphates, mercury, sulphur and other resources. Why is the Constitution concerned only with the distribution of oil and gas, considering that provinces that own other resources benefit from oil-producing provinces and without returning revenues from their own natural resources?

Secondly, the oil-producing provinces suffer from damage to the environment and other infrastructure, such as agriculture, housing and tourism caused by oil extraction. Although the revenues of oil production are shared by all the provinces, it is not taken into consideration the degree of environmental damage caused by the oil industry.

Article 112 of the Constitution refers to joint management but only of the oil-producing fields. Moreover, it does not refer to fields discovered after the Constitution was enacted. This has caused legal wrangling over how to regulate the management of the new fields and has prevented many Iraqis from receiving any benefit from them.

Similarly, the second paragraph of article 112 stipulates that the framing of strategic policies necessary for the development of oil and gas resources is undertaken jointly by the Federal Government, the regional government including provinces that are not part of an oil-producing region. There has been no compliance with this stipulation which has caused resentment and disputes between the regions and other provinces critical of the Federal Government.

Clearly, some of the articles of constitutional law applying to the management of Iraq's oil resources are not being correctly applied while others are lacking in force. This prevents the fair

distribution of resources and for this reason it is necessary to re-examine the clauses concerning oil resources in the Constitution.

THE PERIOD AFTER THE LICENSING ROUNDS

A key factor affecting the future of oil in Iraq concerns licensing rounds and the resulting contracts with companies investing in Iraq. This matter has been debated and many arguments and opinions put forward regarding the details of contracted operations and the future of licensing rounds. Among points raised are the following:

- 1. *The people have never been informed of the significance and impact of the contracts at the time they were drawn up. In fact, even elected representatives of the people in parliament have not been allowed to examine the details of these contracts which have so far never been disclosed.*
- 2. *Most contracts covering the richest fields were drawn up during times of growth and rising oil prices and these did not take into account some of the real costs until oil prices had fallen.*
- 3. *Contracts derived from the licensing rounds are known as service contracts and these do not enjoin anyone into a partnership. Instead, service contracts are concerned with raising production as well as compensating companies on the basis of production levels. These companies lose nothing if prices fall whereas the producing country stands to lose a great deal, especially since running costs and production costs are paid by the producing country. The result can be a financial disaster for the producing country if world oil prices fall and costs of production rise.*

For these reasons there is deep concern regarding the capacity of Iraq's oil resource to fund development and reconstruction in the country. If agreements for financing Iraq's oil industry continue unchanged there may be no hope in the future. The only losers will be the producing country and the future generations sacrificed to maximise profits for the investing companies and the world markets.

TECHNICAL PROBLEMS RESULTING FROM THE EXTRACTION OF OIL

Technical aspects of the extraction, separation, transportation, storage and export of oil have a wider negative impact on the economic life of this country. Agriculture, housing, and the environment must all bear the cost of developments in the oil sector.

Conventional methods of oil extraction and transportation appropriate large tracts of land. The removal of agricultural topsoil and the laying of pipelines impact extensive areas that could otherwise solve Iraq's considerable housing shortage. The process of burning off the gas that comes with the oil is wasteful and detrimental to the environment.



CONCLUSION

We need carefully to examine all the issues raised here in order to build a robust and stable Iraq with a sound economy that guarantees a fair distribution of the country's oil wealth. The aim must embody the idea of building a sound and well-integrated house that offers shelter to all of its citizens. All groups of Iraqi decision-makers – representatives in the legislature, those who serve executive and legal authorities, delegates of civil society – should lobby and use the media to insist on the following recommendations:

- 1. *Significant constitutional revisions respecting the income derived from all Iraq's natural resources to ensure an equitable distribution to all of the Iraqi people; changes must guarantee compensation for damages in regions where extraction, refining, transportation and export of natural resources are carried out.*
- 2. *A formal enquiry into the details of all contracts obtained from the licensing rounds making this information available to the people. Revise disputed contracts that consume the country's wealth, and draw up new contracts that guarantee real partnership in effort, cost and protection from the impact of global markets. This is essential for the welfare of future generations and for the achievement of reasonable growth in productivity and exports at an acceptable cost.*
- 3. *Up-to-date technology to be used in the extraction, refining, transportation, storage and export of oil so as to strike a practical balance mitigating the impact of the oil industry especially on agriculture and housing. This technology will also reduce environmental damage while enabling the extraction of gas together with oil.*
- 4. *Ideally investment should be in refining and other related industries for the production of a range of fuels to supply the needs of the local market, the surplus going to exports that support the country's economy.*
- 5. *Enlist the participation of local governments, the private sector, research centres and experts in drafting oil policies and setting priorities. This is to prevent any one ministry monopolising this activity and possibly unilaterally relying on personal or political opinions at the expense of technical and scientific aspects.*
- 6. *Set up a development fund from petrodollars to rebuild and improve infrastructure in the provinces that are damaged by oil production. This is to be achieved by providing extensive powers to local governments to harness the oil resources independently of budgetary allocations and yearly budget constraints (since these focus on expenditure rather than actual results).*

IRAQ, KURDS AND OIL

Arez Abdullah is the chairperson of the oil committee in the Parliament of Iraq.

Iraq has never enjoyed stability, not since its creation by Great Britain under the terms of the Sykes-Picot Agreement. The establishment of the Iraqi state in 1921 under King Faysal I who was brought from the Arab peninsula and crowned to rule over a new state, was through the amalgamation of three Ottoman districts, Baghdad, al-Mosul and al-Basra. It was done without consulting the people of the districts, and without considering the unique characteristics of the ethnic groups. From that time to the present, the people of Iraq have endured bloody turmoil and intractable conflicts. After oil was discovered in Kirkuk, particularly since 1927 when that resource became a source of wealth for both Great Britain and Iraq, neither of these states have been sympathetic to the national and political demands of the Kurds and other groups. Great Britain and Iraq appropriated oil-rich areas from Kirkuk to Khanaqin, which led to the emergence of a Kurdish liberation movement to fight for Kurdish rights. Sometimes this was done via political means, at other times through civil and popular struggle as well as armed revolt. The Kurds played a significant role in overthrowing the monarchy in Iraq in the revolution of 1958. At first, the leader of this revolution, Abd al-Kareem Qasem, recognized the rights of the Kurds and other subgroups. This lasted until Arab chauvinists in power at the time renounced the spirit of the 14th of July revolution. Their defection was a turning point that led to the Kurdish uprising of September 11, 1961 against the republican system in Iraq.

