



## The Kirkuk-Haifa Pipeline

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### Abstract

*Israel, a state poor in hydrocarbon resources, is surrounded by Arab states with rich crude oil sources. Since Israel is unable to import crude oil from its neighbors in the region because of political reasons, it has to look for exporters outside the region. This increases transportation costs and adds a heavy expense to the existing burden of balance of payment calculations. Construction of a pipeline between Kirkuk and Haifa seems to decrease the transportation costs of crude oil and enhance the security of Israel's crude oil supply efforts. It requires Iraqi consent to supply the pipeline with crude oil. An operational Kirkuk-Haifa pipeline is far from being a mere economic issue. It is embedded with the politics of the Arab-Israeli peace process at the same time. It does not seem wise to think that the Arab-Israeli dispute would reach a conclusion and the Kirkuk-Haifa pipeline would be constructed unless the demands and considerations of both parties of the dispute are satisfied.*

**Keywords:** Iraq, Israel, Jordan, Crude Oil, Pipeline

### INTRODUCTION

It has always been a problem for Israel to secure a continuous flow of crude oil for domestic consumption. As a country lacking domestic crude oil sources, Israel has searched for alternatives to signing long-term sales contracts with potential suppliers. Although Israel has oil-rich neighbors in the region, it was unable to get the necessary amounts of crude oil from its close neighborhood. Israel has had to consult to distant suppliers for its hydrocarbon needs. This placed an extra bill of transportation over the economic burden of the crude oil acquisitions. The economics of supplying crude oil has always been hidden in its politics.

It is politics, again, that governs and determines the new context that security of crude oil supply strategy for Israel. The previously used pipeline, the

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Kirkuk-Haifa pipeline, is again on the agenda after the establishment of the post-Saddam administration in Iraq.

Pipelines combine the points of production and consumption, once established. Pipeline projects need mechanisms to create an alignment and a balance of interests among the contributors. Such mechanisms embody contracts, ownerships and joint ventures, concessions, treaties, political relations and a harmony of well-calculated norms and principles.<sup>1</sup> None of the projects should be left to only bargaining power and commercial considerations. The alignment of interests includes the satisfaction of both parties. All parties should feel that they are benefiting from the pipeline, be it in economic or political terms, that they would have reasons to remain in the project and contribute in positive terms throughout the life of the project.

The international oil industry is characterized by long lead times. Pipeline economics and politics are no exception. The provisions that govern the construction and the operation of pipelines that are regarded to be natural monopolies should be sustainable over a long period of time and should be able to deal with the possible disputes that may arise through the change in circumstances.<sup>2</sup> Possible incidents include economic, political and environmental changes.

Pipeline projects are regarded to be projects of national strategic importance. Therefore, such projects are open to state intervention. Governments pursue their own national interests. These would most probably be different from each other. Supplier states would demand reliable and lucrative incomes, high rent and development of their hydrocarbon reserves. Consumer states are looking for continuous and secure supplies with affordable prices. Transit countries, on the other hand, are seeking high transit fees and low prices for the crude oil that is passing through their territories. Apart from these commercial considerations, it is politics that generally makes it impossible to bring the relevant parties to the table and reach a conclusion that satisfies all contributors.

The Kirkuk-Haifa pipeline project, which would connect Iraq and Israel via Jordan, will be discussed within the analytical framework of the economics and politics of pipelines. Clarification of the subject matter requires the overview of Israeli domestic crude oil supply and demand which is provided in the first part of the study. The historical background of the Kirkuk-Haifa pipeline is investigated in the second section. Recent Iraqi crude oil pipelines are the focus of the third part. Part four deals with the position of the United States regarding the issue. The final part of the study investigates the relevance and the influence of the Arab-Israeli Peace Process.

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<sup>1</sup> Paul Stevens, 'Cross Border Oil and Gas Pipelines: Problems and Prospects', *Joint UNDP/World Bank Energy Sector Management Assistance Programme (ESMAP)*, June 2003, p. xv.

<sup>2</sup> *Ibid.*, p. 17.

## ISRAELI DOMESTIC OIL DEMAND AND SUPPLY - AN OVERVIEW

The Israelis are the most import-oil-dependent people in the world (the Japanese rank the second).<sup>3</sup> Demand for all types of energy is booming for Israel which is situated in a geography where the politics of energy is complicated. Access to almost all types of energy is combined with the evolution of Arab-Israeli Peace Process in the region.

As an industrialized country, Israel has an enormous need for energy resources. Moreover, Israel exports agricultural goods and technologies which require great amounts of energy consumption. However, domestic energy production is far from meeting the demand.

The International Energy Agency indicates that for the year 2004, Israel consumed 20743 ktoe (kilo tones of oil equivalent) energy. Oil constitutes 53.2% of this total primary energy supply; coal consumption, 38.8%; gas consumption, 4.5%; and geothermal/solar/wind, 3.5%.<sup>4</sup> Domestic oil production of Israel in 2004 was 2 thousand tons while imports were 10770 thousand tons.<sup>5</sup>

It is obviously clear that Israel is heavily dependent on imported oil. Primary sources for Israel are Russia and the former Soviet states. To a lesser extent, Egypt, Norway and Mexico supply oil for Israel. This places high transportation costs within the final cost calculations. Israel is also trying to diversify the suppliers from West African and Latin American producers.

