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IRAQ ENERGY OUTLOOK

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Energy Is Iraq's Economy: Introducing the Dhia Jafar Center and Iraq Energy Outlook

Electricity Reform Without Resilience: The Structural Limits of the Runaki Program

Iraq's Wartime Oil Revenue Crisis

Energy Developments in Context

A PUBLICATION OF DHIA JAFAR CENTER FOR ENERGY & NATURAL RESOURCES AT THE AMERICAN UNIVERSITY OF IRAQ, SULAIMANI

About the Publication

Iraq Energy Outlook is a quarterly magazine providing independent, policy-oriented analysis of Iraq and the Kurdistan region's energy sector. It covers developments across oil, gas, electricity, and renewable energy, with a focus on economic trends, institutional reform, and the broader implications for Iraq's development.

The publication aims to present complex energy issues in a clear and accessible manner, supporting informed discussion among policymakers, industry professionals, and researchers.

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The Dhia Jafar Center for Energy & Natural Resources at the American University of Iraq, Sulaimani (AUIS) is dedicated to advancing research and policy dialogue on Iraq's energy sector and its role in economic development.

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Energy Is Iraq's Economy: Introducing the Dhia Jafar Center and Iraq Energy Outlook

BY BILAL A. WAHAB
PRESIDENT OF THE AMERICAN UNIVERSITY OF IRAQ, SULAIMANI (AUIS)

Iraq's energy sector is not just one sector among many: It is the economy. It represents the backbone of the Iraqi state, the engine of public finance, and a barometer of both the country's promise and its vulnerability. Oil revenues account for the overwhelming share of state income and more than half of GDP. Therefore, it is the primary lens through which Iraq's relationship with the outside world is understood.

It is against this backdrop that the Dhia Jafar Center for Energy and Natural Resources at the American University of Iraq, Sulaimani (AUIS) launches Iraq Energy Outlook. This publication is dedicated to a simple but urgent proposition: discussion about this vital sector needs to be grounded in fact. Iraq needs better energy analysis, better data, better forecasting, and a more disciplined national conversation about what underwrites its public finances and shapes the daily life of every Iraqi household.

For too long, Iraq's energy debate has been dominated by politics, crisis, slogans, and short-term bargaining. The country has no shortage of opinions about oil, gas, electricity, exports, tariffs, the Erbil-Baghdad dispute, OPEC, and relations with the United States and the broader Middle East. What it lacks is a dedicated, empirically grounded, and analytically rigorous platform that connects data to policy choices and policy choices to consequences.

That is the gap Iraq Energy Outlook seeks to fill.

Iraq needs an energy model — not in the narrow technical sense alone — but as a national analytical framework. We need data-driven tools that help forecast demand and supply, track changes in public and business behavior, identify industry priorities, and test the consequences of policy choices before they become crises. We need to understand not only how many barrels Iraq can produce, but what happens when export routes close, electricity demand rises, tariffs change, gas supplies are disrupted, electric vehicles enter the market, local manufacturing expands, or climate pressures reshape access to water, power, and agriculture.

A model is not a crystal ball. But it is far better than driving the country's most important sector by looking in the rearview mirror.

The need for such analysis is becoming more urgent by the day. Iraq's vulnerabilities are not theoretical. They are visible in its lack of export diversification, weak investment climate, unstable electricity system, policy opacity, unresolved energy disputes between the federal government and the Kurdistan Regional Government (KRG), dependence on oil revenues, exposure to regional wars, and the accelerating pressures of climate change and energy transition. Energy systems are changing beyond Iraq's borders. Producers are preparing for different demand scenarios. Markets are becoming more competitive. Technology is shifting consumption patterns.

Put simply, Iraq remains dangerously dependent on a fragile set of assumptions: that oil will keep flowing, prices will stay favorable, export routes will remain open, and public revenues will keep pace with public expectations. This is not only an energy vulnerability; it is a fiscal and geopolitical one. Iraq depends on a commodity whose price it does not control and on financial channels whose reliability cannot be taken for granted. Every price shock, export disruption, or constraint on dollar access can quickly become a budget crisis without sufficient savings, stabilization mechanisms, diversified exports, and access to non-oil revenue.

