



BIG BAD
WOLF, OR IS IT?

IRAN'S ECONOMIC FOOTPRINT
IN IRAQ IN CONTEXT

Ahmed Tabaqchali

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About the Author

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Abstract

It is asserted that Iran exercises dominance over Iraq's economy to further its political hegemony and to circumvent the sanctions imposed on it. Three economic exchanges are almost always cited to support such assertions. Foremost is Iraq's critical dependence on imports of Iranian electricity and gas; followed by large and growing imports of Iranian goods; and finally, the exploitation of the Central Bank of Iraq's US dollar auction to siphon dollars. Such assertions are grounded in a Western, primarily US-led, narrative born out of the conflict with Iran, arguing that Iran was the true beneficiary, at the expense of the US, of its invasion of Iraq in 2003. As such, guiding policy decisions, often overlooking Iraq's own political and economic dynamics, with often detrimental consequences. The US-Iranian conflict is likely to intensify under the Trump administration and the return of the maximum pressure campaign, which will likely spill over into US relations with Iraq.

This piece seeks to put these three exchanges in context, arguing that Iran's large economic footprint is a symptom of Iraq's structural economic imbalances, and as such instead of confronting these symptoms through an 'ideology of confrontation', the focus should be on addressing the root causes of these imbalances. However, this requires pursuing rational policies, grounded in an understanding of the underlying economic structures.

Acknowledgments

The information in this piece is based on publicly available data on websites, publications, presentations, and research reports as will be seen from the footnote references. In particular a number of sources were critical: the works of Robin Mills and the team at Qamar Energy, in particular 'Powering Iraq: Challenges Facing the Electricity Sector in Iraq', co-authored with Maryam Salman, the coverage by the *Iraq Oil Report* of gas and electricity sector developments, *Amwaj.media*'s coverage of Iran, Muhammad Al Waeli and others who helped with data sourcing, as well as discussions with Harry Istepanian and colleagues in the industry who wished to remain anonymous. The analysis, however, is the author's own and reflects his views and outlook.

Furthermore, the author would like to express his gratitude to colleagues and friends at the LSE Middle East Centre, in particular Professor Toby Dodge, Robert Lowe, Professor Michael Mason, Jack McGinn, Mercedes Masters, Amira Djuric, and the layout and typesetting team. Finally, the author would like to express his gratitude to the anonymous peer reviewers who have enhanced the piece.

All errors, omissions and mistakes are the author's own.

Executive Summary

The Iraqi state's oversized role in the economy, persistently enlarged since 2003, came at the expense of much needed spending on public infrastructure, destroyed by over four decades of conflict. Subsequently, the state's continued direct and indirect control of major economic activities, including the provisioning of public services, contributed to the erosion of the country's traded goods and services sectors and led to a dysfunctional provisioning of these services. Two major consequences are relevant for this paper: the first is a badly managed state provisioned electricity sector, suffering from a large and growing gap between demand and supply made worse by mismanagement of resources, and subsequently a dependence on direct imports of electricity and gas; the second is that domestic consumption of goods and services are mostly met through imports, managed by a largely informal private sector.¹

Iran has an advantage over Iraq's immediate neighbours, being endowed with significant natural gas resources – as such it is the only realistic option as a substantial exporter of gas to satisfy Iraq's need to power its electricity generation. Complimenting this, an extensive land border (spanning about 1,600 km) in proximity to Iraq's heaviest population densities makes it relatively straightforward to build infrastructure for the export, and delivery, of electricity and gas. From its first electricity exports in 2004, followed by natural gas exports in 2017, Iran has been crucial in addressing Iraq's chronic electricity shortages, in which these exports accounted for an estimated 41 percent of the electricity supply in 2020, thereby underscoring its vulnerabilities to disruptions in these exports. However, Iran's own failings are gradually eroding these vulnerabilities, as this 41 percent share of the electricity supplied has declined to an estimated 31 percent in 2023, and is likely to decline further due to Iran's shortcomings in generating sufficient electricity to meet its own domestic demand,² as exports will be diverted to the domestic market. Contributing to this erosion is Iraq's increased electricity generation based on domestic capture of flared gas and increased alternative electricity imports.

Following regular reporting of Iran's exports to Iraq, officials from each utter a variation of a mantra, essentially encapsulated as 'trade between the two is about \$10-12 billion a year, which both sides plan to grow materially to \$20 billion' (USD, dollar or \$ henceforth). However, this trading relationship is more nuanced than these figures imply, and they are frequently

¹ The author was co-writer of the government's economic reform plan 'The White Paper' which discussed in detail the role of the state in the economy and the resultant structural imbalances – including the erosion of the traded goods sector, and electricity challenges. The Emergency Cell for Financial Reform, 'The White Paper for Economic Reform: Vision and Key Objectives', *Emergency Cell for Financial Reform, Government of Iraq*, October 2020. Unofficial translation available at: <https://www.iraq-businessnews.com/wp-content/uploads/2021/01/Iraq-White-Paper-English-version-Oct.-2020.pdf> (accessed 16 November 2024). Moreover, the author has discussed: (1) Iraq's dependence on imports, and the funding for imports from Iran; and (2) the shortcomings in the electricity production in a number of articles. Links to these are made in relevant sections of this piece.

² Years of mismanagement, irrational consumption, and underinvestment in aging infrastructure made worse by sanctions, culminated in Iran's current power and energy crises –with power blackouts across the country caused by shortages of gas to generate electricity, with available gas prioritized for home heating to stave off social unrest. Farnaz Fassihi and Leily Nikounazar, 'Iran's Energy Crisis Hits "Dire" Point as Industries Are Forced to Shut Down', *New York Times*, 21 December 2024. Available at: <https://www.nytimes.com/2024/12/21/world/middleeast/iran-economy-energy-crisis.html> (accessed 1 January 2025); Arsalan Shahla, Golnar Motevalli, and Patrick Sykes, 'Iran Blackouts Leave Industry in Tatters Ahead of Trump's Return', *Bloomberg*, 19 January 2025. Available at: <https://www.bloomberg.com/news/articles/2025-01-19/iran-s-relentless-blackouts-leave-industry-in-tatters-ahead-of-trump-s-return> (accessed 25 January 2025).

taken out of context. Current Iraqi private sector imports from Iran (estimated at \$7.0 billion in 2023), while much larger than imports from most of Iraq's trading partners, are smaller than those from Türkiye (estimated at \$10.8 billion) or China (estimated at \$12.1 billion). Imports from Türkiye and China have both outgrown and outstripped those from Iran over the last few years, and will likely continue to do so. These trading relationships, like all of Iraq's trading relationships with the exception of oil exports, are one sided – whereby Iraq imports almost everything and exports practically nothing. Given the informal nature of Iraq's economy and the isolation of Iran's banking system from the rest of the world, private sector imports necessitated the use of opaque payment structures, with the lightly regulated *Hawala* system playing a major role,³ which were ultimately settled through the Central Bank of Iraq (CBI)'s dollar auction. These explain the compromises within the functioning of the auction, and not the unsubstantiated conspiracies of siphoning and smuggling of dollars to Iran.

The dependence on exports of Iranian electricity and gas, as well the dependence on exports of foreign goods (Iranian as well as others), stem primarily from the economic decisions taken by the post-2003 political order, that deepened the country's structural economic imbalances, and can not be explained via a simplistic assertion that these are the result of Iranian machinations.

Iraq's structural economic imbalances can be particularised as follows (1) its failings in the management of every aspect of its power production; (2) its dependence on imports, including Iranian imports, to satisfy domestic consumption; (3) the nature of its informal economy, with the three at the root causes behind Iran's large economic footprint – itself a symptom of these imbalances. Iraq's international stakeholders need to help it address these root causes to ensure its energy security, and lessen its dependence on imports – Iranian or otherwise – instead of following the 'ideology of confrontation' in focusing on the symptoms.⁴

Finally, while not the subject of this paper, the assertions of Iran's dominance of Iraq's economy fail to take into account the absence of any Iranian ownership or control of some of the country's most important and successful private sector sectors and companies.⁵ For instance: two of Iraq's mobile telecom operators are majority owned by Kuwaiti and Qatari companies, while the third is Iraqi owned; the country's top private sector owned banks, whose dominance of the market expanded significantly from late-2022, are majority owned by regional banks from Jordan, Kuwait, Qatar, while one is a branch of a UAE bank; and finally there is no Iranian participation in oil and gas production, nor in their associated service industries.