Lacking adequate energy sources while consuming great amounts of energy is not particular to Israel: eastern Mediterranean countries as a whole suffer from inadequate domestic energy supplies. These countries produce only modest amounts of energy; however, they occupy a strategic location in terms of regional security and prospective energy transit routes.<sup>6</sup> Israel is situated on a route in which Iraqi oil finds access to the Mediterranean. The post-Saddam regime in Iraq is in need of revenues in addition to those that are being acquired from the existing pipelines. In this context, an old pipeline route: the Kirkuk-Haifa pipeline seems to stand at the intersection point of satisfying Israeli and Iraqi needs, hence strengthening and enhancing peace and stability in the region.

In addition to strengthening and enhancing peace and stability in the region, the Kirkuk-Haifa pipeline would provide another loading point in the Mediterranean for Iraqi crude oil and would satisfy Israel's domestic energy needs. The post-war Iraqi administration is trying to have a larger market share within the global crude oil market. Throughout the Saddam administration the

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<sup>3</sup> Robert Bryce, 'Oil, Peace and Palestine: Energy Key to Holy Lands' Past, Future', *World Energy Monthly Review*, Vol.1, No.4, July 2005, p. 10.

<sup>4</sup> OECD/IEA 2006, 'Statistics on the web': <http://www.iea.org/statist/index.htm>. (last visited: 27 December 2008).

<sup>5</sup> IEA Energy Statistics, 'Energy Balances for Israel', [http://www.iea.org/Textbase/stats/balancetable.asp?COUNTRY\\_CODE=IL](http://www.iea.org/Textbase/stats/balancetable.asp?COUNTRY_CODE=IL). (last visited: 27 December 2008).

<sup>6</sup> Energy Information Administration, 'Eastern Mediterranean Energy Data, Statistics and Analysis-Oil, Gas', [www.eia.doe.gov/emeu/cabs/East\\_Med/Background.html](http://www.eia.doe.gov/emeu/cabs/East_Med/Background.html). (last visited: 29 December 2008).

Iraqi oil industry did not cooperate with the international energy market, even with OPEC. Therefore the market share, hence oil revenues, declined due to the lack of technological advancements and the loss of the market share. Another opening point in the Mediterranean would provide Iraq a greater market share and more revenues which are considered to be invaluable for the development and reconstruction of the country. The post-war regime in Baghdad does not have hostile relations with the United States and seems to be open to dialogue concerning the old policies. Therefore, the new Iraqi administration does not share the policies of the Baath Party in supplying crude oil to Israel.

Securing general domestic energy needs, particularly for crude oil, have been a great problem for Israel, which is regarded to be a land of milk and honey but not oil.<sup>7</sup> The pipeline project under discussion would acquire an important affiliate of the security of energy supply calculations of Israel. It would contribute heavily to supplying the energy needs of Israel. However, it should be noted that this particular project, like almost all aspects of the Arab-Israeli relations, both influences and is influenced by the development and the evolution of the Peace Process.

It has been argued that energy interdependence would promote peace and stability in the Middle East. Cooperation on energy issues may facilitate the further development of political relations, too.<sup>8</sup> Reviving the previously used pipeline would be beneficial in promoting cooperation rather than competition and confrontation in the Middle East.<sup>9</sup>

#### **HISTORICAL BACKGROUND OF THE KIRKUK-HAIFA PIPELINE**

Under the British colonial rule, the production of oil for commercial purposes began in Kirkuk in 1927. It was necessary to transport the oil from the producing region to the consuming markets, for which several modes of transportation were available: via oil tankers by sea; or via a pipeline or oil-loaded trucks or trains by land. The latter option allowed crude oil to be carried to the ships and transported to the final consumption points.

In order to carry the Iraqi crude oil to the Mediterranean, British colonial rulers decided to construct a pipeline from Kirkuk, Iraq, to the port of Haifa, in Palestine, running through Jordan. Both Kirkuk and Haifa were under British colonial rule at that time. The French, however, had the intention of connecting the Kirkuk fields to Tripoli, through Syria, which was under French mandate at that time.

In 1934 a project that embodied both lines were realized. A 12-inch pipeline was constructed from Kirkuk up to the al Hadita Basin of the Euphrates River.

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<sup>7</sup> Zvi Alexander, *Oil: Israel's Covert Efforts to Secure Oil Supplies*, (New York: Gefen Books, 2004), p. 14.  
<sup>8</sup> Şamil Şen and Tuncay Babalı, 'Security Concerns in the Middle East for Oil Supply: Problems and Solutions', *Energy Policy*, No. 35, 2007, p. 1521.  
<sup>9</sup> John Cooley, 'An Old Israel-Iraq Oil Line ... Reopening?', *Christian Science Monitor*, Vol. 95, Issue. 3, 2003, p. 1.