Recent events have made this vulnerability painfully clear. Disruptions around the Strait of Hormuz exposed Iraq's heavy reliance on southern exports and the absence of meaningful alternatives, including a functioning south-north strategic pipeline. Iraq could not easily redirect crude, partly because of unresolved Erbil-Baghdad disputes, nor could it rely on adequate storage, alternative corridors, or fiscal buffers. Even exported oil faced complications tied to dollar liquidity and strained relations with Washington. For a state whose public coffers are pegged to petroleum exports and prices — neither of which it fully controls — this is more than inconvenient. It is a structural danger.

This is the resource curse in its most visible form. The state earns through petroleum, spends through petroleum, hires through petroleum, subsidizes through petroleum, and politically survives through petroleum.

Yet citizens continue to experience unreliable electricity and fuel, weak services, limited job creation, and recurring fiscal anxiety. Iraq's budget is not simply dependent on oil; it is exposed to every swing in prices, every disruption in exports, and every constraint on access to revenue. The country has not saved enough in good years, built a serious counter-cyclical fiscal system, diversified its revenue base, or created infrastructure equal to the importance of the resource it depends on.

Revenue without resilience is not security. It is fragility dressed up as wealth.

This first issue of Iraq Energy Outlook is therefore not simply a publication about energy developments. It is an invitation to think differently.

We begin with electricity because that is where citizens encounter the state every day. The analysis of the Kurdistan Region's Runaki program in "Electricity Reform Without Resilience" recognizes genuine progress in billing discipline, demand rationalization, and reduced generator dependence. But it also shows that pricing reform and smart meters are not enough. When drone attacks disrupt the gas supply from Khor Mor, electricity reform becomes a question of energy security. Reliability, public acceptance, fuel diversification, and contingency planning are not secondary matters. They are the conditions under which reform has to survive.

We then turn to oil exports and public finance. "A Single Strike, a Total Shutdown" shows how quickly Iraq's fiscal position can deteriorate when export flows are interrupted. The lesson is direct: export concentration is not merely a logistical problem, but a national vulnerability. If one corridor carries the overwhelming majority of the country's crude, then one shock can become a budget crisis, a salary crisis, and a governance crisis.

The issue closes with "Energy Developments in Context," which tracks key developments across Iraq's energy landscape, including the Strait of Hormuz crisis, Chevron's potential entry into Iraq's upstream sector, disruptions to domestic fuel markets, and the reopening of a Syrian export route to relieve bottlenecks. Each of these developments matters on its own. Together, they point to a larger reality: Iraq's energy sector is being shaped by geopolitics, infrastructure limits, investment signals, domestic consumption, and institutional capacity all at once.

This is why the Dhia Jafar Energy Center will take a holistic view of energy, which serves as the operating system of the Iraqi economy. We will study oil and gas, but we will not be limited by them. We will examine electricity, public finance, industrial policy, local manufacturing, transportation, electric vehicles, household consumption, business behavior, climate pressures, and the energy-water-environment nexus.

Our ambition is to add a level of empiricism to a debate that is too often overly political. We will work with global centers of excellence to develop data collection methodologies, analytical models, and forecasting tools suited to Iraq's realities. We will build databases, publish policy analyses, convene serious conversations, and help create a shared vocabulary for reform. We will ask hard questions, but our purpose is constructive: to support better decision-making and a more resilient Iraq and Kurdistan Region.

Research, however, is only part of the mission. The Dhia Jafar Energy Center is anchored at a university, and that matters. It means we are not only producing analysis for today's decision-makers; we are helping train the people who will power tomorrow's energy landscape. We will build research capacity, create opportunities for students and young professionals, support fellows and visiting scholars, and develop a pipeline of talent for government, industry, civil society, and academia. Iraq does not only need better policy papers. It needs people who can read data, question assumptions, understand markets, design institutions, and serve the public interest with competence and integrity.

That is the difference that basing such a center at a university can make. We are a platform for research, but also for formation. We are a place for analysis, but also for dialogue. We are a convener, but also a training ground.

The launch of Iraq Energy Outlook is a modest beginning with an ambitious purpose. We aim to make complex energy issues clearer, to connect evidence with policy, and to contribute to a more serious national conversation about Iraq's future. Progress is possible. Iraq and the Kurdistan Region have resources, talent, geography, and a young population eager for opportunity. But potential is not policy. Resources are not resilience. Revenue is not development.

Iraq's energy future will not be secured by hope alone. To be the blessing it should be, it will require data, discipline, investment, institutional clarity, infrastructure, and public trust. *Iraq Energy Outlook* is offered in that spirit.