Oil wealth from Kirkuk has been an essential “fuel” funding all the wars that consecutive Iraqi governments have waged against the Kurdish people and other Iraqi groups, as well as against Iran and Kuwait. For this reason, Kurds, Turkomans, Christians and even the shia arabs are very wary of oil, fearing its strategic influence. They know how the prosperity from this vast resource can change from being a blessing to a curse.

Oil is currently one of the problems between the Region of Kurdistan and the Federal Government. To date, the parties have not agreed on a common ground in the Constitution for a new legislation to regulate the management of the oil and gas resource. Their differences depend on two interpretations of article 112 of the Iraqi Constitution that stipulates:

First: The Federal Government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields, provided that it distributes its revenues in a fair manner in proportion to the population distribution in all parts of the country, specifying an allotment for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law.

Second: The Federal Government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that



achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment.

Although this article of the Constitution is not complicated or difficult to read, the problem of the two sides achieving a shared interpretation remains. The first view sees oil and gas as a source of revenue for the nation that must be controlled by the Federal Government. The Kurdish view also regards oil and gas as a national revenue, however, this view emphasizes that the Iraqi Constitution grants to the regions and the provinces the right to manage their own resources. This is an essential principle of the federal system. Moreover, something that neither side can deny is that oil and gas belong to all groups of society, to every single Iraqi, as stated in article 111 of the Constitution (oil and gas belong to all the people of Iraq, in all the regions and governorates). For that reason, it is a national and human duty to reach, with the help of the constitution, a consensus and final agreement on oil and gas between the disputing parties that will benefit all Iraqis, regardless of ethnicity or group.

“HOW TO BAKE THE IRAQI CAKE BEFORE CONSUMING THE INGREDIENTS”

– OR IMPLEMENTING HUMAN DEVELOPMENT IN TIMES OF CHAOS AND TURMOIL

Johan Gärde is Associate Professor in the Department of Social Sciences, Ersta Sköndal University College. He holds a PhD in Sociology of Religion. He has lectured and published on issues such as civil society, religion and intercultural social work.

Following recent workshops involving the Folke Bernadotte Academy (FBA) and Iraqi participants, a consensus to emerge is that Iraq needs to focus on the long-term in its oil policy in order to maximise the benefits of this vast resource for all Iraqis. The metaphor of the “Iraqi cake” in the title of this paper was proposed to help understand the danger of short-term thinking squandering the mineral wealth which properly belongs to all Iraqis, especially to future generations. As this paper demonstrates, the metaphor can also be applied to the problem of religious, community or other local interests competing for benefits that would better serve the nation as a whole.

So what are the lessons learnt and in what way could processes such as the FBA initiative in Iraq, earlier described in the Introduction to this report, address these crucial issues and contribute to long-term human and sustainable development?

KNOW-HOW BUT NO CHANGE

Change will not and cannot happen in Iraq without engaging in an inclusive process. A recent FBA report gives the starting point for this project as Iraq’s need for “a strategic political and national process that includes all political actors, men and women”.⁷ FBA involvement was driven by the need for “efficient collaboration around...core issues”, something that would “contribute to a common analysis” of political issues currently impeding Iraq’s peace and prosperity.⁸ That was the FBA vision, but how could it be implemented? From the start, FBA engaged a dedicated Iraqi Steering Committee to plan the workshops and seminars as well as to give essential guidance. The committee also extended invitations to people from all walks of Iraqi society, including representatives and groups who, in their daily lives, would rarely collaborate with each other. Three main qualities were crucial for this approach: to engage with stakeholders who had know-how, commitment and willingness to participate. Research shows that factors necessary for change, when this involves the collaboration of religious, social and political actors, are, know-how such as that of oil-experts, the commitment of time and effort to the common good, and the readiness to participate in group work and in dialogue with other stakeholders (Gardell 2010, Gärde 2015). In other words, participants will only embrace change if they can bring facts and data together with their own background and expertise. The approach taken by FBA thus combined evidence- and experience-based commitment in this process.

⁷ “Roads to efficient cooperation: national strategies and mechanisms for implementing”.

⁸ Ibid.



MORE “SUSHI” IN IRAQ

The crisis in Iraq is not only political and economic, indeed it has perhaps primarily a religious and social dimension. As confessional integration of religion and politics now plays a central role in post-2003 Iraq in the dynamics of decision-making and representation, Iraq’s political system is divided into religious and geographic enclaves. The lack of trust between the main religious lineages of Sunni and Shia is stalling the political process and affects all parts of Iraqi society. For FBA, the project’s most important contribution has been to promote trust among the major stakeholders in Iraq, based on concrete measures for enhancing the willingness of participants to build this trust. This means, for instance, creating an environment and a venue where Iraqis from different religious and political backgrounds can meet, interact and get to know each other as human beings and friends. The FBA approach is long-term commitment and an inter-confessional approach, reaching out to different political, social and religious communities. This means more “Sushi” i.e. establishing networks and a sense of mutual acceptance among Sunni and Shia individuals of different backgrounds, which can be tribal or academic, or based on civil society or party affiliation, etc.

MYTHOS AND LOGOS

In the workshops, all the participants were invited to contribute to story-telling, to share their cultural and personal experiences of life, happiness, grief and pain. This human element was always present in an open space in which participants could share their dreams, aspirations and experiences in relation to a possible shared vision for a new Iraq. Initially, this created some confusion and possibly frustration among some of the oil and gas experts not yet accustomed to a participatory approach, involving as it does different kinds of stakeholders. Nevertheless, several of them had worked with huge oil companies, and with political bodies responsible for the oil sector, and so they brought specialized know-how which they were eager to share. Other participants had personal experiences of exclusion, of not being allowed to contribute to policy-making in language that drew on their own construction of events. In essence these were encounters between logos and mythos: here FBA invited creative and dynamic thinking outside the square, a process involving actors and artists together with specialists in the oil-sector.