After this point, the pipeline split into two branches: one traveling to Haifa, the other to Tripoli.<sup>10</sup>

The pipeline under consideration was built by Iraq Petroleum Company. The shareholders of Iraq Petroleum Company which replaced Turkish Petroleum Company were Standard Oil Company, Anglo-Persian Oil Company, Royal Dutch Shell Concern and Compagnie Française des Pétroles, (23.75% each) and Investment Company (Gulbenkian), 5%. Article VI of the March 24, 1931 Agreement is as follows:

*Iraq Petroleum Company undertakes to construct a pipeline with a capacity of not less than three millions tones of oil a year. The commencement of this pipeline must be in a region which belongs to the Vilayets of Baghdad and Mosul, and which is bounded on the west by the Tigris, on the north by the Mesopotamian-Turkish frontier, and on the east by Persian border. This region excludes the zone reserved by a separate agreement of August 30, 1925 for exploitation by the Anglo Persian Oil Company on the part of the Government of Iraq.*

*The beginning of the pipeline may tentatively be considered to be round about Kirkuk, in the neighborhood of which the very rich wells of Baba Gurgur have been found. The pipeline will then follow a southwesterly course to Euphrates, which it will cross between Haditha and Hit. At the Euphrates the line will divide, one section running by way of Rutbs to the Bay of Acre, while the other section will lead to the Syrian port of Tripoli. Very important is the proviso that until a total quantity of four million tons a year via Haifa is reached, at less 50 per cent of the entire capacity of the whole pipe-line system must pass through the Haifa Harbor. December 31, 1935 is fixed as the terminus ad quem for the establishment of the pipeline.<sup>11</sup>*

A great amount of importance was attached to the pipeline in the sense that Article IV of the relevant provision indicated that the pipeline was exempt from taxation.<sup>12</sup> Moreover, on January 15, 1935, the Guardian newspaper indicated that "the Kirkuk station, which is the first of twelve pumping-stations along the pipe-line, is one of the most modern and most efficient in the world. It is equipped with the latest machinery of almost entirely British workmanship."<sup>13</sup>

The Kirkuk-Haifa pipeline supplied a continuous flow of crude oil to Palestine and was operational until 1948, the year in which the Arab-Israeli War began and the State of Israel was established by the Balfour Declaration. Following this development, the Iraqi government refused to pump oil through the pipeline. Moreover, some parts of the pipeline that were situated within Iraqi territory were removed or destroyed by the Iraqi army in order to make sure that the line

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<sup>10</sup> Saadalla Al-Fathi, 'The Kirkuk-Haifa Pipeline: Myth or Reality', *Middle East Economic Survey*, Vol. 46, No. 48, December 2003, p. 4.

<sup>11</sup> Alfred Bonne, 'The Concessions for the Mosul-Haifa Pipe Line', *Annals of the American Academy of Political and Social Science*, Vol. 164, November 1932, p. 120.

<sup>12</sup> Alfred Bonne, 'The Concessions for the Mosul-Haifa Pipe Line', p. 122.

<sup>13</sup> *Guardian Reader Pages*: Page 32, 'Leaders: The Iraqi Oil Pipeline Opens' Load Date to LexisNexis Academic: January 15, 2008. (last visited: 13 March 2009).

was not operational. The parts of the pipeline between Jordan and Israel remained inactive after the armistice; those within Jordanian borders were later removed and mainly used for irrigation purposes. Therefore, the refineries in Haifa lost a great amount of their crude oil supply.<sup>14</sup>

The closure of the Iraqi-Haifa oil pipeline, which was operational between 1935 and 1948, reflected the geo-strategic, political and ideological interests of Iraq.<sup>15</sup> By the help of the pipeline that connected the countries on its route, Iraq was able to have access to the Mediterranean Sea and had a stronger hand on the bargaining table with the relevant countries since it was the supplier of the pipeline.

The operator of the pipeline, Iraq Petroleum Company, demanded that Iraq reopen the pipeline through Haifa. The pipeline was closed by the Iraqi government in order to prevent Israel from gaining access to Iraqi oil and using it to increase its economic and military power. However, IPC (Iraq Petroleum Company) lost revenue due to the pipeline's closure, as this increased the cost of production at Kirkuk, thereby decreasing IPC's profit margin. As a result, IPC insisted that the Haifa pipeline be reopened. However, Iraq indicated that the pipeline would not be reopened until Israel made important political concessions on borders, refugees and the internationalization of Haifa. Clearly, Israel had no intention of providing any of these.<sup>16</sup>

Lacking adequate amounts of crude oil supply, the newly established state of Israel faced the threat of an energy shortage. Israel's urgent oil requirement made it necessary for the country to indicate to the Iraqi government that following the opening of the Haifa refineries fed by the Iraqi pipeline oil, the products would be made available "impartially" to the Jews and Arabs alike.<sup>17</sup> In return, the Iraqi Prime Minister gave a negative reply and indicated that "Haifa was an enemy territory" and that the Iraqi government could not therefore be expected to allow the flow of Iraqi oil to go there.<sup>18</sup>

The Kirkuk-Haifa pipeline is back on the agenda after the end of the Baath regime in Iraq. Although the future of the project depends heavily on the political developments in the Middle East, the technical properties and the carrying capacity of the pipeline should also be taken into consideration in calculating the final cost of the project. The technical properties of the recent pipeline project heavily outweigh the previous version. The Israeli government has conducted a feasibility study to provide an estimate cost for a wider pipeline (the old pipeline had 8 inches of diameter) that would travel a distance of about 600 km from Kirkuk to Haifa. It was in 2003 that Israeli Natural

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<sup>14</sup> Gershon Meron, 'Economic Repercussions of Arab Policy Towards Israel', *Journal of Educational Sociology*, Vol. 27, No. 8, April 1954, p. 358.