KRG Electricity Reform: Runaki's Resilience Challenge

BY MOHAMMED HUSSEIN

Electricity reform is one of Iraq's most difficult policy challenges. For decades, Iraqi governments, including Kurdistan Regional Goverment (KRG) have poorly managed investment in the electricity sector, while electrical demand has continued to climb. The governments have made little progress in curbing demand by collecting tariffs or instituting energy efficiency standards in building codes. The results of this mismanagement are chronic shortages and politically sensitive pricing, which have kept demand and supply permanently out of balance. Over time, this mismatch produced a hybrid system where the subsidized public grid could not keep the lights on and a parallel market of expensive privately run diesel generators filled the gaps. The result was absurd but durable: households paid twice for electricity — once to the government and again to neighborhood generator operators — and still went without reliable around-the-clock supply.

The Runaki program, which was introduced by the Kurdistan Regional Government (KRG) in 2024, is the most substantive attempt in recent years to break this cycle. By combining smart meters, digital billing, and progressive tariffs with a commitment to centralized electricity management, the program aims to deliver 24-hour power across the Kurdistan Region by the end of 2026. Around 5.5 million residents — or roughly 85% of the population — are currently connected through the program, with coverage expanding across Erbil, Sulaymaniyah, Duhok, and Halabja.[1]

In its early phase, Runaki delivered real gains: around-the-clock supply in covered areas, stronger billing discipline, and a visible decline in generator dependence. But the spillovers of the U.S.-Israel war with Iran have exposed a vulnerability that pricing reform alone cannot fix. The conflict has disrupted power provision in the Kurdistan Region, mostly because of the precautionary shutdown at the Khor Mor natural gas field, which underpins roughly 80% of the area's electricity generation.[2] Even in areas fully served by Runaki, supply fell sharply — sometimes to just 10–12 hours a day — forcing households and local authorities to restart diesel generators as an emergency measure.

This article argues that recent war-time disruptions do not reverse the Runaki reform, but they do fundamentally reframe it. To remain sustainable, Runaki must now incorporate energy security considerations alongside its pricing and efficiency agenda.

An electricity worker from KRG inspects a local neighborhood distribution board as part of the Runaki electricity program. Photo credit: Official Runaki Program website.

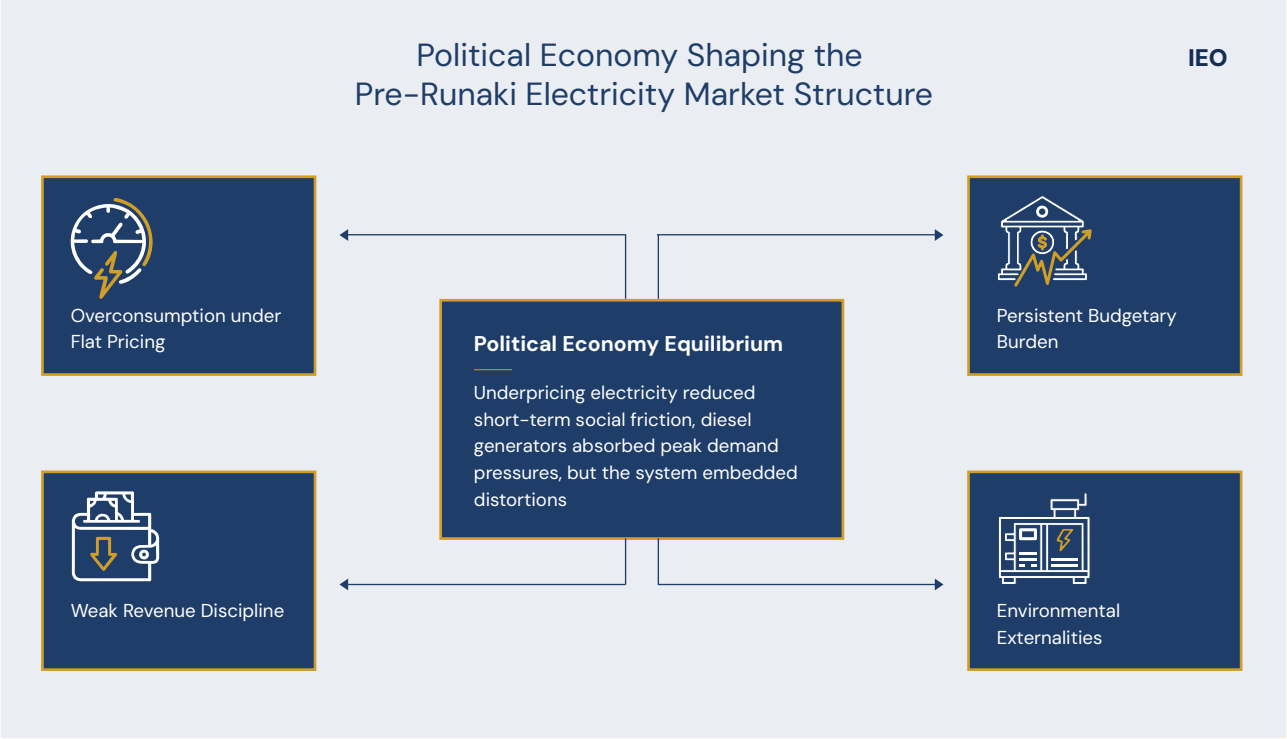
Before Runaki:
The Political Economy of a Broken Electricity System