AN “US AND THEM” APPROACH

The FBA project also sheds light on the tension between community development on one hand and, on the other, nationwide strategies in which oil revenues really would benefit the citizens, regardless of ethnicity, religion and political backgrounds. Communities in Iraq have their own agendas for development and change. The regions have aspirations for the future and some, such as the Region of Kurdistan, have the constitutional rights and their own decision-making bodies to help achieve them. The internal and external crisis in the region creates a dynamic in which communities are strengthened at the expense of the nation-state. These are of course major changes of a historical magnitude that are far beyond the scope of this particular FBA intervention. Still, who would like to invest in a failing and corrupt state that can’t deliver in times of crisis and turmoil? The answer would be: “back to my own community and kin, where there is a

sense of belonging and where I feel secure.” This very human reaction was expressed during several of our workshops. FBA created an environment for reflection at the group and community levels while at the same time fostering an all-inclusive national approach. The aim was to invite participants to think about core issues not only from the perspective of their own community interests but also from other perspectives. The truth is that this was sometimes a painful and time-consuming process with limited or no room for dialogue and common understandings. The FBA team had in these cases the chance to follow-up on issues, through field-visits to all the concerned communities and regions of Iraq. What has been very promising is the great investment of trust in this process and in the FBA team by the Iraqi participants, regardless of their religious and ethnic backgrounds.

SPACE AND ROOM FOR ANALYSIS AND CHANGE

Through this trust, both a bond and a bridge, miracles can happen, and they do! The participants of the workshop in Baghdad will never forget what took place in the banquet hall of Rashid Hotel on December, 2-4 December 2013. Using some participatory techniques from the work of anthropologist Robert Chambers, the banquet hall, built during the Saddam Hussein regime, was transformed into a space for shared reflection and analysis on how Iraq might use its oil and gas. Showing the combined efforts of the Iraqi participants and the Swedish FBA team, seven interactive displays presenting outcomes and proposals, as well as mapping of current conflicts and hurdles, were installed. Iraqi parliamentarians and key decision-makers were invited to this space – part art gallery, part political exposé – showing bold examples of collaboration and trust among all the participants.

CONCLUSION

The situation in Iraq since the beginning of this FBA project in 2013 has gone from bad to worse on all levels, especially affecting the key areas of oil production and human development. A two-year perspective such as this is very short considering the sort of challenges Iraq faces. However, the workshops, field-visits and meetings between Iraqis have built on a unique network of political, social and religious actors and their shared understanding of some of the crucial core issues and obstacles to fundamental questions for Iraq, such as the national assets of oil and gas that Iraqis own in common. Taking an inclusive and participatory approach, this courageous process is an important contribution to further possible steps on the way to change and sustainable human development. The ingredients have not been consumed before the Iraqi cake was baked. The Iraqi participants had a taste of that cake, and they want more.



URGENT CHALLENGES FACING IRAQ'S OIL SECTOR

Dr Sherko Jawdat is chairperson of the Natural Resources Committee, Parliament of Kurdistan. Dr Sherko Jawdat has, among other things, worked as specialist in economic development for USAID in Iraq and as National training director International Human Rights Law Institute-Iraq (IHRLI).

I was impressed by the way the meetings were organised, by the logistical preparations for this important event and the humility of those who took care of them. There was a philosophy behind the rationale of the meetings, a clear vision and also a civility that made Sweden even dearer to our hearts. The advanced techniques used in the sessions were intelligent – both spiritually and emotionally – and they promoted communication and mutual understanding among participants. Overall the meetings were very pleasant and I felt there was an atmosphere conducive to dialogue and agreement.

Although the participation of people more qualified to make decisions or approve decisions and recommendations would have been preferred, nevertheless there were important people chosen to participate.

I remain committed to the promises I made and I will continue my work on closing the gap between the views of the Region of Kurdistan and Baghdad. We have several common projects alleviating the current tensions between the parties.

My preferred focus is on the oil sector and its impact on Iraq's economic development. As well, oil and gas legislation is crucial for resolving disputes that the regions and provinces have with Baghdad.

OIL PRODUCTION FALLING

Iraq produces around three million barrels a day. The government's planned production of 13 million barrels a day by the end of 2017 has not been realised. This is because the necessary infrastructure – pumping stations, storage facilities, as well as pipelines and outlets for exports – are inadequate. When it became evident that the production target would not be reached, the government tried to allay the sense of failure by revising contracts with the oil companies.

Actually, the agreement with British Petroleum and Petro China, who are responsible for the development of the al-Rumaila oil field, to reduce the 2017 production target from 2,8 million barrels to 2,1 million barrels a day was expected. This oil field currently produces more than 1,4 million barrels a day, which is about half of the total Iraqi oil production. Around five years ago, the al-Maliki government launched an ambitious program to develop the fields to quickly provide the income that would relieve pressure on Iraq due to the global financial crisis as well as to cover increased budgetary demands. Iraqi oil experts noticed that the targets were too high and suggested reducing them by undertaking a review of the oil contracts with the international companies. The new target is nine million barrels a day by 2020 in which the existing production goals of the giant fields in the south such as West al-Qarna, al-Zubair and Majnoon will decrease.

THE SHORTAGE OF OIL EXPERTS

Something more alarming, which has not properly been dealt with or even discussed, is the marginalisation, displacement, arrest and assassination of dozens of expert oil personnel across the nation. Dismissing oil personnel in 2003 and randomly accusing them of various offenses without any enquiry or due legal process was part of the method that the occupation used. Iraq paid the price in terms of lost security and stability when the Iraqi army was dissolved. It also paid the price of a weak oil industry when Iraq lost these oil experts despite having given them specialist qualifications in the best universities in the world. These specialists had properly managed the oil industry for decades despite war and international boycotts. Now is the time to acknowledge and remedy this blunder, wherever possible, by re-employing them in their former roles to work on the development of a modern oil industry and supervise international companies in the field.