<sup>15</sup> Ofra Bengio, 'Crossing the Rubicon: Iraq and the Arab-Israeli Peace Process', *Middle East Review of International Affairs*, Vol. 2, No.1, March 1998, p.33.

<sup>16</sup> Daniel Silverfarb, 'The Revision of Iraq's Oil Concession, 1949-52', *Middle Eastern Studies*, Vol. 32, No. 1, January 1996, p. 72.

<sup>17</sup> Uri Bialer, *Oil and the Arab-Israeli Conflict, 1948-63*, (London: Macmillan Press, 1999), p. 50

<sup>18</sup> *Ibid.*, p. 52

Infrastructure Minister Yosef Paritzky expressed that the ministry had recently conducted research, and a feasibility study on the establishment of a pipeline with a 42-inch diameter between Kirkuk and Haifa projected a cost of about \$400,000 per kilometer.<sup>19</sup> Based on these technical properties, the final cost of the project is regarded to be \$240 million. The pipeline would carry 5 million tons of crude oil from Kirkuk to Haifa annually.

Now that there is a post-Saddam government in Iraq, both Israel and the United States are willing to make terms with the new Iraqi government on the possibility of the reviving the previously used pipeline. The Iraqi standing point is embedded with the politics of the Arab-Israeli Peace Process and the relations of Iraq with its current pipeline connections as well as economic and political dependency of the country in particular and the future of the status of Iraq in market share of international crude oil business.

### **IRAQI CRUDE OIL PIPELINES**

Currently, Iraq uses a number of different routes to export its crude oil. Iraq has two terminals in the Gulf, the nominal capacities of which are 1.6 mn b/d each. There is an export system to Turkey that has a capacity of 1.6 mn b/d. In respect to both technical power and capacity, the route to Turkey is the most powerful and useful for both Iraq and Turkey.<sup>20</sup> Iraq finds market access and Turkey benefits largely from transit fees. Also, the pipeline system to Saudi Arabia can transport an amount of 1.6 mn b/d. And lastly, the system through Syria can carry 0.25 mn b/d. This can be regarded as a sufficient transporting capacity when it is calculated that the Iraqi oil production was calculated to be between 2.8-3.0 mn b/d in 2003.<sup>21</sup>

It should be remembered that Iraq was in a continuous state of war for the last couple of decades, from the Iran-Iraq War to the Gulf War and the 2003 intervention. Thus Iraq needs financial resources to recover and to rehabilitate the conditions of its citizens. An additional pipeline route would increase Iraqi earnings, and this particular project may be beneficial for the Arab-Israeli peace process in the coming future.

In fact, the history of the records of the Iraqi crude oil pipelines necessitates the construction of a new route. Different routes of Iraqi crude oil pipelines have experienced clear examples political conflicts. The continuous flow of crude oil from the pipelines is the major source of income for Iraq's balance of payment calculations, and this has suffered from the failure to agree on transit fees and on profit and rent sharing mechanisms.<sup>22</sup> The Iraqi point of view

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<sup>19</sup> Amiram Cohen, 'US Checking Possibility of Pumping Oil From Northern Iraq to Haifa, via Jordan', *Haaretz*, 25 August 2003.

<sup>20</sup> 'Haifa Pipeline No Threat to Turkey- Energy Minister', *Anatolia News Agency*, 21 April 2003.

<sup>21</sup> Saadalla Al-Fathi, 'The Kirkuk-Haifa Pipeline: Myth or Reality', p. 6.

<sup>22</sup> Paul Stevens, 'Pipelines or Pipe Dreams? Lessons from the History of Arab Transit Pipelines', *Middle East Journal*, Vol. 54, No. 2, Spring 2000, p. 231.

regarding the construction of a new line in addition to the presence of already existing routes is influenced by its experiences with the current pipelines.

Successful pipeline projects establish a common ground for the alignment and balance of interests among the parties. Moreover, the alignment of interests should not be subject to changes in time and circumstances, but should continue throughout the life of the project. None of the participants should regard it to be in a better situation if situations were different or there would be an alternative course of action. Risks and revenues should be evenly distributed among the participants. The amount and strength of the parties' interconnectedness holds a key position in the success of the projects.<sup>23</sup> However, it is hard to argue that the Iraqi crude oil pipelines have been successful, as they have repeatedly caused a loss of revenue and political gain for Iraq.

In 1931, Iraq Petroleum Company was free from paying transit fees to Syria and Lebanon. The gains of Syria and Lebanon were coming from locally sold products and from a 2-pence loading fee on every metric ton loaded at the terminals. Over the course of time, Syria, in 1955, and Lebanon, in 1959, signed new agreements with the relevant parties. The provisions of the new agreements included both transit fees, an increase in loading fees and an annual payment for protection and other services. In 1966, the new Syrian government formed by the Ba'ath Party<sup>24</sup> demanded the renegotiation of the transit fee. Syria increased the transit fee by 46 % and the loading fee by 92 % unilaterally. Syria then controlled the market access of Iraqi oil and had strong bargaining power. Iraq lost the immediate economic revenues and faced the threat of the loss of its market share at that time. Throughout the history of the international oil industry there have been only a few incidents in which the major producers had difficulty supplying crude oil to the market for a short period of time.<sup>25</sup> In this context, the absence of Iraqi crude oil would have been filled by the other major exporters of crude oil in a short span of time. Spare production capacities of major exporters make it possible to supply the market with the necessary amounts of crude oil. The nature of the situation was not only economic, but also political – the consequences of which could be long lasting.