³ Investopedia, 'What is Hawala? Money Transfer without Money Movement', *Investopedia*, 21 April 2023. Available at: [https://www.investopedia.com/terms/h/hawala.asp#:~:text=Hawala%20\(sometimes%20referred%20to%20as,developing%20countries%20sending%20remittances%20home](https://www.investopedia.com/terms/h/hawala.asp#:~:text=Hawala%20(sometimes%20referred%20to%20as,developing%20countries%20sending%20remittances%20home) (accessed 10 January 2024).

⁴ Such as the incoming Trump administration's likely renewal of the 'maximum pressure' approach: Warren Strobe, Benoit Faucon and Lara Seligman, 'Trump to Renew "Maximum Pressure" Campaign Against Iran', *Wall Street Journal*, 8 November 2024. Available at: <https://www.wsj.com/world/middle-east/trump-to-renew-maximum-pressure-campaign-against-iran-f0db5fd5> (accessed 14 November 2024); the phrase 'ideology of confrontation' is taken from Ali Ansari, 'Iran and the Iraq War of 2003: the Real Victor?', *RUSI*, 24 March 2013. Available at: <https://rusi.org/explore-our-research/publications/commentary/iran-and-iraq-war-2003-real-victor> (accessed 13 January 2024).

⁵ This piece is typical of such a narrative: Vivian Yee and Alissa J. Rubin, 'In U.S.-Led Iraq War, Iran Was the Big Winner', *New York Times*, 19 March 2023. Available at: <https://www.nytimes.com/2023/03/19/world/middleeast/iraq-war-iran.html> (accessed 14 November 2024).

The Mantra of a \$20 Billion Trade Target

During a visit to Iraq in April 2019, Iran's president said, 'We hope that our plans to expand trade volume to \$20 billion will be realised within the next few months or years',⁶ repeating a mantra uttered by both Iranian and Iraqi officials over the last few years. Almost always, officials affirm that trade between the two is about \$10-12 billion, in which both sides plan to grow to \$20 billion in the near future.⁷ Highlighting a milestone in these plans, a spokesman of the Islamic Republic of Iran Customs Administration (IRICA) marked the visit of Iraq's Prime Minister (PM) in June 2022 by asserting that trade in goods reached \$8.7 billion in the ten months since the Iranian president had taken office⁸ – \$7.6 billion in Iranian exports and \$1.1 billion in Iraqi exports.⁹ The significance was that during the Iranian president's first ten months in office, his country's exports grew by over 37 percent versus the prior comparable ten months, while Iraq's exports were over one and half times as much as the sum total of what it exported to Iran over the prior ten years. This implied the two countries were not only making solid progress on these plans, but that the trade flow was no longer one sided. By the end of 2023, encouraged by growth in exports that year, the chairman of the Iran-Iraq Joint Chamber of Commerce saw a potential of \$30 billion in mutual trade.¹⁰ However, these rosy trade figures are at odds with earlier expressions of disappointment conveyed by Iran's supreme leader to Iraq's PM during a visit to Iran in November 2022, citing that the numerous signed deals and memorandums to grow the trading relationship between the two were rarely implemented.¹¹

While significant, the trading relationship between the two is more nuanced than these plans, statements, and numbers assert – even the available data can, and often does, mislead when taken at face value and out of context (see section on Selected Reporting of Gas Exports). Reports on the value of trade between the two from IRICA and the Tehran Chamber of Commerce, Industries, Mines and Agriculture (TCCIMA), are almost always

⁶ 'Rouhani Says Iran Ready to Expand Gas, Power Trade with Iraq', *Reuters*, 6 April 2019. Available at: <https://www.reuters.com/article/idUSKCN1RIO7Y/> (accessed 8 February 2024).

⁷ The most recent utterance was in September 2024. 'Iraq is Aiming to Increase its Annual Trade Volume with Iran to \$20 billion', *964Media*, 5 September 2024. Available at: <https://en.964media.com/24314/> (accessed 7 November 2024); 'Iran's Exports to Iraq up 71-fold in 20 years: Official', *Mehr News Agency*, 12 September 2024. Available at: <https://en.mehrnews.com/news/221103/Iran-s-exports-to-Iraq-up-71-fold-in-20-years-Official-:-:text=TEHRAN,Sep.,showing a 71-fold growth.> (accessed 7 November 2024).

⁸ 'Iran's Trade with Iraq Tops \$8.6b since Raisi Took Office', *Financial Tribune*, 27 June 2022. Available at: <https://financialtribune.com/articles/domestic-economy/114129/irans-trade-with-iraq-tops-86b-since-raisi-took-office> (accessed 8 February 2024).

⁹ The figure of \$1.1 billion in Iraqi exports includes \$0.8 billion in cereals, sugar, and oil cake exported through Imam Khomeini Sea Port – see footnote 47 for details of this anomaly.

¹⁰ 'Iran's Non-oil Exports to Iraq to hit \$11 billion by March 2024', *Iran Chamber of Commerce, Industries, Mines, and Agriculture*, 4 December 2023. Available at: <https://en.otaghiranonline.ir/news/45175> (accessed 8 February 2024); 'Iran-Iraq Trade Can Grow to \$30bn: Official', *Iraq Business News*, 22 September 2023. Available at: <https://www.iraq-businessnews.com/2023/09/22/iran-iraq-trade-can-grow-to-30bn-official/> (accessed 2 December 2024).

¹¹ 'Islamic Republic Admits Failure of Trade Deals with Iraq', *Iran International*, 30 November 2022. Available at: <https://www.iranintl.com/en/202211303473> (accessed 8 February 2024).

positive on the growth of Iranian exports to Iraq. In highlighting strong Iranian exports, these sometimes cite non-oil goods and services, or goods including gas, so that only selected strong figures are celebrated, overshadowing all other aspects or details of the reports.¹² These in turn are taken at face value by local, regional, and international press, and end up painting a picture of a strong growth in Iranian exports, and consequently an increasing economic dominance of Iraq.

A few notes on the data used in this piece:

- Almost all of the available data on trade between the two,¹³ are on the trade in goods, while only some data is available on the trade in services such as tourism data. As such, this paper focuses on the trade in goods.¹⁴
- Furthermore, goods trade data is for the whole of Iraq including the Kurdistan Region of Iraq (KRI) and based on internationally provided data by exporting countries of their exports to Iraq.

¹² The most striking example of this is for Iranian fiscal year 1398 (ending in March 2020), in which Iranian exports to Iraq were \$5.4 billion, down 40 percent from the prior year according to IRICA. However, TCCIMA which often reports Iranian exports figures multiple times a year, did not release the figures for the year, and its website has no data for that year. Available at: <https://service.tccim.ir/stats?-mode=doit> (accessed 16 November 2024). Interestingly, a much larger figure of \$8.9 billion was reported in the Iranian press, stating that the statistics were those of the Iranian Trade Development Organization. ‘Export and import Tables of Iran in 1398’, *Donya Bourse*. Available at: <https://donyayebourse.com/news/52702-لوادج-98-لاس-رد-نار-یا-نادر-او-و-تار-د-اص-52702> (accessed 10 November 2024). ‘Trade View for 1398’, *Donya-E-Eqtasad*, 14 April 2020. Available at: <https://donya-e-eqtasad.com/بین-4/3644048-پناگر-ز-اب-شخب-4/3644048-پناگر-ز-اب-شخب> (accessed 10 November 2024).

¹³ All trade data in this piece, except for imports from Iran, are from the UN’s Comtrade Database. Comtrade data is not available every year for Iran, and thus is replaced here by Iranian sourced data (which are based on the Iranian fiscal year ending in March) after normalisation to the Gregorian calendar (below). See ‘Comtrade UN Database’, *United Nations*. Available at: <https://comtradeplus.un.org/> (accessed 2 December 2024). Iranian data is sourced from: (1) Islamic Republic of Iran Customs Administration (IRICA); and (2) Tehran Chamber of Commerce, Industries, Mines and Agriculture (TCCIMA). Data provided by TCCIMA and IRICA mirror each other in any given year but differ in granularity: data from TCCIMA is for annual exports through different ports, while data from IRICA adds descriptions of exported items, and recently added monthly export data. Iranian data use Iranian fiscal year ending in March, and as such are normalised for the Gregorian calendar for 2012–9, while from 2019 onwards use monthly data published by IRICA to arrive at calendar years. In both cases, the months are approximate, in that an Iranian month starts on the 21st day of a Gregorian calendar month, and ends on the 20th of the subsequent Gregorian month. Available at: <https://tccim.ir> (accessed 20 October 2024). Comtrade figures are provided by all countries to the UN, and as such do not reflect those of small individual traders known in Iraq as ‘suitcase traders التجار الجنبطة’, nor do they include illegal trades or smuggling. Moreover, the Comtrade data used here is for net exports for each country, i.e., re-exports are removed. As such this piece uses Comtrade data for all countries apart from Iran, while Iranian sourced data is added to Comtrade data after normalising it for the Gregorian calendar. Imports from Iran include government imports (gas and electricity) using author’s estimates.