Before Runaki, the Kurdistan Region — like the rest of Iraq — ran on a dual electricity system. The public grid provided subsidized power, but consistently failed to meet demand. Private neighborhood diesel generators filled the gap at more expensive market prices.

This arrangement was inefficient, but remarkably durable. Electricity was underpriced, which encouraged overconsumption and eroded incentives to pay bills. Diesel generator operators, meanwhile, offered a flexible — if expensive — backup. Transmission and distribution losses were among the highest in the world. According to a World Bank estimate, this often reached between 50% and 60% of total electricity output.[3] The system persisted because it worked politically, even as it failed economically.

The fiscal cost was equally striking.[4] Each year, the KRG paid more than 2.6 trillion IQD (around 2 billion USD) to independent power producers supplying the grid, while collecting just 0.6 trillion IQD (roughly 462 million USD) in revenue due to both technical limitations in billing and widespread power theft.[5] As Figure 1 illustrates, the system persisted not because it was working, but because it served the interests of those within it.

FIGURE 1 — THE POLITICAL ECONOMY OF THE DUAL ELECTRICITY MARKET BEFORE RUNAKI

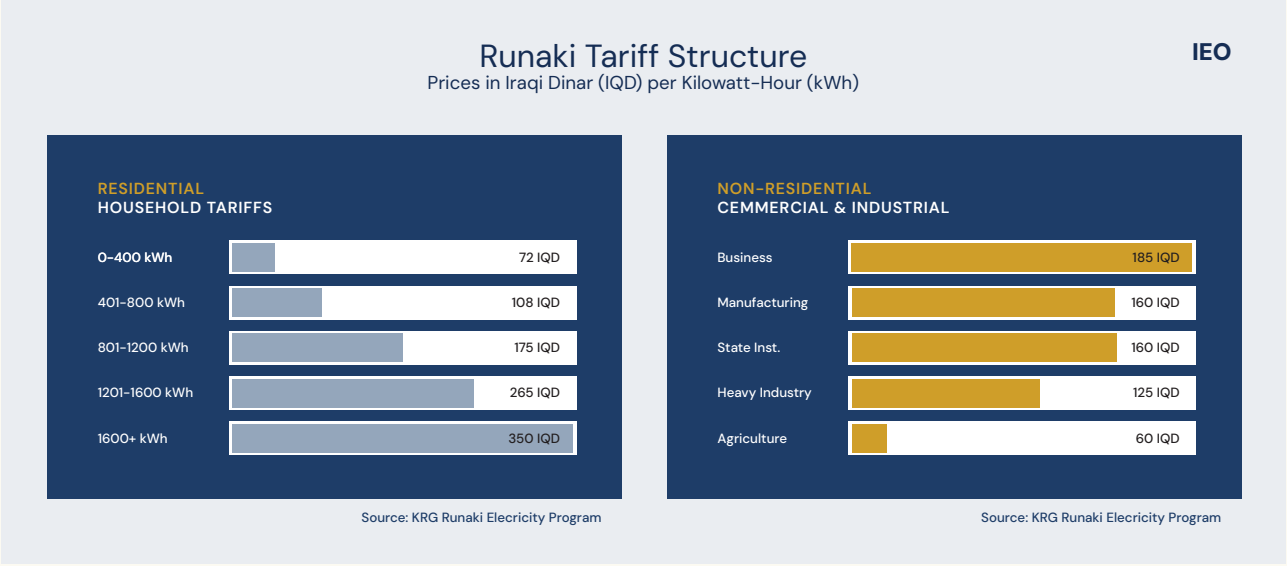


Source: Author's own mapping

Runaki's Reform Logic

Runaki targets two of the system's deepest flaws: weak enforcement and distorted pricing. Smart meters and digital billing reduce theft and non-payment and strengthen revenue collection. Progressive tariffs introduce price signals that better reflect the real cost of producing electricity. As Figure 2 shows, lower consumption brackets remain affordable — protecting poorer households — while higher consumption becomes progressively more expensive. This shifts the incentive structure away from politically driven pricing and towards consumption that reflects economic reality.