Apart from transit fees and other economic gains, Syria was able to acquire crude oil for its own domestic consumption from the Iraqi pipeline at prices below the international market rate. Syrian revenue from the Iraqi pipeline increased substantially. However, in 1982, during the course of Iran-Iraq War, the IPC line was closed due to an agreement between Iran and Syria in which Iran was to provide oil for Syria. Syria indicated that the closure of the pipeline was due to the disputes over the transit fees. However, it was clear that this political decision weakened Iraq's war capabilities. The political repercussions of

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<sup>23</sup> Robert Keohane and Joseph Nye, 'Power and Interdependence Revisited', *International Organization*, Vol. 41, No. 4, 1987, p. 730.

<sup>24</sup> Türel Yılmaz, *Uluslararası Politikada Orta Doğu*, (Ankara: Akçağ, 2004), p. 141.

<sup>25</sup> Paul Stevens, 'Introduction - Trends and Options', in Paul Stevens (ed), *Strategic Positioning in the Oil Industry*, (Abu Dhabi: TECSSR, 1998), p. 3.

the Iran-Syria alliance outweighed the economic losses regarding Iraq. Without a doubt, oil diplomacy has long been a complex and multifaceted phenomenon among the parties involved.<sup>26</sup>

The operations of the pipeline facilities that have been constructed to allow Iraq access to the international markets have long been influenced by the political motivations of its partners. The idea of constructing a pipeline through Saudi Arabia was broached in 1981. This would be an alternative to the Syrian route and would diversify export destinations of Iraq. After the establishment of the pipeline, Iraqi oil started to reach the market through one of the most influential actors of the international oil industry. However, it should not be forgotten that the major oil exporters in the Gulf have almost always been economic competitors to their neighbors, in addition to being political and military threats.<sup>27</sup> The engagement between Iraq and Saudi Arabia is no exception to that. The operations of the pipeline under discussion have suffered from this competition, too. In 1987, during the time of intense competition over crude prices and market share of the producers, Saudi Arabia restricted the Iraqi exports much below the projected level. Instead of allowing Iraqi crude oil reach the market, Saudi Arabia supplied the consuming destinations with its own crude oil. Although the flow of crude oil from this source had reached a steady situation in the beginning of 1990, after the Iraqi invasion of Kuwait the mechanisms that supplied crude oil from Iraq to the Saudi Arabian ports were closed. The Iraqi intervention of Kuwait caused an international crisis both in regional politics and in global energy issues.<sup>28</sup> This was another failure of Iraqi oil to reach international markets and provide revenue for the country.

The Turkish line of Iraqi crude oil exports has also had its share of issues. In 1981, during the course of the Iran-Iraq War, Turkey demanded higher transit fees at a time when Turkey was the major loading point of Iraqi crude oil. The unsteady relations over the transit fees entered a new phase in 1991 when Iraqi crude oil exports were operated under the United Nations humanitarian activities. Turkey demanded a substantial increase in the transit fees. Apart from that the issue of flushed crude oil that remained in the pipeline after the Iraqi invasion of Kuwait was another issue to deal with. Turkey and Iraq covered these issues in 1996.<sup>29</sup> In this context, it should be indicated that Turkey currently imports crude oil mainly from Russia, Iran and Iraq.<sup>30</sup> However, Iraqi crude oil used to contribute a larger share when Turkey was able to have access to Iraqi oil that was being pumped from Kirkuk to Yumurtalik with relatively advantageous prices.

It seems wise to argue that the history of Iraq's relations with its partners in the pipeline network has been free from harmony and cooperation. These

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<sup>26</sup> Fiona Venn, *Oil Diplomacy in the Twentieth Century*, (London: Macmillan Press, 1986), p. 11.

<sup>27</sup> Oystein Noreng, *Ham Güç Petrol Politikaları ve Pazarı*, (Ankara: Kesit Yayın, 2004), p. 24.

<sup>28</sup> Daniel Yergin, *The Prize*, (New York: Free Press, 1991), p. 774.

<sup>29</sup> Paul Stevens, 'Cross Border Oil and Gas Pipelines: Problems and Prospects', p. 76.

<sup>30</sup> Brenda Shaffer, 'Turkey's Energy Policies in a Tight Global Energy Market', *Insight Turkey*, Vol. 8, No. 2, April-June 2006, p. 100.

problematic relations have resulted in economic and political losses for Iraq. As a country lacking industrial, tourism and agricultural revenues, the Iraqi economy is dependent on oil earnings to a vital degree. It is the construction of pipelines, in most cases, which allows a landlocked country to have an access to the international markets for crude oil consumption.<sup>31</sup>

Although Iraq has magnificent crude oil reserves, its oil sector has not been developed because of sanctions and lack of investment over a long period of time. Poor operation and low output of Iraqi production could be higher with the cooperation of the international oil industry and the possibility of new routes in reaching the consumption points. In 2008, crude oil production of Iraq was calculated to be 2.4 million barrels per day. Although this figure is above the 2007 level of 2.1 million barrels per day, it is below the 2003 level of 2.8 million barrels per day.