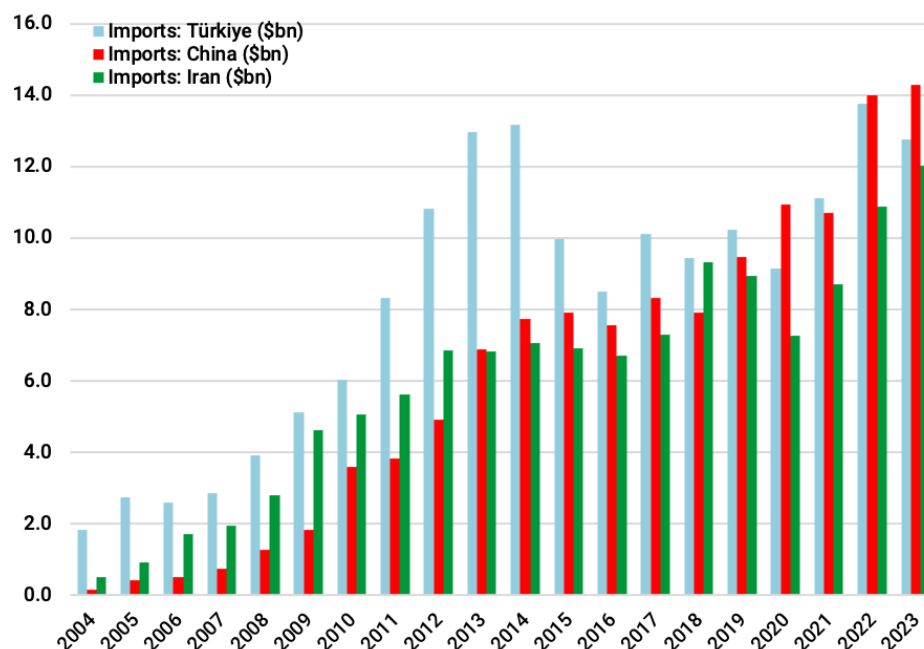
¹⁴ The OECD explains that trade in services ‘... include transport, travel, communications services, construction services, insurance and financial services, computer and information services, royalties and license fees, other business services (merchandising, operational leasing, technical and professional services, etc.), cultural and recreational services’. ‘Trade in Services’, *OECD*. Available at: <https://www.oecd.org/en/data/indicators/trade-in-services.html> (accessed 7 November 2024).

- Exports to Iraq are the same as Iraqi imports, with the two used interchangeably.
- Data for gas and electricity imports, consumption and production are for Iraq ex-KRI, as these are based on data provided by federal Iraqi authorities that do not include the KRI in their reports. It should be emphasised that, the data for gas and electricity are annual figures, and thus represent average consumption, production and export for any given year – encompassing the extreme peak summer period where each is substantially higher than the average.
- Figures used through the piece are the author's estimates based on the data sources cited.

A Milestone in 2012

2012 marked a milestone for Iranian exports, growing by 21.8% that year to \$6.9 billion, continuing the strong up-trend from very small beginnings in 2004, and accounted for a 16.2% share of total exports to Iraq. While this share was larger than China's 11.6% share, it was smaller than Türkiye's 25.5%. Since then, exports from the three grew collectively from 53.2% of total exports to 62.6% in 2023, with a share of 60.0% throughout the period (2012–23), dwarfing all other countries. The next largest exporter in the timeframe was the UAE at 5.1%, India at 3.5%, South Korea and the US at 3.0% each, Germany at 2.5%, Italy at 1.8%, and Jordan at 1.6%.¹⁵

Figure 1: Total Imports of Goods from Iran, China, and Türkiye 2004–22



These total export figures represent both Iraqi government and private sector imports, with government imports averaging 29.8 percent of total imports throughout the period

¹⁵ Most reports of UAE exports to Iraq are of total exports including re-exports, which dwarf its net exports, but this piece uses net exports (footnote 13).

(i.e., 2012–23).¹⁶ Government imports include gas and electricity imports, oil products imports (gasoline, kerosene, and gas oil),¹⁷ food items such as wheat, rice, vegetable oil, and sugar for the Public Distribution System (PDS),¹⁸ among other government imports of goods. The next section reviews government imports of gas and electricity from Iran, with a sub-section on selected reporting of gas exports, and the following one reviews the private sector imports from Iran.

Government Imports of Gas and Electricity

Almost all the Iraqi government's imports from Iran are electricity, and natural gas. Electricity imports began in 2004,¹⁹ and are delivered through four cross-border high voltage transmission lines. Electricity import data, as measured by amounts of electricity imported (using gigawatts (GW), or terawatt hours (TWh)), are available from 2004–23 from both the Iraqi Ministry of Electricity (MoE) and Iranian sources.²⁰ However, the cost of these, while structured along international formula for prices, yet the details are kept confidential.²¹ As such, Iran does not publish dollar values of annual electricity exports when it reports on its overall exports to Iraq, and there is no publicly available data on the value of these imports apart from two unreliable or inaccurate sources. The first comes from the news reports of Iraq's arrears to Iran, especially when Iran cuts the supply of electricity. The second comes from the tables provided by Iraq's Ministry of Finance (MoF) in its annual budget proposals, reflecting projected spending on electricity in any given budget year based on projected imports of electricity which are rarely met, while historic data in these MoF tables are: (1) of outstanding arrears; and (2) list what was actually paid in any given year but not what was billed. Nevertheless, estimates of the values of these imports for 2012–23 can be made based on the amounts of electricity exported, and using estimates of the pricing formula.²²

¹⁶ 'Iraq: 2024 Article IV Consultation-Press Release; and Staff Report', *International Monetary Fund (IMF)*, 16 May 2024. Available at: <https://www.imf.org/en/Publications/CR/Issues/2024/05/15/Iraq-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-Executive-549028> (accessed 10 November 2024).

¹⁷ These are put out for tender by the Ministry of Oil (MoO), but no data was available on the original source of the fuels given the global nature of the fuel trade.

¹⁸ PDS is Iraq's universal non-contributory social transfer programme, enacted in the 1990's following widespread food shortages after the imposition of sanctions on the country, and provides in-kind transfers through food rations to nearly every household in Iraq at negligible cost.

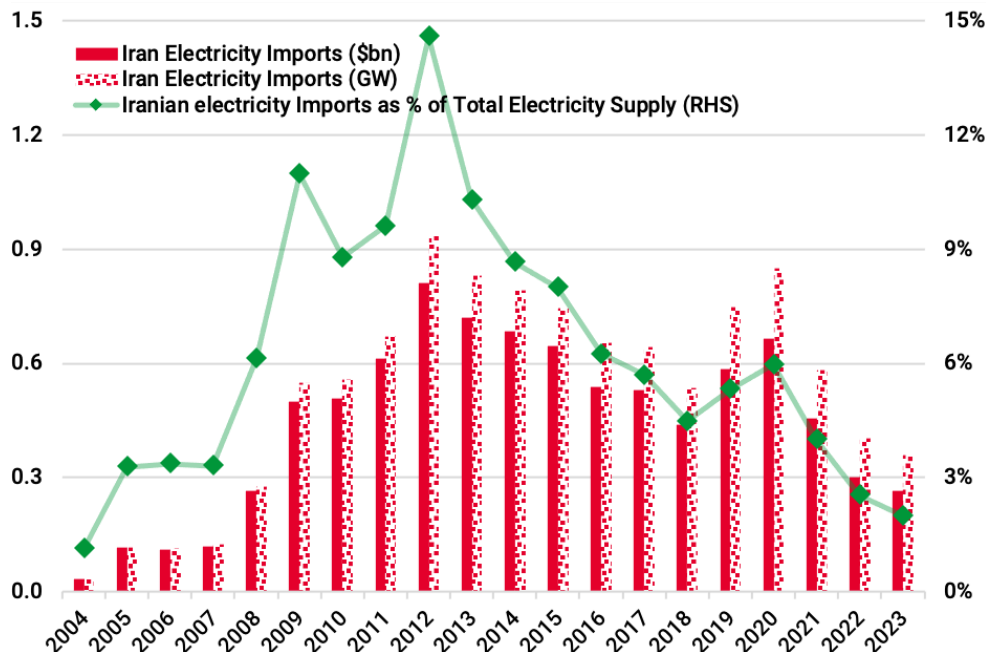
¹⁹ 'Statistical Report on 49 Years of Activities of Iran Electric Power Industry (1967-2015)', *Tavanir Holding Company*, December 2016. Available at: https://policy.asiapacificenergy.org/sites/default/files/Statistical%20Report_red.pdf (accessed 8 February 2024).