THE URGENT NEED FOR COOPERATION: STATE, REGIONS, PROVINCES

The oil industry faces a further challenge in getting the Federal Ministry of Oil to work with the regions and provinces. Preserving the sovereignty of the state as well as recognizing that oil production gains have been made in the regions and provinces are both equally important. It is not possible to deny the contribution of the Region of Kurdistan to Iraq's oil industry: the production capacity of the Tawqa and Taq Taq fields this year is between 200 and 400 thousand barrels a day. This reality should be faced without feeling that it threatens Iraq's sovereignty. To date, Kurdistan has exported two million barrels using its own pipeline independent of the state of Iraq. The situation requires a measured approach to finding a negotiated political settlement to this overstepping by both parties. These disputes are deepened by ambiguities in articles of the Constitution concerning oil which allow for more than one interpretation. It is necessary to resolve this difficulty before it is too late and other provinces take the same steps as the Region of Kurdistan.

A major concern is that this problem will spread to the province of al-Basra which is of central importance to the Iraqi oil industry. To prevent the country from splitting into small enclaves this issue must be settled; for the sake of Iraq's unity and the recovery of its oil industry. Iraq now suffers from the emergence of armed militias with multiple loyalties. Terrorism has become a significant influence in domestic politics. In coming talks it might be worthwhile to revisit the 2007 discussions on proposed oil and gas legislation.

PROTECTING THE KIRKUK OIL FIELD

A further challenge is the pressing need to secure the Kirkuk oil field. Exports have stopped since March last year due to repeated attacks on pipelines that lead to the Turkish port of Ceyhan. As a consequence, production from the giant oil field of Kirkuk has fallen to around 400 thousand barrels a day. The Region of Kurdistan has extended its own pipeline from Kirkuk to the border of Turkey, but a more important factor is the ongoing military activity in the area. While Kurdish Peshmerga forces control the Kirkuk oil fields, ISIS continues to occupy the south-western part of Kirkuk and so more military engagements are expected.



CONCLUSION

While developing the oil resource we need also to consider using the accompanying natural gas as a means to generate electricity, instead of burning it.

Apart from the specific issues mentioned here, addressing the problem of poor management and corruption in Iraq's oil sector is essential. For this reason, as I said at the outset, a most pressing need for Iraq is oil and gas legislation that guarantees the rights of all Iraqi groups in the Region of Kurdistan and in the rest of the provinces.

Many thanks for all your support – we hope it will continue as Iraq is in great need of it.

HOW TO COMBAT CORRUPTION

Siham Shanoon al-Ugaily is member of the provincial council of Maysan.

First, our thanks and appreciation goes to the Folke Bernadotte Academy for offering this wonderful support and assistance to the Iraqi people. They have facilitated the sharing of ideas toward a successful strategy that helps make way for long-term development in Iraq. This, in turn, goes a long way toward achieving political and social stability in Iraq.

We envisage combating corruption in Iraq in the following ways:

➤ 1. *It is common knowledge that in Iraq the lion's share of to the economic activities take place in the provinces, in particular the oil provinces. These provinces are governed according to a principle of administrative de-centralisation. In line with this principle, the Federal Government is obliged to work with the provincial governments of the regions, or with the provinces that are not organised into regions. This applies particularly to the shared management of the country's oil and gas reserves, as stipulated in article 112, paragraphs 1 and 2 of the 2005 Constitution.*

However, it is deplorable that the Federal Government has unilaterally signed oil contracts in the southern provinces of Iraq without the participation or even the knowledge of local governments in these provinces. This is a breach of constitutional law. The situation has reached the point where local governments have not even been permitted to review the contracts that the Federal Government signed with foreign companies during the licensing rounds. Despite repeated requests, officials from these provinces have not been shown these contracts which is a sign that the deals could bear the taint of corruption. A similar case occurred in the Region of Kurdistan when the government of that region signed oil investment contracts without consulting the Federal Government. The oil was later exported from Iraq. According to international law and the Iraqi Constitution, the Federal Government is the only body authorised to ratify international contracts. All the evidence leads to the suspicion that contracts like those just mentioned are perhaps stained by corruption.

Following this, it is essential that an agreed-upon relation binding the conduct of the Federal Government together with that of both its regional counterparts and provincial administrations must be formalised lawfully and transparently.

➤ 2. *Parliament must legislate for the regulation of oil, gas and minerals since these are strategic and sovereign resources. This legislation should block any authority attempting to exceed the rights granted to it by the Constitution. To put a stop to corruption, this legislation should clearly outline how this national resource should be utilised while setting out the conditions for its proper management.*

➤ 3. *The regions, as well as provinces not forming part of a region, should be vested with the power to draft their own clear and effective strategies in combating the corruption contaminating these important sectors. Particular attention should be paid to the secondary contracts that serve to implement investment contracts. As well, taxes and fines should be*



imposed on any foreign investment companies in the oil and gas sector whose activities are detrimental to the local environment or the infrastructure of the regions and provinces. This accords with article 44, paragraph 5 of the law applying to provinces not belonging to a region, number 21 from 2008.

➤ *4. The function of official supervisory bodies (i.e. the Anticorruption Authority, the Office of the Auditor General and the Financial Oversight Committee) should be reinforced and given other support in tracking documentary evidence of corruption. This will address the corruption that represents a real obstacle to the effective operation of this important and dynamic sector which is so important to the Iraqi economy, representing more than 90 percent of Iraq's income.*

➤ *5. The media and civil supervisory bodies need support in their role as watchdogs of the government's conduct in managing the oil sector. This means giving these bodies full access to the information and documentation that the state uses.*

CORRUPTION IN IRAQ: PRIVATE FEAST, PUBLIC FAMINE

Sardar Aziz is senior advisor to the Parliament of Kurdistan, the Natural Resource Committee. He has a PhD from the University of Cork in Governance.

Corruption is systemic in Iraq and the Region of Kurdistan. According to Transparency International, Iraq “continues to score among the worst countries on corruption and governance indicators”. In this policy paper I ask why is it that there is such a high level of corruption? And I propose a number of policies to deal with the issue in Iraq.