Iraq is planning to increase its crude oil production to 2.7 million bbl/d by the end of 2010. Moreover, its 10-year strategic plan, which covers the period between 2008-2017, projects to increase crude oil production by 1.5 million bbl/d within three or four years. In addition to this increase, crude oil production is projected to be increased by an additional 2 million bbl/d. The plan predicts that crude oil production will reach 6 million bbl/d by 2017.

However, Iraq's current crude oil export structure is either non-operational or in poor condition from the previous disruptions and lack of maintenance. In 2008, Iraq exported about 1.8 million bbl/d of crude oil, 1.5 million bbl/d of which was exported via the Basra Port in the Persian Gulf. The remaining amount was exported via Turkey. The reason for such a low export volume is the lack of an efficient pipeline structure. The Kirkuk-Yumurtalik Pipeline, in the north of Iraq, carries 1.1 million bbl/d of crude oil when operated efficiently and continuously, but is subject to repeated disruptions. The Iraq-Syria-Lebanon Pipeline in the west is still closed. There have been negotiations between the Iraqi and Syrian governments about the reopening of the pipeline, and a Russian-based company, Stroytransgaz, offered to repair the pipeline in 2007. However, there have been no clear indications of further movements to repair or reopen this pipeline yet. It should also be indicated that there has been no intention to reopen the Iraq-Saudi Arabia Pipeline, which has been closed since 1991 and has a capacity of carrying 1.65 million bbl/d of crude oil.<sup>32</sup> Therefore, Iraq is in need of new export routes and destinations to reach the international market since the existing options are either in poor condition or non-operational because of technical, economic or political reasons.

It is not only economics; politics has also contributed to this issue. After the pipelines are constructed, relevant parties become interdependent. Economic interdependence has a very influential position in the formation and

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<sup>31</sup> Paul Stevens, 'The Economics of Energy 2', *The Journal of Energy Literature*, Vol. 7, No. 1, 2001, p. 11.

<sup>32</sup> Energy Information Administration, 'Iraq Energy Data, Statistics and Analysis-Oil, Gas', [www.eia.doe.gov/emeu/cabs/Iraq.html](http://www.eia.doe.gov/emeu/cabs/Iraq.html). (last visited: 21 August, 2009).

continuation of relations and politics among the actors.<sup>33</sup> Once a relationship based on mutual benefits is constructed among actors, the parties become tied to each other in economic and political terms.<sup>34</sup> The type and the amount of dependence of the actors upon each other are crucially important in the success and the duration of the harmony of interests of the relevant parties. A state that has to import all of its crude oil is more likely to be dependent on a relationship in which it gains luxurious products such as gold.<sup>35</sup> Interdependence among the participants is of vital importance for the successful continuation of the projects concerning crude oil pipelines.<sup>36</sup> It is with no doubt that both ends of the pipeline along with the transit territories would be tied to each other. This particular project that has its roots in the history of the unsteady relations of the parties would more likely contribute heavily to the regional peace and prosperity. The countries would consider their economic engagements before jeopardizing their political positions.

In this context, as far as the economics and politics of the pipelines are concerned, it is clear that the interests of both sides of the pipeline and the route destination should be fulfilled. In the event of reviving the pipeline under consideration, Jordanian demands should be faced, too. Jordanian consent may be obtained through the promise of transit fees<sup>37</sup> and allowing it to act as a middle market between the two points of the pipeline, which would satisfy part of its demand for crude oil. In fact, Jordanian-Iraqi negotiations date back to the occupation of Iraq in 2003. Jordan had reached the final stages of negotiations with the former Iraqi regime on the installation of the joint pipeline between Iraq and Jordan. The negotiations had reached an advanced stage before the war, but they were frozen with the war and following occupation.<sup>38</sup> However, it should be indicated that both Iraqi consent to supplying crude oil to the pipeline project and the Jordanian contribution will be directly linked to the developments in the Arab-Israeli peace process.

Existing pipeline structures that transport Iraqi oil are either un-operational or in poor condition based on the conflicts among the parties during the courses of their activities. The post-Saddam regime in Iraq is in great need of revenues. Crude oil exports are the sole income of the budget, apart from minor gains from other sources. It is worth taking a new export route into consideration for prospective oil earnings. The regime in Iraq that is not hostile

<sup>33</sup> Faruk Yalvaç, 'Uluslararası İlişkiler Kuramında Yapısalcı Yaklaşımlar', Atilla Eralp (ed), *Devlet Sistem ve Kimlik*, (İstanbul: İletişim Yay, 1997), p. 135.

<sup>34</sup> Robert Keohane and Joseph Nye, *Transnational Relations and World Politics*, (Cambridge: Harvard University Press, 1972), p. xix.

<sup>35</sup> Robert Keohane and Joseph Nye, *Power and Interdependence*, (Boston: Little Brown, 1977), p. 28.

<sup>36</sup> Marcello Colitti and Claudio Simenoi, *Perspectives of Oil and Gas: The Road to Interdependence*, (Dordrecht: Kluwer Academic Publishers, 1996), p. 126.

<sup>37</sup> Delinda Hanley, 'The US War on Iraq: Yet Another Battle to Protect Israeli Interests?', *Washington Report on Middle East Affairs*, October 2003, p. 7.

<sup>38</sup> Al-Arab al-Yawm web site, Amman, in Arabic, 10 August 2004, 'Jordan Denies Plans for Kirkuk-Haifa Pipeline via Jordan', *BBC Monitoring Middle East*, Load Date: 11 August 2004, (last visited: 13 March 2009).

to Israel seems to have enough incentives to consider the Haifa route to have an opening point into the international oil market.