²⁰ 'Iraqi Ministry of Electricity (MoE) Annual Reports 2010-2023'. Available at <https://moelc.gov.iq/?page=2879> (accessed 8 November 2024). Also, footnote 19, and links in: 'Deep Data: GCC Electricity and Iraq's Reliance on Iran', *Amwaj Media*, 21 July 2022. Available at: <https://amwaj.media/article/electricity-deal> (accessed 8 February 2024).

²¹ In discussions with industry experts, including Harry Istepanian, see <https://istepanian.com/> (accessed 14 January 2025); 'Tavanir Opposed to Private Sector Involvement in Electricity Export', *Financial Tribune*, 13 August 2021. Available at: <https://financialtribune.com/articles/energy/109816/tavanir-opposed-to-private-sector-involvement-in-electricity-export> (accessed 8 February 2024).

²² Industry experts suggest that current pricing for imported electricity is about 9–10 US cents per kilo-

Figure 2: Iraq Electricity Imports from Iran



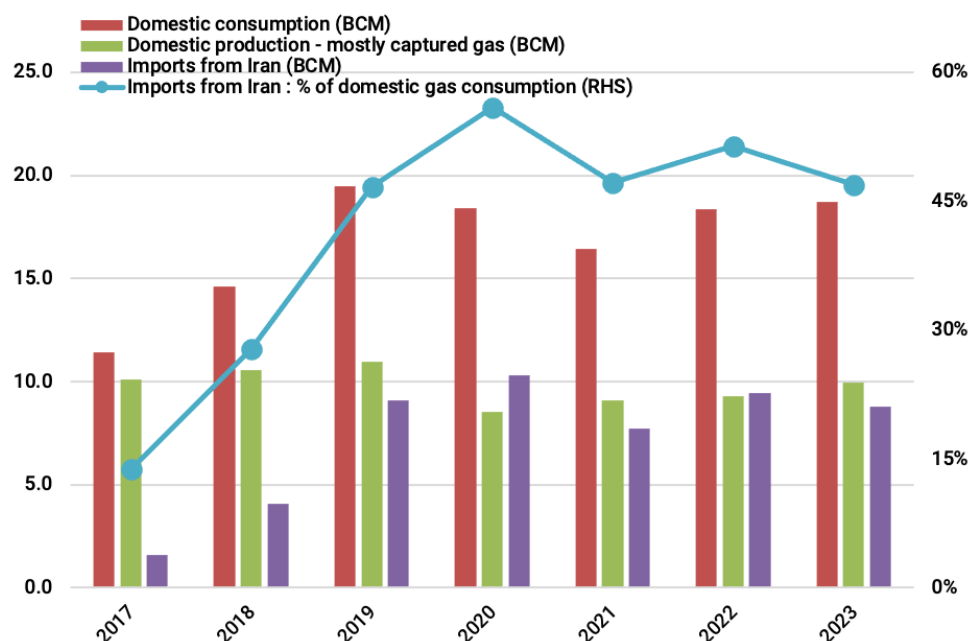
After a few years of steady but inconsistent increases, Iran's electricity exports (in GW) declined significantly in the last three years, so that by 2023 it was under 2009 levels (Figure 2), even though Iranian electricity generation increased by 72.6 percent in 2009–23. This was because exports were diverted to the Iranian domestic market due to increased demand that outstripped generation.²³ As such, the often-cited payment arrears are a secondary factor or an excuse for the reduced exports to Iraq. Corresponding to these trends of electricity exports, their percentage of the total electricity supplied in Iraq peaked at 14.6 percent in 2012, then declined to about 2.0 percent in 2023 due to a combination of decreased supply and increased domestic electricity generation especially from gas powered power stations in which the growing supply of Iranian gas from 2017 played a major role.

watt hour (c/kWh), while the head of Tavanir (link in subsequent footnote) said in 2021 that exported electricity is sold for at least 11c/kWh. Assumption here: pricing was 11.5 c/kWh in 2004, then declining five percent every three years, reaching 8.5 c/kWh by 2022.

²³ Links to Iran's power generation and gas shortages, below and footnotes 2 and 24. 'Country Analysis Executive Summary: Iran', *US Energy Information Administration (EIA)*, 10 October 2024. Available at: <https://www.eia.gov/international/analysis/country/IRN> (accessed 18 November 2024); 'Facing Shortages, Iran's Net Electricity Exports Reach Zero', *Iran International*, 18 November 2023. Available at: <https://www.iranintl.com/en/202311188439> (accessed 22 March 2024); 'Iran Gears Up for Energy Challenges in Face Of Tough Summer', *Iran International*, 17 January 2024. Available at: <https://www.iranintl.com/en/202401177176> (accessed 22 March 2024); 'Power Cuts Exacerbate Manufacturing Woes Amid Iran's Electricity Crisis', *Iran International*, 11 March 2024. Available at: <https://www.iranintl.com/en/202403114362> (accessed 22 March 2024).

Iraq and Iran signed a deal in 2013, to import 9.1 billion cubic meters (BCM) of gas a year through each of two pipelines, for a total of 18.2 BCM a year.²⁴ From a small start in the summer of 2017, supply steadily increased until 2020 when it peaked at 10.3 BCM, or about 57 percent of the contracted supply. However, by 2023 Iranian exports (in BCM) to Iraq were 14.9 percent lower than in 2020, while overall Iranian gas exports declined by 10.2 percent, even though Iranian gas production was up 6.7 percent during the same period. Just as for the cuts to electricity exports, gas exports were diverted to the domestic market to meet the demand for power. Once again, Iraq's often-cited outstanding arrears are a secondary factor and an excuse for the disruptions of gas supplies. Corresponding to the trends of exports in BCM, Iran's gas exports as a percentage of Iraqi domestic gas consumption (mostly for power generation) increased from 13.7 percent of total domestic consumption in 2017, peaked at 55.9 percent in 2020, and was down to 46.9 percent in 2023.

Figure 3: Gas Consumption, Production and Imports²⁵



Similar to the case of electricity imports, both the pricing of gas and the annual cost of imports are not made public, but it's understood that tariffs are based on a pricing formula linked to the price of Brent crude – structured similarly to formulas for international gas export deals yet it is believed to be relatively expensive²⁶ – but once gain estimates can

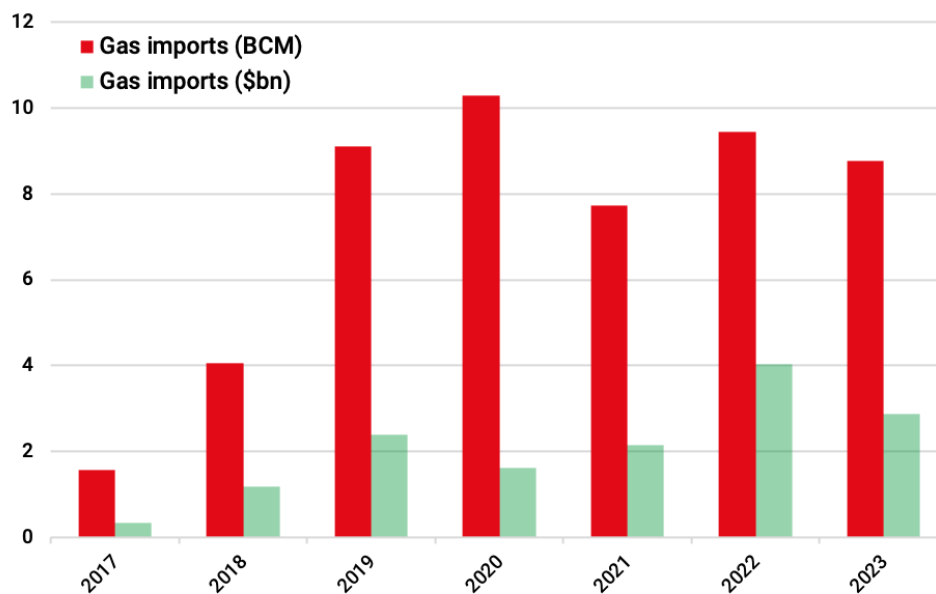
²⁴ 'Iran Gas Export to Iraq at 1.2 BCM', *Financial Tribune*, 19 November 2017. Available at: <https://financialtribune.com/articles/energy/76443/iran-gas-export-to-iraq-at-12-bcm> (accessed 24 March 2024).