FIGURE 2 — RUNAKI TARIFF STRUCTURE FOR HOUSEHOLDS AND COMMERCIAL CONSUMERS



Source: KRG official website (KRG 2025)[6]

In a similar setting, Jordan's electricity tariff reform demonstrated that gradual price increases, combined with progressive tariffs and targeted compensation, can improve cost recovery while protecting low-income households. Meanwhile, World Bank findings show that reform outcomes depend heavily on distributional design and public acceptance. The KRG's Runaki adopts a similar progressive pricing logic, but places greater emphasis on digital metering and enforcement. However, it faces stronger energy security constraints that complicate implementation.[7]

The results have been significant. According to KRG Minister of Electricity Kamal Mohammed, peak demand in Runaki-covered areas has fallen by around 40%.[8] For example, a residential compound that previously needed 10 megawatts now requires only 6 megawatts. This has allowed the grid to move closer to continuous supply without requiring a corresponding increase in generation capacity. This represents a powerful demonstration of what price signals can achieve on the demand side.

The KRG's billing data paints a reassuring picture of affordability. Around half of households are billed below 73,000 IQD (approximately 53 USD) per month and 80% of households are below 160,000 IQD (around 121 USD).[9] However, winter bills reportedly have risen — driven by longer billing cycles and higher consumption — exposing a gap between the pricing design and how it is perceived by the public. This points to a need for clearer public communication and seasonal adjustment mechanisms.

The reform also delivers a meaningful environmental benefit. Gas-fired combined cycle power plants emit roughly 230–370 grams of CO_2 per kilowatt-hour.[10] Even at the upper end of that range, gas-generated electricity is far cleaner than diesel, which typically emits around 800 grams of CO_2 per kilowatt-hour.[11] Shifting from diesel generators to grid-based gas power can therefore cut emissions by more than 60%, which is a clear if under-discussed benefit of the Runaki program.

Electricity Reform Under Pressure

Runaki is not being implemented in tranquil conditions. Security concerns arising from war between the US and Iran have repeatedly disrupted the supply of natural gas to power plants across the region.[12] These disruptions have forced the system to fall back on diesel generators out of operational necessity.[13]

These disruptions have complicated the reform's trajectory considerably, including in ways that were foreseeable. The Khor Mor gas field had been targeted by missile and drone strikes on multiple occasions prior to Runaki's launch in 2024, making supply interruptions a known risk.[14] The fact that the program was designed without explicit provisions for this vulnerability represents a key gap in its original architecture. Energy security should have been embedded in Runaki from the outset, not treated as a separate problem to be managed after the fact.

There is also a distributional dimension. Runaki has reshuffled economic rents across a system that long depended on informal arrangements and localized markets.

The diesel generator sector, in particular, supported tens of thousands of jobs and sustained networks of fuel supply chains, maintenance services, and neighborhood billing operations.[15] By centralizing electricity provision, Runaki ended this ecosystem and reduced the role of diesel generator operators.

Under normal conditions, this kind of displacement generates predictable resistance. Reported protests in Sulaymaniyah[16] and Ranya over tariffs and smart meters reflect the tensions inherent in moving away from underpriced electricity towards a consumption-based model.[17]

In practice, diesel generators are no longer the backbone of the system, but they are not obsolete either. They increasingly function as a contingency layer, activated when centralized supply is constrained.[18] This dual role reduces immediate pressure from the generator economy, but it also suggests that the end goal may not be a clean transition away from generators, but rather a more resilient hybrid electricity system shaped by persistent security-risks.

Structural Risks in a Volatile Environment

ENERGY SECURITY

1

The most immediate risk is the system's heavy dependence on the Khor Mor field as its single source of gas supply.[19] As recent disruptions have demonstrated, any interruption in gas flow impacts the system almost instantly, triggering sharp reductions in electricity generation. Runaki's reliability is in effect held hostage to the security of upstream energy infrastructure.