I consider corruption to be a symptom of a more complex and critical malady that has affected Iraq throughout its history, namely the country’s inability to become a modern nation-state. This failure keeps the country struggling under what are in fact medieval social structures which prevent Iraq from actually emerging into the modern world. My main hypothesis is this: Iraq has failed to become a modern state. This has primarily affected the nation’s mind-set and its institutions. In other words this failure has affected the way people conceptualise their relationship to the world and the ways they deal with institutions. Accordingly I focus on why corruption happens. I argue that the blurring of the border between private and public is the main factor behind corruption in Iraq.

THE PROBLEM OF CONCEPTUALISATION

In dealing with corruption in Iraq one is faced with a mountain of problems. Firstly, corruption is not a novel phenomenon; rather it dates back to the genesis of the Iraqi state. Indeed, “some studies have revealed that the tribe was not the main culprit behind the collapse of the democratic project in monarchist Iraq; rather, the main factor was the corruption of the ruling elites of the time, and how they reduced government to a few individuals who had embedded themselves in the court and its policies, and were supported by the strong families and clans” Alheis Abdulaziz, (2011:2).

The above quote shows that corruption was part of the Iraqi state since its inception and Iraq has so far failed to overcome this issue throughout its history. It is worth mentioning that corruption was inherited from the Ottoman Empire in Iraq. The diaries of most of the officials of that time reveal that the three provinces that made up Iraq – Basra, Baghdad and Mosul – were run in a highly corrupt manner and suffered under the severity of that rule. Nevertheless, what is generally new is, on one hand the level of corruption, and this corresponds, on the other hand, with the level of wealth and the degree of awareness of and resistance to corruption.

Do these deep historical roots indicate that corruption has become normalized and is now part of the Iraqi culture? Corruption is an extremely adaptable and multi-faceted phenomenon, not in the ways it works, but in the range of distinct forms that it takes and the significance that local people attach to them. Does corruption tie in with existing cultural practices and social norms among Iraqis, such as favouring one’s relatives and the exchange of gifts? What of the more pressing issues such as the absence of a genuinely human relationship to homeland, or the



negative perception of the state as apparatus of oppression or as oil-based economy? If the Iraqi state together with the culture of its people allow or encourage corruption, the subjective aspect of corruption manifests in how people conceptualize the phenomenon of corruption.

Our research shows that tribalism (a feudal form of community) is also part of the issue and tribe mentality is at the heart of corruption in Iraq. Corruption has been defined as, “the unlawful use of official power or influence by an official of the government either to enrich himself or further his course and/or any other person at the expense of the public, in contravention of his oath of office and/or contrary to the conventions or laws that are in force” H. A. Ekiyor, (2009). At the heart of this definition there is the public versus private dichotomy.

After the collapse of the Saddam regime a new era emerged in Iraq. While the country opened up toward the rest of world at the same time it became weak, never managing to regain its jurisdiction over violence and hence it lacked territorial and social integrity. In other words Iraq was weakened by coercive forces.

When the authoritarian state collapsed, the true Iraq emerged in the form of a land of medieval tribes, many different ethnicities and sects, which all commenced their march toward power. For some this was in order to leave their marginalised status behind by seizing the country’s wealth, for others the aim was not to become trapped in marginalization themselves since they were already masters of the country. As a result of this, the country became an arena of bloodshed always justified through beliefs and attachment to the past.

In addition to violence a typical and time-honored way of acquiring wealth re-emerged. Traditionally, in the Arab world, as Ziad Hafez (2009:461) explains, “wealth is the result of capital accumulation through production and the exploitation of natural resources. But there are other sources of wealth formation, essentially through the capture of the Other’s efforts. In Arab tradition, well before Islam, that capture takes place through raids for booty. Though this ‘capture’ is usually an act of aggression, nonetheless it may take place with the ‘consent’ of the Other”. This suggests that the prevalence of such traditions weakens or precludes any modern form of economy.

These dangers associated with corruption are exacerbated by the historical legacy of the previous authoritarian regime, lack of experience in public administration, inefficient use of aid money, sectarian disputes and lack of a political will to address the problem of corruption. While Iraq has introduced a number of anti-corruption initiatives, these have failed to provide a sufficiently strong or well-integrated framework. Political interference, lack of political will, an irresolute civil society, a confusing penal code, and a lack of resources limit the effectiveness of these anti-corruption measures. Finally, corruption in the military and security services and oil smuggling are undermining Iraq’s ability to respond to the major security challenge that Iraq now faces with the militant group ISIS.

CONCLUSIONS

Research, as well as first-hand experience, show that corruption in Iraq is systemic with deep roots in the country’s political culture and history. Over time two phenomena have always gone hand-in-hand, namely, any increase in wealth has brought with it a rise in the level of corrup-

tion. While corruption is an ancient phenomenon, resistance to it is still relatively new. This suggests that while the country modernises by exploiting its resources and becoming part of a global market, at the same time the modernisation of governance and the role of people are lagging behind.

Iraq is set to become like an African state which is riddled with corruption, where smuggling and the plundering of national resources are rife and where seizure of property and money-laundering are routine. As studies of such states in Africa reveal, the Iraqi state must redistribute responsibility from individuals toward groups.

The Iraqi culture and social fabric do not yet allow the people fully to become, and organise themselves as, a people. While the rhetoric suggests that people are central, in reality they are absolutely marginalised. This also happens in European culture as Giorgio Agamben (2000) points out, “in modern European languages this term (people) always indicates also the poor, the underprivileged, and the excluded, the same term names the constitutive political subject as well as the class that is excluded – de facto if not de jure – from politics”. Thus, the elite when they talk on behalf of the people of Iraq are just practicing an empty rhetoric which in reality fails to recognise ordinary people as equals on a par with the elite. In modern Iraq this complete invisibility of the people is exacerbated as the country forms factions that associate only through denial and hatred of each other.

In times like these when the state and its institutions decay and collapse more every day, war becomes the routine way of doing politics and corruption only spreads. War puts an end to accountability and transparency. War justifies maltreatment and a total neglect of the rule of law. There is no end in sight to the war in Iraq because war is a profitable business and the fastest way to accumulate wealth. Furthermore, the current war in Iraq is geopolitically managed for the purpose of maintaining a balance of power.