²⁵ 'Energy Institute Statistical Review of World Energy 2024', *Energy Institute*, 20 June 2024. Available at: <https://www.energyinst.org/statistical-review> (accessed 10 November 2024).

²⁶ Robin Mills, Maryam Salman, 'Powering Iraq: Challenges Facing the Electricity Sector in Iraq', *Al-Bayan Center for Planning and Studies/Friedrich-Ebert-Stiftung*, October 2020. Available at: <https://library.fes.de/pdf-files/bueros/amman/16923.pdf> (accessed 24 March 2024); Robin Mills, 'A New Hope: Iraq Oil's Way

be made for their annual values.²⁷ Worth noting is that Iranian gas exports as percentage of domestic gas consumption in 2020–23 benefited from the declines in Iraq’s own gas production (capturing of flared gas) that was primarily a function of Iraq’s compliance with OPEC+ oil production cuts, that led to reduced oil production, and hence reduced associated gas flaring and thus less capturing of flared gas or reduced Iraqi gas production.

Figure 4: Gas Imports from Iran



Gas and electricity imports from Iran were, and still are, crucial in addressing Iraq’s chronic shortages in the provision of electricity – a lightning rod for public anger over the failings of the post-2003 political order. As such, they underscore Iraq’s acute dependence on Iran and its vulnerabilities to disruptions in these exports irrespective if they were for supposed Iranian manipulations, or more likely due to unavoidable factors given Iran’s own failings in generating sufficient electricity to meet its domestic demand.²⁸ It is frequently argued that this vulnerability allows Iran to wield significant influence over Iraq and its relationships with other countries. However, while these

Forward’, *Al-Bayan Center for Planning and Studies*, 19 June 2018. Available at: <https://www.bayancenter.org/en/wp-content/uploads/2018/06/876543.pdf> (accessed 22 March 2024).

²⁷ Model assumes higher gas shipments in summer months than in winter months, linked to 3-month average Brent prices, using estimates of Iranian formula pricing. Sources: discussions with industry sources. Mills and Salman, ‘Powering Iraq’, pp. 14–5; Dmitry Zhdannikov, ‘Iraq Resists U.S. Pressure to Reduce Iranian Gas Imports’, *Reuters*, 10 September 2019. Available at: <https://www.reuters.com/article/us-iraq-iran-power/iraq-resists-u-s-pressure-to-reduce-iranian-gas-imports-idUSKCN1VVoT3/> (accessed 24 March 2024).

²⁸ Iran’s gas production, and power generation, shortages stem from years of under-investments in both areas. A future piece by the author will address these among a wider subject of Iranian electricity supply to Iraq, both direct electricity and gas exports for electricity generation. Footnotes 2, 23 and 24 for Iran’s shortcoming in its power generation and gas production.

vulnerabilities and dependence are real, yet ascribing them to Iranian designs or long-term strategies to assert an economic dominance fail to take into account a number of factors that contributed meaningfully to this dependence – and allowed Iran to provide electricity and gas on advantageous terms to itself.

The first and most important of these factors is Iraq's own failings in the management of every aspect of its power production – from the power plants that generate electricity to the transmission system that transports this electricity to population centres, and to the distribution networks which then distribute this electricity to end users. Compounding these failures is a mix of a dysfunctional tariff pricing and collection system that encourages unlimited consumption, poor coordination between the Ministries of Electricity (MoE) and Oil (MoO) leading to mis-provisioning of the appropriate fuels for power generation. All of which meant a poor provisioning of electricity characterised by a large and growing gap between supply and demand, as well as a dependence on direct imports of electricity, and of gas for domestic power generation.²⁹ The second of these factors is the natural advantage that geography bestows upon Iran, given its extensive land border with Iraq spanning about 1,600 km, and the proximity of Iraq's heaviest population densities to the border that makes it relatively straightforward to build infrastructure for the export and delivery of electricity and gas.

²⁹ Ahmed Tabaqchali, 'Iraq's Power Conundrum: How to Secure Reliable Electricity while Achieving Energy Independence', *LSE Middle East Centre Blog*, 24 March 2020. Available at: <https://blogs.lse.ac.uk/mec/2020/03/24/iraqs-power-conundrum-how-to-secure-reliable-electricity-while-achieving-energy-independence/> (accessed 24 March 2024); Luay Al Khateeb, Jessica Obeid and Ahmed Tabaqchali, 'Iraq's Electricity Challenges: US Sanctions, Iran, and the Future of Energy', *Institute of Regional and International Studies (IRIS)*, 30 April 2020. Available at: <https://www.youtube.com/watch?v=lakqvxoqvyo> (accessed 24 April 2024). Further information: Mills and Salman, 'Powering Iraq'; 'The Fiscal Cost of Iraq's Electricity Sector and Potential Gains from Reform', *International Monetary Fund (IMF)*, 3 February 2023. Available at: <https://www.elibrary.imf.org/view/journals/002/2023/076/article-A002-en.xml> (accessed 24 March 2024).

was signed in late-2019 with the Gulf Cooperation Council Interconnection Authority (GCCIA) for 500 MW to be imported from Kuwait by the end of 2020, rising to 1,900 MW over subsequent years through building a common power grid. This too missed its targets, and is now expected to be completed in late 2024, with supply expected in 2025.³³ Other agreements have either not materialised such as that with Turkey for the supply of 600 MW, or are yet to materialise such as initial imports of 400 MW from Saudi Arabia that will eventually reach 2,000 MW.³⁴ Moreover, imports from the Kurdistan Region of Iraq (KRI) have increased to 422 MW in 2023 from 289 MW in 2013, but have not been consistent.

The fourth and a very significant factor is that gas plays a crucial role as a fuel for Iraq's power generation needs, current and future, which provides Iran with very significant advantages over Iraq's immediate neighbours, as none of them are gas exporters. Whilst nearby countries, such as Turkmenistan or Qatar, can supply gas, they would need to overcome geographical and logistical challenges,³⁵ or gas infrastructure development challenges.³⁶ On the other hand, domestic gas production has been hindered by delays in capturing flared gas that is produced as a by-product of oil production, or by chronic delays in developing the untapped gas fields.³⁷ Moreover, the ongoing disagreements with the Kurdistan Regional Government (KRG) over the development of the KRI's oil and gas fields have obstructed the potential of the KRI's gas sales to federal Iraq.³⁸ However, even if all obstacles were to be

have an oversized regional effect as it will be delivered to Anbar, in the same manner that Iran's electricity imports have a similar oversized regional effect.

³³ Ibid.; Amr Salem, 'Iraq to Complete Electrical Interconnection with Kuwait in Late 2024', *IraqiNews.com*, 17 March 2024. Available at: <https://dev.iraqinews.com/iraq/iraq-to-complete-electrical-interconnection-with-kuwait-in-late-2024/> (accessed 24 March 2024); 'Projects under Construction', *The GCC Interconnection Authority*. Available at: [https://gccia.com.sa/gccia-grid/projects-under-construction-2/-:text=GCCIA-Kuwait Interconnection percent27s Expansion&text=All implementation contracts have been,by the end of 2024.](https://gccia.com.sa/gccia-grid/projects-under-construction-2/-:text=GCCIA-Kuwait+Interconnection+percent27s+Expansion&text=All+implementation+contracts+have+been,+by+the+end+of+2024.) (accessed 11 November 2024).

³⁴ Naj and Porter, 'Iraq Poised to Start Power Imports from Jordan'.

³⁵ Iraq finalised a deal with Turkmenistan in October 2024 to import about 5.5 BCM annually, but given the geography it involves Iran (which signed a separate, but linked deal with Turkmenistan) to import the gas from Turkmenistan and release the equivalent gas from its own production to Iraq. Vladimir Afanasiev, 'Turkmenistan Signs Iraq Gas Supply Agreement', *Upstream Online*, 22 October 2024. Available at: <https://www.upstreamonline.com/energy-security/turkmenistan-signs-iraq-gas-supply-agreement/2-1-1728059> (accessed 11 November 2024).

³⁶ Dania Saadi, 'Iraq May Import Qatari Gas in 15 Months if Talks, Infrastructure Finalized', *S&P Global*, 10 February 2022. Available at: <https://www.spglobal.com/commodity-insights/en/news-research/latest-news/natural-gas/021022-iraq-may-import-qatari-gas-in-15-months-if-talks-infrastructure-finalized> (accessed 10 January 2025).