POLITICAL SUSTAINABILITY

2

Electricity tariff reform ultimately depends on public acceptance, which is in turn related to the credibility of the service provided. Households are likely willing to pay higher or more visible bills when supply is reliable. When it is not — as recent supply shocks have shown — that willingness may erode quickly and resistance to the reform can intensify.

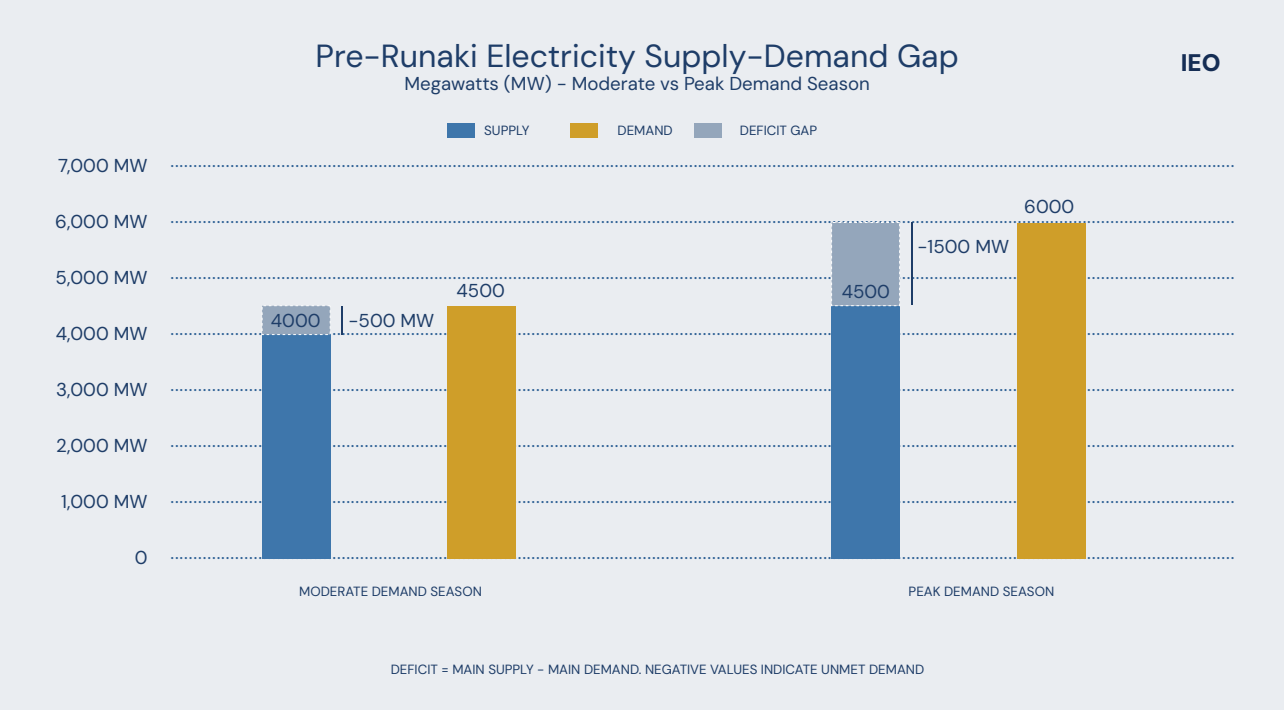
SEASONAL DEMAND PRESSURE

3

Electricity consumption in the Kurdistan Region surges in summer and mid-winter, driven by increased use of air conditioning and heating respectively. Demand rises by roughly 44% between seasons from around 4,500 to 6,500 megawatts,[20] as illustrated by Figure 3. Even without disruptions, these peak periods compress the margin between available generation and system load. Combined with fuel supply constraints, they can push the system to breaking point.

Taken together, these risks point to a broader reality: Runaki's success will depend not only on correcting pricing-distortions, but on the program's ability to function under uncertainty. In this context, energy insecurity could undermine public trust, which could unravel the reform itself.

FIGURE 3 — SEASONAL ELECTRICITY SUPPLY AND DEMAND GAP, KURDISTAN REGION



Source: Compiled by the author from government sources and press statements,[21] including a press conference by KRG Minister of Electricity Kamal Mohammed.[22]

Structural Reform or Managed Reliance?