### THE U.S. POSITION

Supplying the necessary amount of crude oil for Israeli needs is not only a matter for Israel but also for the United States. In the Memorandum of Understanding signed between the two countries in 1975, the United States agreed to provide oil for Israel in times of crisis, when Israel was unable to procure adequate amounts of crude oil for its domestic needs. United States agreed to divert the crude oil that was programmed to be its own domestic consumption to Israel if and when commercial ships were unable to carry crude oil to Israeli ports. There may be disruptions because of a war or a blockade against Israel. It was the responsibility of the United States to secure crude oil supplies to Israel in such circumstances.

The MOU did not include any provisions on free oil but made the US responsible for supplying strategic stockpiles to be consumed in times of shortage. The United States agreed to undertake strategic responsibilities to safeguard the continuous crude oil supply of its ally in the region.<sup>39</sup>

It has been indicated that the provisions of the MOU placed a \$3 billion-dollar burden upon U.S. taxpayers in the year 2002.<sup>40</sup> The data of the U.S. Energy Information Administration indicates that petroleum (excluding crude oil) exports to Israel from the United States were 5512 thousand barrels in the year 2004. The figures for the years 2005 and 2006 are 4625 and 4610 thousand barrels respectively.<sup>41</sup>

Another issue of concern for the United States, a close ally of both Israel and Jordan, is to benefit from better access to the rich Iraqi oil fields. This would allow the U.S. to reduce its dependence on Saudi Arabia.<sup>42</sup> United States and Saudi Arabian relations were rather tumultuous after the events of September 11. A great number of terrorists that were involved in the attack were Saudi nationals. Also, Osama bin Laden, who is considered to have led the attacks, comes from a Saudi family. These are serious blows to the historic Saudi-US alliance and seem to create uneasiness in the U.S. public.

Furthermore, the energy alliance of United States and Saudi Arabia is far from its historic situation. The Iraqi pipeline offers new prospects for the U.S. administration in diversification of the supplies of Gulf oil as well.

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<sup>39</sup> Bishara Bahbah, 'The United States and Israels' Energy Security', *Journal of Palestine Studies*, Vol. 11, No. 2, 1982, p. 117.

<sup>40</sup> Ed Vuillamy, 'Israel Seks Pipeline for Iraqi Oil', *The Observer*, 20 April 2003.

<sup>41</sup> Energy Information Administration, Official Energy Statistics from the U.S. Government, 'US Total Petroleum (Excl Crude) Exports to Israel (Thousand Barrels)', [http://tonto.eia.doe.gov/dnav/pet/hist/mtxe\\_x\\_nus-nis\\_1Ahtm](http://tonto.eia.doe.gov/dnav/pet/hist/mtxe_x_nus-nis_1Ahtm), (last visited: 13 March 2009).

<sup>42</sup> Susan Taylor Martin, 'Israels' Pipe Dream: Getting Oil from Iraq', *St. Petersburg Times*, 15 August 2004, (Load Date to LexisNexis: 15 August 2004), (last visited: 13 March 2009).

It is because of these facts that United States has a positive attitude towards the pipeline project under consideration both in political and in economic terms. This would reduce the burden on the U.S. economy and would provide another alternative for the accession of Gulf oil.

### THE ARAB-ISRAELI PEACE PROCESS

Israel is a country with almost no indigenous energy sources.<sup>43</sup> Supplying crude oil for its own domestic consumption is deeply rooted in its history and political relations with its Arab neighbors; Israel has had difficulty finding access to adequate amounts of oil with affordable prices and payable transportation costs. Lacking any alternatives to signing long-term contracts with oil-rich Arab countries, Israel has searched for other alternatives to secure the continuous flow of crude oil that is crucial to its industry. For a period of time Israel relied on Persian crude oil – a reliable source with relatively cheaper transportation costs. However, the overthrow of the Shah's Regime in Iran ended this period. Israel now pays huge transportation costs for Russian oil that is its primary crude oil supply and imports some crude oil from Egypt at transportation costs which are not too high.<sup>44</sup>

The possibility of constructing a pipeline from an Arab state to Israel would no doubt bring the relevant parties together. The harmony of interests would lead to peace and prosperity among them. This would provide a stable ground for the promotion of friendly neighborhood relations in the region. Regional economic cooperation that is born from cooperation on energy issues seems to foster lasting peace in the region.<sup>45</sup> However, it should be noted that these developments both influence and are being influenced by the Arab-Israeli peace process in the region. Some Arab observers argue that "in promoting the oil pipeline scheme between Iraq and Israel the West is showing how naïve it can be when dealing with the political sensitivities in the Middle East."<sup>46</sup>

It should not be forgotten that politics and economics are inseparable; pipeline politics and economics are no exception. The relationship between the Arabic and Israeli communities has been troubled since the establishment of the state of Israel.<sup>47</sup> Intense Arab-Israeli relations entered a more complicated and hostile phase after the 1967 Arab-Israeli War. The Khartoum summit of the Arab leaders, held after 1967 Arab-Israeli War, resulted in a policy of "no peace, no recognition and no negotiation" with Israel.<sup>48</sup>

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<sup>43</sup> Asher Tishler et al., 'Reforming Israel's Electricity Sector', *Energy Policy*, No. 30, 2002, p.348.