RECOMMENDATIONS

- 1- *To tackle corruption it is essential to end the war. War will persist as long as Iraq retains its current centralised structure.*
- 2- *The only way to end the war and still keep the country together is to decentralise that structure.*
- 3- *War weakens civil societies and makes the army the major institution. In Iraq the army and arms dealing are the most corrupt institutions.*
- 4- *The way Iraq is governed has to be modernised. Nothing can be achieved without modern institutions with the modern qualities of accountability, legitimacy and transparency.*
- 5- *Corruption is more hazardous than terror. The international community should not condone the former while dealing with the latter.*
- 6- *Iraq is a wealthy country, however, its state-centered economy and the practice of individuals attempting to seize wealth in the old-fashioned ways are sources of conflict and unlawful ways to acquire wealth.*



- 7- *The Iraqi education system has to be reviewed and changed radically, focusing on the values of patriotism and human rights. A country like Japan is a good example, as it changed from a warrior ethos to a nation of hard-working citizens who overthrew their warrior elite.*
- 8- *Decentralise the country in politics, government, administration and, above all, economics.*
- 9- *Increase privatisation and introduce a modern taxation system.*
- 10- *Put an end to the militias and strengthen the judiciary.*

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ON METHODS USED

Joel Ahlberg

Once, after a session of network analysis, a participant said: “Most official dealings in Iraq are unclear, lacking in transparency; we do not know quite what we’re dealing with....We just know it is there.” In Iraq oil is somewhat paradoxical in that although it is plentiful and within easy reach of drilling technology it is at the same time remote. This remoteness is due to a lack of transparency, inadequate legislation and insufficient long-term agreements for managing Iraq’s oil resources. The participants from that network analysis session coined the phrase “parallel powers” to describe, on one hand, the Iraqi reality and, on the other, the difficulty of carrying out reform under circumstances that are so fluid one can lose one’s way.

According to theory conflict affects different areas; it impacts individuals, it comes between groups of people, and it arises in social and political organisations. Thus, the work of conflict resolution requires attention to all three levels, the individual, the group and the social. The main goal of this project has been to promote analysis in order to foster national cooperation on the oil issue as well as encourage greater readiness to reform on the part of decision-makers. Below I describe two of the methods we used to develop a more coherent analysis that would relieve the harmful tensions inherent in polarized thinking of the “I am right / you are wrong” variety.

CREATING MODELS

In the first conference, participants used symbolic pieces they arranged collaboratively on a board for an interactive way to visualize and explore the relationship between five broad constituencies supporting Iraq’s oil resource. The oil-producing Basra, the Western provinces, the capital Baghdad, the Region of Kurdistan, and the oil industry itself were all represented on the board. The beautiful symbols, designed by the artist Andrea Hvistendahl, represented various elements or features such as oil resources, the rule of law, corruption, wealth and poverty, level of education, and so on. The purpose of placing these on the board –in the constituencies represented there – was to model the actual situation in Iraq as well as to inspire collaborative problem-solving and the exchange of ideas. Each board became in itself an engaging composition and had a lot to tell us.

The benefit of this exercise was that by using it participants could visualize connectedness in Iraq, allowing a more fine-tuned diagnosis of the situation. Rather than emphasising this or that particular aspect, it allowed for a much broader, integrated overview on Iraq. This exercise also enlisted people’s competencies and experiences rather than appealing to their prejudices and so it became a fertile ground for discussion.

NETWORK ANALYSIS:

Regarding oil in Iraq especially, it is clear that much of the decision-making takes place outside of the formal structures mentioned in the Constitution. However, concerned parties in dispute



still refer to the Constitution to frame their arguments, sometimes citing the same paragraph but with opposite interpretation. Therefore it was felt worthwhile to spend time looking at the kind of networks that influence decision-making in order to understand the conditions for possible reform in the oil sector.

In this exercise, participants explored how different agencies influencing the oil industry are constituted in terms of financial and military resources, regulatory power including law enforcement, and capacity for forward planning. In addition, the relationship between these agencies was described using three different oppositions: legitimate/illegitimate, transparent/corrupt and mutual/coercive. The resulting maps illustrated and helped locate the different networks in Iraq. For example, in case of Arab Iraq, a common description was that networks are fluctuating, not regulated and often tied to foreign interests. Someone described the line between the state and private sector as being blurred, since individuals are involved in both sectors at the same time and use the state to promote personal interests. The time consuming and heavy bureaucracy for investments was brought to the discussions, mentioning that an investor is required to send papers to about 70 different instances. These networks create inefficiencies and consume a lot of resources from the Iraqi oil wealth. Following this description, we discussed how the Iraqi system could start to deliver value around three key ideas; the idea of citizenship rather than sect, a reformed administration particularly to facilitate investments and long-term social investments and in infrastructure. The term “how to bake the Iraqi cake” was coined. During a session with Kurdish participants in Erbil, the maps showed that the political parties are stronger than the institutions. It was pointed out that a broader inclusion and participation would make Kurdish negotiators more legitimate and successful as elite and commercial interests are not necessarily the same as the national interest.

Both exercises enabled multi-disciplinary groups to work together smoothly and thereby achieve an important and much needed exchange of experiences and knowledge. Both exercises promoted lateral thinking by focusing on the variable ways participants could place or otherwise situate symbols standing for the relationships in question. The act of describing the different constituencies or agencies in various relationships to each other, and of determining what affected their qualities, became a distinct activity quite different from expressing an opinion. This is important because we humans are inclined to treat our opinions as facts. Both modelling and network analysis underscored the importance of encouraging people to describe something before seeking their opinion on it.

PARTICIPATION IN THE POLITICAL SPHERE

This project has aimed to set up a process in which questions of long-term development in Iraq can be formulated and cooperative efforts to address these questions encouraged. In the second stage of the process, we have tried to expand and disseminate the analysis through meetings with political groups in Iraq. The issue of oil and long-term development requires a process such as this for advanced problem-solving and significant political decision-making. Although it is fair to say that decisions on Iraq's oil are taken by a very limited group of men, it is nevertheless important not to underestimate the importance of a process involving broad participation informing those decisions. Previous “political deals” in Iraq have clearly shown that any such

arrangements among elites will be inadequate to accommodate the economic, political and social complexities of oil. In addition, from a constitutional perspective the Iraqi people are entitled to have their say in how this vital resource is to be managed. A participatory process, one that submits the results of its analysis to the political arena, will further facilitate long-term decision-making by granting it greater legitimacy.