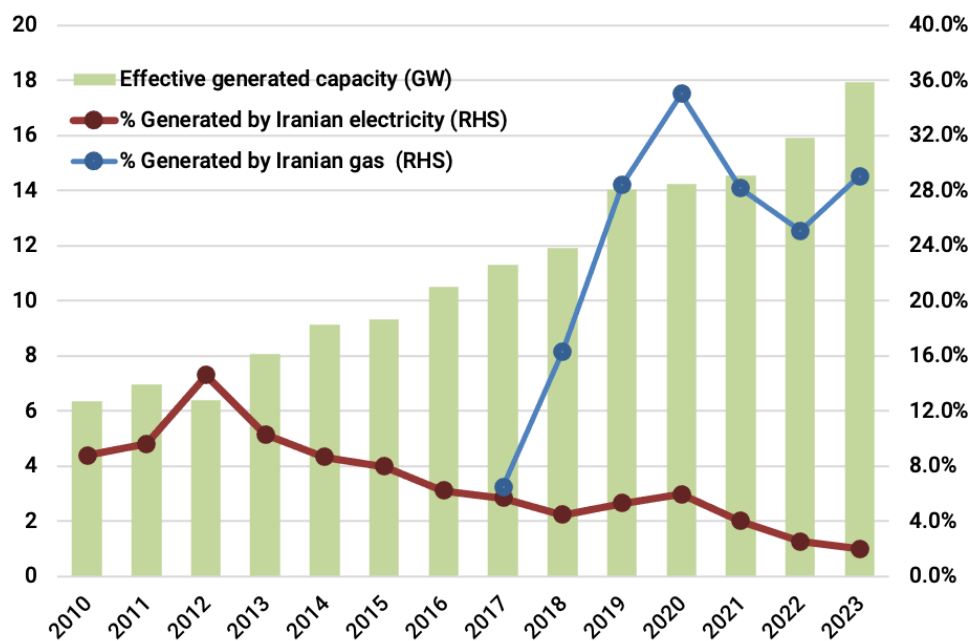
³⁷ For a review of these issues: Kate Dorian, 'Iraq Announces 6th Bid Round, Offering 11 Gas Blocks', *Iraq Oil Report*, 18 June 2023. Available at: <https://www.iraqoilreport.com/news/iraq-announces-6th-bid-round-offering-11-gas-blocks-45805/> (accessed 23 March 2024); Jamal Nahi, 'Akkas Start-up Showcases Gas Field's Potential and Pitfalls', *Iraq Oil Report*, 11 April 2023. Available at: <https://www.iraqoilreport.com/news/akkas-start-up-showcases-gas-fields-potential-and-pitfalls-45670/> (accessed 23 March 2024). Detailed analysis at: Mills, 'A New Hope: Iraq Oil's Way Forward'; Mills and Salman, 'Powering Iraq'.

³⁸ Ahmed Tabaqchali, 'The Kurdistan Region of Iraq Gas-Export Potential: Deja Vu All Over Again', *Atlantic Council*, 16 November 2022. Available at: <https://www.atlanticcouncil.org/in-depth-research-reports/report/kurdistan-positioned-in-prominent-role-in-global-gas-markets/> (accessed 23 March 2024).

removed, the KRI would only be in a position to export about 5.4 BCM a year in 2030, while by comparison imports from Iran were 8.8 BCM in 2023.³⁹

With the benefit of hindsight, it is clear that Iraq's critical needs for electricity compounded by its failings in the sector, with the almost-constant state of conflict and violence from 2003–18 provided Iran with formidable advantages as the only realistic and substantial provider of electricity generation – initially direct electricity exports, and subsequently gas exports for generating electricity. However, while Iran continues to be key to Iraq's power generation – direct electricity exports and gas exports for power generation – yet its importance has likely peaked at 41 percent of total generated electricity in 2020, subsequently declined to 31 percent in 2023, and should decline further due to a combination of Iran's own challenges in meeting its own power generation needs, and as Iraq increase its domestic gas production – both increased capture of flared gas and gas field developments, as well diversifying its sources of electricity imports.

Figure 6: Effective Generated Electricity and Iranian Contribution



Sources and notes⁴⁰

³⁹ While, this 5.4 BCM in gas imports from the KRI will contribute greatly to increasing the supply of gas for power generation, however will not negate the need for more sources of gas given that electricity demand would have grown substantially by 2030. See: Tabaqchali, 'Iraq's Power Conundrum'.

⁴⁰ Author's estimates of Iranian contribution as a percentage of electricity generated, based on and using data from the MoE (footnote 20) and the Energy Institute (footnote 25).

Selected Reporting of Gas Exports

IRICA's data records monthly volumes, values, and descriptions of goods that pass through the many border crossings (including airports) connecting Iran and Iraq. As mentioned earlier, Iran does not normally report the dollar value of gas and electricity exports.

However, IRICA's data from September 2018 began to selectively include some gas exports. This was reported by Iranian economic publications following the release of data for the three months ending 20 June 2021, showing that exports to Iraq were \$2.4 billion⁴¹ – an increase of 44.0 percent from the prior three month period. It turned out that this was caused by an invoice of \$0.9 billion in June for several months' worth of gas exports, without which the three month figure would have been only slightly higher than the prior three month period.

This is surprising for two reasons: (1) IRICA data record goods that pass through border crossing per month, and not invoices for goods that were exported over several prior months; (2) the gas is reported as 'liquefied natural gas in containers of one thousand cubic centimetres and more' which means it is exported by trucks, yet Iran exports natural gas to Iraq by pipelines and not as liquefied natural gas (or LNG) in containers. Monthly data for 2018–23, show many similar instances of such gas invoices, which increased the value of Iran's exports to Iraq by \$8.8 billion – yet this figure is substantially less than the estimated value of exported gas of \$14.2 billion during this period.

Private Sector's Imports of Goods

As for total imports, 2012 was a milestone for private sector imports from Iran which reached \$6.0 billion, 20.5% larger than the prior year, having grown by over 90% from around \$0.5 billion in 2004 corresponding to compound annual growth rate (CAGR) of 37.8%. However, this heady growth slowed down significantly since then, with exports reaching \$7.0 billion in 2023, an increase of 16.5% from 2012 or a CAGR of 1.4% – down from 37.8% in 2004–12. The sharp year-over-year increase in 2018 was likely an exception, probably linked to increased imports ahead of the re-imposition of US sanctions (Figure 7).

Throughout the early years of Iran's growing exports, it was often argued that this was a function of predatory pricing, in that Iran was granting tax breaks to its exporters and levying high import tariffs, which resulted in flooding the market with cheap products that both stifled Iraq's manufacturing and agricultural sectors. Also, that this allowed Iran to increase its market share against other exporters – in the process solidifying its influence.⁴²

⁴¹ 'Spring Jump in Foreign Trade', *Donya e Eqtesad*, 25 June 2021. Available at: <https://donya-e-eqtesad.com/يناگرزاب-شخب-4/3776120-شرب-تراجت-يراهب-يچراخ> (accessed 23 March 2024); 'Iran Claims Non-Oil Exports Grew by 69 Percent, but Figures Can be Deceiving', *Iran International*, 26 June 2021. Available at: <https://old.iranintl.com/en/world/iran-claims-non-oil-exports-grew-69-figures-can-be-deceiving> (accessed 23 March 2024).