<sup>44</sup> Akiva Eldar, 'Infrastructure Minister Paritzky Dreams of Iraqi Oil Flowing to Haifa', *Haaretz*, 31 March 2003.

<sup>45</sup> Gawdat Bahgat, 'Energy Partnership: Israel and the Persian Gulf', *Energy Policy*, No.33, 2005, p. 671.

<sup>46</sup> Naji Abi-Aad, 'Petroleum Geopolitics of 'New Iraq'', *Middle East Economic Survey*, Vol. 46, No. 32, August 2003, p. 4.

<sup>47</sup> Uri Bialer, *Between East and West: Israel's Foreign Policy Orientation 1948-1956*, (Cambridge: Cambridge University Press, 1990), p.1.

<sup>48</sup> Ibrahim Karawan, 'Foreign Policy Restructuring: Egypt's Disengagement from the Arab-Israeli Conflict', *Cambridge Review of International Affairs*, Vol. 18, No. 3, October 2005, p. 325.

Although Arab countries pursued a rather monolithic approach towards Israel after the 1967 War, the countries gradually drifted apart in their implementation of this common policy. Over the years, the Arab states appear to move towards a somewhat cautious acceptance of Israel. Saudi Arabia, for instance, openly sponsored two peace plans with Israel. Two of the holy places of Islam, Mecca and Medina, are located within Saudi Arabia; the third, Jerusalem, is located in Israel. Leading Muslim states view any agreement with Israel as conditional recognition.

Crown Prince Fahd's 1981 plan is considered to be Saudi Arabia's vision for ending the Arab-Israeli conflict. The Fahd plan came to the agenda after the Egyptian-Israeli Peace Treaty following the Camp David accords and provided a framework for a "just peace" among Arabs and Israelis. The provisions of the plan called for Israel to withdraw from all Arab territories occupied in the 1967 war. The plan also envisaged the establishment of an independent Palestine with East Jerusalem as its capital. The guarantee of the return of the Palestinian refugees to their homeland was another important pillar of the Fahd plan. The most important feature of the plan was the provision indicating that all the states in the region have the right to live in peace, which was regarded as an implicit recognition of Israel.<sup>49</sup>

In 2002 Crown Prince Abdullah formulated a proposal for a comprehensive peace in the Middle East. The Abdullah plan was similar to the Fahd plan but went a step further, offering full peace, including political, economic and cultural normalization, instead of the mere recognition of the Jewish state's right to exist in the region.<sup>50</sup> However, both plans were kept on the shelf after discussion of their possible implications.

It would be unwise to argue that all Arab states have established hostile relations with Israel. Qatar, Oman, Mauritania, Morocco and Tunisia have some level of relations with Israel. Furthermore, there are diplomatic contacts and trade relations between Israel and Oman and Qatar. Though they are low-level relations that are far from forming an alliance – which is not the aim – these diplomatic contacts and trade relations provide an opportunity for parties to come together off the battlefield. Arab states do not have identical approaches towards Israel.

## CONCLUSION

It should be indicated that crude oil is both a strategic and an economic commodity. Production, consumption, transportation and trade decisions concerning oil are not only driven by commercial considerations but also include political calculations. Establishing some kind of energy interdependence between Israel and the Arab states seems to be a win-win process for all parties in the long run. It seems apparent that energy interdependence and the peace

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<sup>49</sup> Gawdat Bahgat, 'The New Middle East: The Gulf Monarchies and Israel', *The Journal of Social, Political and Economic Studies*, Vol. 28, No. 2, Summer 2003, p. 141.

<sup>50</sup> Gawdat Bahgat, 'The New Middle East: The Gulf Monarchies and Israel', p. 143.

process are likely to strengthen each other. Furthermore, economic engagements would open new dimensions of transactions. Once pipelines are constructed, they bring both sides together and reinforce the confidence-building processes.<sup>51</sup>

In this context, Iraq's status and position would be crucially important for Kirkuk-Haifa pipeline and for the peace and stability in the Middle East. As a leading Arab country, Egypt has already signed a peace treaty with Israel and supplies some of the crude oil that Israel demands. Other Arab countries have established trade relations with Israel. Israeli-Arab relations are far different than they were during the 1948, 1967 and 1973 wars. Both sides want long-lasting peace and stability in the region. In this context, a Kirkuk-Haifa pipeline that aroused attention among the relevant parties would improve the prospects for peace and stability in the Middle East. Nevertheless, it would be too naïve to argue that the pipeline under consideration would be constructed in the near future. The project under discussion should be regarded as an element of the endless Peace Process.

This particular study proposes that construction of such a pipeline between Kirkuk and Haifa is not likely in the foreseeable future while there are slogans among Arabs as "not with our oil" in reference to the security of Israel's energy supply efforts and with Israel refusing to satisfy Arab concerns. However, the realization of the project is not unlikely if a comprehensive peace treaty is concluded with Arabs and Israelis, or if this project opens a path to the peace. As Cambridge Energy Research Associates director Daniel Yergin states, "Kirkuk-Haifa is still a project and will take much time to realize."<sup>52</sup>

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<sup>51</sup> Gawdat Bahgat, 'Energy and the Arab-Israeli Conflict', *Middle Eastern Studies*, Vol. 44, No. 6, November 2008, p. 943.

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