SUMMARIES OF SIX MEETINGS AND WORKSHOPS

*First meeting: Toward national strategies in the usage of oil and gas for social peace
Bagdad, December 2,3 & 4, 2013*

Iraq is rich in resources. The country owns one of the world's largest reserves of oil and its land is enriched by sufficient quantities of sweet water to enable domestic food production. Diversity is the backbone of Iraq. The ability to withstand hardship has shaped the conditions of life for many Iraqis.

The conference "Toward national strategies in the usage of oil and gas for social peace" was held December 2, 3 & 4, 2013 in Baghdad. Twenty-five distinguished Iraqi personalities, eight women and seventeen men convened. Among them were academics from three different universities in Baghdad, officials from the ministry of planning, civil society, as well as experts on oil, law and economics. The participants came from Basra, the Western provinces, Baghdad and the Kurdish region.

The conference is part of a project that aims to define national strategies of cooperation in unresolved issues of importance to the political process.

The overall theme of the conference was how to integrate oil, humans and trust in strategic choices for social peace. Three analytic premises characterised the implementation. 1) Increased federal cooperation is in a direct relationship to the capacity of the state. In the event of low cooperation, the capacity of the state is weak. With increasing cooperation, by comparison, the capacity of the state increases as well. 2) The oil and gas resources are a natural form of capital, but the real value of this capital corresponds with the country's human resources, i.e. the level of education and the degree of trust that is in and between groups in Iraq. 3) The absence of a regulated market deepens the social, economic and political cleavages in the country and favours the rule of money rather than the rule of law.

In mixed groups, the participants developed a description of the national situation from the point of view of five important actors; Basra, the Western provinces, Baghdad, Erbil and the oil industry. The descriptions pointed to a low degree of cooperation, an uneven spread of infrastructure, large social gaps and corruption. One model demonstrated that the cooperation between the oil companies and the provinces as well as the region is often more developed than the domestic cooperation. Another paradox that became evident is that although the oil resources belong to the people, they do not benefit the people due to the lack of a national policy. In light of these findings, the participants discussed what values should govern the signing of contracts, the extraction of oil and income distribution. The discussion spanned legal, political and economic fields.

During the third and last day of the conference, the participants presented seven recommendations before a distinguished group from parliament and the party system. Opening statements underscored the need for a comprehensive solution which would direct the income from oil toward investment in education. One recommendation was to integrate the energy strategy with the country's strategy for economic growth and to frame an oil and gas law. Also highlighted was the need to develop the domestic manufacturing industry which today accounts for only

three percent of GDP. The participants presented interactive displays of the work process and the themes discussed during the conference. A speech by Deputy Prime Minister HE Dr Rowsch Nury Shaways was given by his representative Mr Husan Akif.

The engine of growth lies in the cooperative efforts of all Iraqis. An insight that has been gained through this conference is that the real value of Iraq's vast oil reserves can only be realized through the cooperative management of these oil reserves based on trust, rather than assuming that value resides in the oil itself. Without trust, mankind becomes impoverished and diminished. Cooperation at a national level on the issue of oil has the potential to free human resources, as HE Dr Rowsch Nury Shaways implied in his speech. He also mentioned the need for strategies and legislation to reduce the great dependence on oil revenue in favour of a more diversified economy in accordance with the principle of decentralisation. Unlike material resources, these human resources increase rather than decrease in value if they are shared among others.

*Second meeting: Revenue Sharing for Long-Term Development
Erbil, April 4, 5 & 6, 2014*

The workshop "Revenue Sharing for Long-Term Development" was held in Erbil on April 4th – 6th, 2014 under the auspices of a dialogue project called Roads to Effective Co-operation: National Strategies and Mechanisms for Implementation. This workshop comes in the wake of a similar event held in Bagdad in December 2013. Over thirty individuals participated in the workshop. They came from Basra, Bagdad, Najaf, Mosul, Erbil and Suleimaniya. The participants represented a mix of backgrounds: academia, government, politics, civil society, media and students.

What stood out according to the statements of the previous year's workshop was Iraq's pressing need to invest more in long-term development in physical and social infrastructure. In addition, a more regulated environment for the oil sector and the creation of a more diversified economy were called for. The workshop also stressed the need for genuine federal cooperation.

The aim of the workshop in Erbil was to push the discussions begun last year in Bagdad one step further. While tackling the subject of long-term development again as a fundamental issue, we included common interest. A well known problem for Iraq is its current focus on short-term distribution of oil revenues and the resulting clashes over who should benefit from this kind of spending. In response to this a move towards more long-term development goals is an important step. Talks centred on how common needs might practically be fulfilled. In concrete terms discussion kept returning to how long-term development can be described, analysed and financed, in large part by oil revenues.

A bottom-up approach was used to understand how five different social groups in society – women, children, the sick, entrepreneurs and farmers – can fulfil their roles in society. This approach gave important information on how these social groups belong together in an inter-related economic, social and political system. The total economic value of this system is larger than the sum of its parts. The participants succeeded in thinking beyond familiar or entrenched positions and from there opened up to discussions of broader issues.



Third meeting: Cooperation in the governance of shared resources: governance, institutions and human development needs.

Stockholm, 17, 18, 19 & 20 August, 2014

To a large extent prosperity results when people feel safe enough to think and act beyond their immediate needs. This enables cooperative endeavour in which people of different backgrounds come together to shape the future. There is a pressing need in Iraq for improved political relations in order to promote cooperation among Iraqi groups.

The achievement of long-term development is an economic and political challenge facing the whole of Iraq, and all of its political leaders. The challenge is to empower citizens so as to be able, in different ways, to govern wisely and administer the natural resources of Iraq. These human capacities, along with education and health, are what we call the “inner side” of development in meetings summarised below. Following current economic priorities these have been underfinanced.

Another way of examining long-term development is to ask the question: How to bake the Iraqi cake, before consuming the ingredients? At present, the greatest share of the resources is spent on running costs and often wasted in corruption. A network analysis of the different actors was used in the workshop to analyse the political and economic landscape in Iraq. It was found that a lot of decision-making is made by agencies outside of formal political and legal institutions. Participants pointed out that political and economic relations in the country are unstable and lacking in transparency and are therefore not conducive to development.