⁴² Edward Wong, 'Iran Is Playing a Growing Role in Iraq Economy', *New York Times*, 17 March 2007. Available at: <https://www.nytimes.com/2007/03/17/world/middleeast/17iran.html> (accessed 22 March 2024);

By 2015, it was asserted by an Iranian official that ‘southern Iraq has become part of Iran’s market now and will remain so’.⁴³

However, there are other factors at play, the chief of which is likely similar to the case of imports of electricity and gas, in that the long border between the two countries facilitated the imports, and lowered the costs of transportation, of Iranian products.⁴⁴ Granted, Iran’s export subsidies and heavy import tariffs contributed to the competitiveness of its products, and so has the continued depreciation of its currency against the dollar and by extension to the Iraqi dinar (henceforth dinar) by the virtue of its peg to the dollar – but neither of these had sustained or maintained this huge advantage in subsequent years especially versus its closest competitors, Türkiye and China (below).⁴⁵

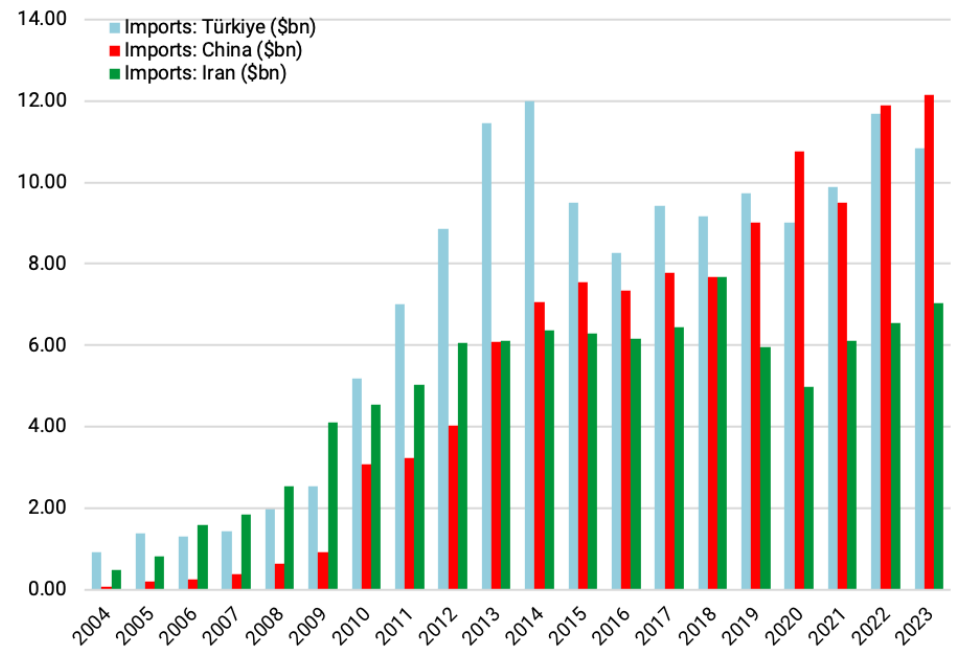
As for total imports, Iran, Türkiye and China dominate Iraq’s private sector imports dwarfing imports from all other countries with a combined market share of around 60.0 percent in 2023 – thus Iran’s exports should be viewed in context of its positioning versus these two and not versus other countries. As Iraq’s economy emerged from the so-called Islamic State conflict in 2018 and moved away from an economy marred by decades of conflict, its imports from either Türkiye or China in 2018–23 outstripped those from Iran (Figure 7). These figures don’t include informal imports especially from Iran and Türkiye, which are unmeasurable, but the trends of informal trade would likely mirror those of formal trade.

Marisa Cochrane Sullivan, ‘Iran’s Soft Power in Iraq’, *Critical Threats*, 4 August 2009. Available at: https://www.criticalthreats.org/analysis/irans-soft-power-in-iraq#_ednbc33727c9bcf9f5b322fdo5f2abofc964 (accessed 22 March 2024); Kathleen Ridolfo, ‘Iraq: Sunnis Say Iran Working to Solidify Economic Control’, *Radio Free Europe*, 5 March 2008. Available at: <https://www.rferl.org/a/1079591.html> (accessed 22 March 2024); Gina Chon, ‘Iran’s Cheap Goods Stifle Iraq Economy’, *Wall Street Journal*, 18 March 2009. Available at: <https://www.wsj.com/articles/SB123732669334561799> (accessed 22 March 2024); Terry M. Lee, ‘Iran’s Influence in Iraq’, *Washington Institute for Near East Policy*, 7 June 2010. Available at: <https://apps.dtic.mil/sti/tr/pdf/ADA545054.pdf> (accessed 22 March 2024).

⁴³ Najmeh Bozorgmehr, ‘Iran Eyes Iraq Trade Decades after War’, *Financial Times*, 28 October 2015. Available at: <https://www.ft.com/content/668edf26-78cd-11e5-933d-efcdc3c11c89> (accessed 22 March 2024).

⁴⁴ This natural geographic advantage can also work against Iran, as in 2020 with the closure of the Iraq-Iran borders in the wake of the COVID-19 pandemic, significantly reduced imports from Iran.

⁴⁵ The White Paper (footnote 1) argued that the value of the dinar by virtue of its peg to the dollar was a significant factor in the erosion of Iraq’s traded goods and services sector. The Emergency Cell for Financial Reform, ‘The White Paper for Economic Reform: Vision and Key Objectives’.

Figure 7: Private Sector's Imports from Türkiye, China, and Iran 2004–23⁴⁶

Finally, Iraq's private sector imports from Iran totalled \$75.7 billion in 2012–23, while the government's imports of gas and electricity from Iran are estimated at \$21.7 billion. On the other hand, Iraq's exports to Iran in the same period were \$2.5 billion – or a mere \$1.7 billion by excluding the one-off \$0.8 billion anomaly in 2021.⁴⁷

Iran, the Dollar, and the Currency Auction

Another milestone was marked in 2012, by the depreciation of the parallel market exchange rate of the dinar versus the dollar, following a few years of stability. The depreciation was partly blamed on increased demand for dollars in Iraq coming from Iran following the tightening of US and EU sanctions on it.⁴⁸ The governor of the CBI, noted that demand for

⁴⁶ Iranian data is based on TCCIMA and IRICA data after removing gas invoices to arrive at private sector imports (see section titled 'Selected Reporting of Gas Exports'). Türkiye, China private sector imports are Comtrade data, after making estimates and assumptions on the percentage of government imports of total imports from the two based on the overall figures of government imports used by the IMF, see footnote 16.

⁴⁷ IRICA data shows that Iran imported \$0.8 billion in cereals (animal feed corn, soybean, wheat, barley), sugar and oil cake from Iraq via Imam Khomeini Sea Port in the Iranian year 1400. Its highly improbable that Iraq would export \$0.8 billion in these items to Iran through a seaport, and as such the assumption used here is that these were items that were non-sanctionable transactions that were allowed under the US waivers to Iraq. 'Iran Imports from Iraq', *Trading Economics*. Available at: <https://tradingeconomics.com/iran/imports/iraq> (accessed 23 March 2024); 'Imam Khomeini Sea Port', *Wikipedia*. Available at: https://fa.wikipedia.org/wiki/هَژِيو_هَقَطَنِم_مَامَا_رَدَنب_يِدَاَصْتَقَا (accessed 23 March 2024).

⁴⁸ Ashish Kumar Sen, 'A Brief History of Sanctions on Iran', *Atlantic Council*, 8 May 2018. Available at: <https://www.atlanticcouncil.org/blogs/new-atlanticist/a-brief-history-of-sanctions-on-iran/> (accessed 22 March 2024).

dollars increased by 40–50 percent in its daily auctions,⁴⁹ with the tightening of sanctions being a contributing factor among the many reasons stemming from the then unstable political situation in Iraq and the region.⁵⁰ In the intervening years, this provided fertile grounds for a host of misinformation, misconceptions, and conspiracy theories that the CBI's dollar auction was facilitating the siphoning and smuggling of dollars to Iran.

In the case of the private sector, these fail to take into account the links between the auction and the economy's key structural imbalances, confuse and mix the private sector's imports and payments for these imports with the government's imports, and payments, for gas and electricity. Most of these were addressed by the author in 'A Fistful of Dinars: Demystifying Iraq's Dollar Auction', which goes over the details and background on the functioning of the auction; while 'The Dinar, and the Conundrum over the Dollar and Iran' reviews the details of private sector's imports from Iran and the payments for these imports.⁵¹ It is clear from the two pieces that Iraq's private sector imports from Iran, given the informal nature of Iraq's economy and the isolation of Iran's banking system from the rest of the world, necessitated the use of opaque payment structures, with the lightly regulated *Hawala* system playing a major role, which were ultimately settled through the CBI's dollar auction. These explain the compromises within the functioning of the auction, and not the unsubstantiated conspiracies of siphoning and smuggling of dollars to Iran.

On the other hand, the government's imports of electricity and gas are governed by a series of US waivers and exemptions from provisions of the 2012 US Iran Freedom and Counter-Proliferation Act (IFCA), that allow it to continue importing them, but for the payments to be deposited into restricted accounts that can only be used for the purchase of non-sanctionable transactions.⁵² These until recently were held at the Trade Bank of Iraq (TBI), but in the summer of 2023, with the US's agreement, it was agreed for the payments to be deposited into similar restricted accounts at third-country banks.⁵³

⁴⁹ CBI's 'Foreign Currency Selling Window', better known as the 'Dollar Auction' facilitates the conversion of dinars into dollars.

⁵⁰ 'Iraqi Dinar Casualty of Iran, Syria Sanctions', *Alarabiya*, 12 April 2012. Available at: <https://english.alarabiya.net/articles/2012/04/12/207233> (accessed 22 March 2024).

⁵¹ Ahmed Tabaqchali, 'The Dinar, and the Conundrum over the Dollar and Iran', *LSE Middle East Centre*, 15 August 2023. Available at: <https://blogs.lse.ac.uk/mec/2023/08/15/the-dinar-and-the-conundrum-over-the-dollar-and-iran/> (accessed 22 March 2024); Ahmed Tabaqchali, 'A Fistful of Dinars: Demystifying Iraq's Dollar Auction', *LSE Middle East Centre Paper Series* 85, April 2024. Available at: <http://eprints.lse.ac.uk/122652/> (accessed 26 June 2024).

⁵² John Lee, 'US Extends Waiver allowing Iraq to pay Iran for Electricity', *Iraq Business News*, 18 March 2024. Available at: <https://www.iraq-businessnews.com/2024/03/18/us-extends-waiver-allowing-iraq-to-pay-iran-for-electricity/> (accessed 22 March 2024); 'Iraq Seeks Sanctions Waiver on Vital Iran Energy Trade', *Iraq Oil Report*, 23 September 2018. Available at: <https://www.iraqoilreport.com/news/iraq-seeks-sanctions-waiver-on-vital-iran-energy-trade-32861/> (accessed 22 March 2024). The author also benefitted from discussions with Yesar Al-Maleki.

⁵³ 'US Says Oman Will Be Conduit in Iraqi Debt Payments to Iran', *Iran International*, 25 July 2023. Available at: <https://www.iranintl.com/en/202307257326> (accessed 22 March 2024).

Addressing the Root Causes, not the Symptoms

The main thrust of this paper is that Iran's large economic footprint in Iraq, whether its electricity and gas exports or private sector exports as discussed in prior sections, are a symptom of Iraq's structural economic imbalances shaped by its political economy post-2003,⁵⁴ which are the root causes of this footprint. Iraq and its international stakeholders, need to understand and then address these structural economic imbalances to secure its future and lessen its vulnerabilities to external shocks – whether they are a collapse in oil prices or disruptions in the supply of gas and electricity from Iran. For Iraq these require a recognition that is lacking by both the political class and the society at large that these imbalances are inextricably interwoven with the post-2003 political order and the country's social contract, and which has over twenty years persistently deepened and became more entrenched irrespective of the series of economic crisis that arose from these very imbalances.⁵⁵ While, for its international stakeholders, whose priorities are driven by the conflict with Iran, these require addressing the nature of Iraq's electricity challenges, and the link between Iraq's private sector's imports from Iran and the payment for these imports; and not policies based on dogma and the 'ideology of confrontation'.

Firstly, Iraq's electricity challenges are essentially the current large gap between supply and demand, that is increasing as demand growth is outstripping supply growth – as a function of long-term demand drivers stemming from population growth, and increased usage as the country rebuilds its infrastructure after decades of conflict. All of this means more demand for power generation and subsequently increased demand for gas to fuel this increased generation.⁵⁶ With the goal posts continuously moving, Iraq's plans to be gas sufficient by 2030,⁵⁷ encouraged and pressured by the US, while realistic in terms of replacing current Iranian gas exports, will not address this increasing gap and as such does not replace the need for more gas. In turn this means that Iran will continue to be a major source of gas supply – notwithstanding its decreased ability to export. A more rational approach would be to diversify the sources of gas supply so that Iranian exports become one of many sources. This can be achieved by accelerating the capture of all flared gas, the development of gas-focused fields, and to realise the KRI's gas potential

⁵⁴ In particular Iraq's failings in the management of every aspect of its power production; its dependence on imports, including Iranian imports, to satisfy domestic consumption; and the nature of its informal economy.

⁵⁵ Ahmed Tabaqchali, 'Missed Opportunities for Economic Reform', *Chatham House*, 5 May 2023. Available at: <https://www.chathamhouse.org/2023/03/iraq-20-years-insider-reflections-war-and-its-aftermath/missed-opportunities-economic> (accessed 16 July 2024); Ahmed Tabaqchali, 'What Iraq Needs: An Economy Diversified Away from Oil', *Atlantic Council*, March 2023. Available at: <https://www.atlanticcouncil.org/blogs/menasource/how-the-war-in-iraq-changed-the-world-and-what-change-could-come-next/-oil> (accessed 25 October 2024).

⁵⁶ Tabaqchali, 'Iraq's Power Conundrum'.

⁵⁷ Lauren Holtmeier, 'Iraq Aims for Gas Self-sufficiency in Five Years; US Pushes for Investment', *S&P Global*, 24 September 2024. Available at: <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/092424-iraq-aims-for-gas-self-sufficiency-in-five-years-us-pushes-for-investment> (accessed 16 November 2024).

through a resolution of the issues hindering its development.⁵⁸ These would be coupled with increased imports of electricity from Jordan, Türkiye, and the GCC. Collectively, such measures would provide Iraq with real energy security, and significantly reduce Iran's leverage. Simultaneously it will be necessary for Iraq to fully upgrade its existing gas powered generating capacity, to invest in upgrading its transmission systems and distribution grids, and to embark on the politically difficult comprehensive reforms of electricity tariffs.

Secondly, addressing links of Iraq's private sector's imports from Iran requires a recognition that the dependence on imports to satisfy domestic consumption will only be reduced through addressing the challenges of developing a private sector driven traded goods sectors. Key among these is reducing the state's large role in the economy, addressing the structural employment imbalances between the public sector and those of the private sector, and most critically the uncompetitive dinar.⁵⁹ In the meantime, addressing the payments for Iraq's private sector's imports from Iran, require an understanding that the implementation of the CBI's November 2022 procedures for cross-border transfers and the subsequent measures introduced by the government and the CBI, led to a significant evolution of the dollar auction, and helped resolve most of the compromises that bedevilled it in the past.⁶⁰

However, further steps are still required to fully address the issues still plaguing these payments, which are ultimately made in dollars irrespective of the currency and/or method used to effect payments.⁶¹ In an interview in late-2023, the deputy head of the Iran-Iraq Chamber of Commerce pointed out that while the CBI's November 2022 procedures had no visible effects on trade as of then, yet its negative effects could be felt over the next few months.⁶² However, as of November 2024, continued growth in private sector imports from Iran imply that these procedures have not, as of yet, had the feared negative impact.⁶³ As such, it follows that funding of these imports continues and that participants have arrived at alternative opaque payment structures to settle these imports. Iran's extensive land border with Iraq and the proximity of Iraq's heaviest population densities to the border means that its private sector will continue to trade with

⁵⁸ Tabaqchali, 'The Kurdistan Region of Iraq Gas-Export Potential'.

⁵⁹ These necessary changes, including the uncompetitive dinar, were discussed in the White Paper (see footnote 1).

⁶⁰ Tabaqchali, 'A Fistful of Dinars'.

⁶¹ This is because the main source of foreign currency in Iraq is the government's oil sales which are in dollars, and thus payments in other currencies are made from the conversion of dollars to these currencies. Tabaqchali, 'A Fistful of Dinars'.

⁶² '30 Percent Growth in Iranian Exports to Iraq', *Al Mada Paper*, 28 November 2023. Available at: <https://almadapaper.net/view.php?cat=302099> (accessed 22 March 2024).

⁶³ IRICA's data as of November 2024 shows that private sector exports to Iraq for January-November 2024 increased by 9.8 percent over those of same period in 2023, which itself was up 6.9 percent over the same period in 2022.

its Iranian counterpart, and as such payments for this trade will continue – most probably continuously arriving at new opaque payment structures. Iraq and its international stakeholders should focus on finding alternative, and transparent, payment structures to allow this trade to continue, but without violating US sanctions. This can be along the lines that were attempted by France, Germany and the UK in 2019 following the US's withdrawal from the Joint Comprehensive Plan of Action (JCPOA).⁶⁴ Thus, by acknowledging the underlying realities of trade between the two, would bring this trade to the open, and remove the need for opaque payment structures with the negatives that come along with them.

⁶⁴ 'UK, France and Germany Create Payments System to Trade with Iran', *BBC*, 31 January 2019. Available at: <https://www.bbc.co.uk/news/business-47072020> (accessed 17 November 2024).

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Cover Image

Iranian President Masoud Pezeshkian receives a traditional robe as he meets Iraqi community members while visiting Basra, 13 September 2024.

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