According to the federal system, the majority of economic activities lies in the provinces. In light of this, the federal state has a key role in promoting political stability, the development of skills and capacities needed to facilitate decentralisation, industrialisation programmes – particularly in the food sector – and in assisting the private sector by easing regulations.

The success of the chosen strategy for long-term development will to a large extent depend on political and social stability, improved political relations in the country and a willingness to cooperate among Iraqi leaders. Stability gives room to think beyond tomorrow. With improved political relations comes the willingness to cooperate. And with cooperation comes prosperity.

Fourth and fifth meeting: Iraq, oil and federal cooperation for long-term development

Erbil 2 & 3 December, 2014 and Bagdad 14 & 15 January, 2015

The Swedish Folke Bernadotte Academy has, with Iraqi partners and with high-level political support, analysed Iraq’s oil issues from a broad perspective. Meetings have primarily focused on framing policy for oil revenues to best manage this resource from a long-term perspective. Moving from short- to long-term policies requires the coordination of political, economic and administrative resources on a large scale. The conclusion reached is that long-term investment in infrastructure and social development is a concern shared by all federal agencies. This is described in more detail in the three reports from Bagdad, Erbil and Stockholm.

Two meetings have taken place in this series; one with Kurdish representatives in Erbil in December 2014 and one with Arab representatives in Bagdad in January 2015. The premise

of both meetings was that different negotiating positions can grow out of a vision of what a good society would look like. In both meetings the house was used as a metaphor for long-term development and good internal as well as external relations.

If more interest groups can be involved and more investment can be directed, for example, to education, health care and the communications sector, then more people will be able to call the Iraqi house a home. At present the budget is allocated only one year ahead. Expanding this time-scale will promote more effective investment in society while preparing the ground for more long-lasting improvements to welfare. Simplified management and an easing of regulations for the private sector will encourage the establishment of alternative sources of income. These parameters pave the way for real economic and social development.

Sixth and final meeting: Our shared house: a framework for oil
Stockholm, 17 & 18 May, 2015

The last meeting convened sixteen leaders and politicians. The purpose of the meeting was to develop Iraqi political cooperation for the long-term management of oil.

The issue of oil spans political, economic, institutional and legal fields. Oil also has local, regional, national and global dimensions. For this reason, we used the idea of a house to symbolise an integrated way of understanding and working on these disparate issues. All things are connected in a house. The house has outer and inner elements, and in the same way, oil has internal and external aspects. For oil, the outside concerns infrastructure and other technical matters including the functioning of the social context. Oil's inner dimension is founded on trust, welfare and security.

At the end of the meeting participants assembled a model house. The four walls illustrated each of the four perspectives that the participants had worked on. These were the political, the institutional, the legal and developmental. These perspectives had already been identified in the first planning meeting in September 2013.

Something we found very helpful was a photographic exhibition assembled by Mrs Siham al-Ugaily from the provincial council of Maysan. The photographs were of different types of houses in Maysan, and showed the extremes of wealth and poverty in housing. The images were a reminder of the need to ground discussions of Iraq's oil wealth in an Iraqi reality and to be concrete in the proposals under consideration.

During the two-day meeting, participants discussed the following main questions corresponding with the four walls of the house:

From the political perspective: Which policies can contribute to the long-term development of the country? How can we create long-lasting relations between groups in society?

At an institutional level the concern was, how to fight corruption.

Emphasising development it was asked, How can we build human development on geological wealth? How establish the shared values on which such development depends?

The legal question was, What exactly does one want to safeguard by framing an oil and gas law?



CONCLUSIONS AND RECOMMENDATIONS: A CALL FOR ACTION

What emerged from the national dialogue process is an emphasis on the following key recommendations as being essential for Iraq's development and future welfare. Participants contributing to this publication have also stressed that Iraq must focus on long-term development, oil and gas legislation, and moves to combat corruption.

LONG-TERM DEVELOPMENT

What has stood out is Iraq's pressing need to spend more on a robust development policy. This is a common federal interest, and requires a mindset that is keen to build on Iraq's wealth. The question is, how to bake the Iraqi cake? Some of the ingredients for this cake are education, health, infrastructure and the participation of women. Increased attention to domestic agriculture and industrial production is important to facilitate employment in productive work and substitute expensive imports. Long-term development also includes environmental sanitation of al-Basra province. A further key question is, what sort of administrative reform can pave the way for private investment and deliver value to Iraqis? It seems essential now that a development fund be established to deal with fluctuating global oil prices.

OIL AND GAS LEGISLATION

While being one of the largest exporters of oil in the world, at the same time Iraq lacks national oil and gas legislation to regulate this asset. This puts the country's oil industry at risk commercially, technically and politically. Without legislation to regulate its oil and gas resources, Iraq cannot to the full extent exercise its sovereignty over business contracts so as to ensure that they are equitable and that they stipulate only the latest technology should be used. The legislation will ensure that Iraq is a partner instead of merely a supplier of crude oil to world markets. The framing of this essential legislation requires a broad participatory process. In the drafting phase of the legislation it is essential to consider the sort of future Iraq wants this law to protect.

COMBATING CORRUPTION

In the absence of adequate regulation and a stable, long-term development policy, the close association of politics, business interests and the state create the conditions for corruption. A key aspect of this problem is that, contrary to the intentions of the Constitution, at present Iraq's oil policy serves to benefit elite groups rather than the welfare of all Iraqis. The resulting ethical malaise undermines internal stability, which in turn hampers Iraq's development. To underpin trust, transparency in the federal budget and the use of modern measuring technology have also been called for. Moreover, what can resist corruption are political vision, political inclusiveness and a commitment to forging long-term agreements in which Iraqis can trust.

We began this publication by noting that for Iraq both oil and dialogue are forms of wealth, resources on which Iraq's future welfare depend. We thank all the participants in this dialogue for the time, energy and ideas they have invested toward Iraq's future. From their collaboration in discussions as well as written contributions to this report we have been able to identify the above key areas as most urgently needing action.