The central question is whether Runaki constitutes a genuine structural reform or a more temporary rearrangement. On paper, the program addresses the system's core problems: it strengthens billing, aligns pricing with consumption, and reduces dependence on informal electricity markets and diesel generators. However, recent security disruptions complicate this picture.

There has been no formal decision to return to diesel generators as a parallel system, but in practice the government has had to rely on them during periods of gas supply disruption. This is not part of the reform design; it is a response to immediate constraints.[23]

The return to diesel generators does not necessarily signal failure, but may instead reflect a pragmatic adaptation to a volatile operating environment. However, it does suggest that the original vision of fully phasing out generators may need to be revisited and a greater emphasis on system resilience, fuel diversification, and contingency planning be built in.

For instance, establishing diesel storage capacity near major power plants, which would enable them to operate temporarily on alternative fuel, could provide a short-term buffer during gas supply disruptions from Khor Mor and help prevent system-wide shutdowns. Additionally, making concerted efforts to develop other Kurdistan-based gas fields, such as Chamchamal, which is currently under a development project, as well as Miran and Bnabawe, would diversify gas sources and reduce security risks.

POLICY TAKEAWAYS

01 Electricity reform cannot be separated from energy security. Even well-designed pricing reforms cannot function without a stable fuel supply.

02 Diesel generators remain a necessary fallback. Runaki has reduced reliance on generators, but recent supply shocks confirm they still play a critical contingency role.

03 Public acceptance depends on reliability, not pricing alone. Households are more likely to accept higher tariffs when supply is consistent, but they may resist when it is not.

04 Resilience must be built into the system. Diversifying fuel sources and planning for backup generation are essential for the reform to hold over the long term.

Conclusion

The Runaki program represents one of the more serious attempts to reform the electricity sector in the Kurdistan Region and the rest of Iraq. It addresses long-standing inefficiencies and introduces a more disciplined approach to pricing and revenue collection and has real results to show for it.

The experience of recent months has made one thing clear: electricity reform in Iraq is not only a political or economic challenge. It is also a security challenge. Runaki is no longer simply a reform program. It is a test of whether a pricing-based electricity system can function in a context where energy supply remains exposed to geopolitical risk.

Runaki could still deliver a lasting transformation if the KRG can strengthen system resilience, maintain public trust, and adapt to these realities. If it cannot, the region risks drifting back to the model it was trying to leave behind.

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ENERGY IN NUMBERS

Iraq's Wartime Oil Revenue Crisis

BY IEO EDITORIAL TEAM

The war that broke out between the United States, Israel, and Iran on February 28, 2026 sent shockwaves through global energy markets. For most oil-producing countries in the Middle East, the disruption is uncomfortable. For Iraq, it is existential.

Iraq's entire economy rests on crude oil exported through the Persian Gulf. It accounts for more than 90% of government revenues and more than half of its GDP. Unlike the Gulf monarchies, Iraq does not have a sovereign wealth fund or a stabilization fund that could help mitigate the impact of export disruption. This is a structural problem that has been known for decades, discussed at length in various policy dialogues, budget documents, and International Monetary Fund (IMF) consultations, but ignored in practice. The current crisis strips away any remaining ambiguity about what it means in human-terms: when the oil stops flowing, the state loses most of its fiscal resources. Iraq's southern export corridor collapsed when Iran restricted shipping flows through the Strait of Hormuz in response to air attacks by the US and Israel. Basra's export infrastructure handles more than 92% of Iraq's crude exports and stopped entirely between March 8 and April 2.

No immediately viable alternative routes exist. The Iraqi Pipeline in Saudi Arabia (IPSA) has been closed since 1990 and the Saudis are using the full capacity of its pipelines to move its own oil to the Red Sea. The Iraq-Syria Pipeline (ISP) has been out of commission since 2003. The Iraq-Jordan Pipeline (IJP) sought investors in 2014, but the project was sidelined because of the ongoing Islamic State of Iraq and Syria (ISIS) war and other political constrains. It was not revived after the conflict. Even if the ISP was functional or the IJP existed, Iraq has a bigger problem. The Strategic Pipeline that once carried Basra crude north to Haditha, then Bayji, and onward to Ceyhan is largely dilapidated and cannot perform at any meaningful scale. Haditha would have been the key node to the ISP and IJP as well. What remains is a single functioning outlet: the Iraq-Turkey Pipeline (ITP), which carries oil from fields in the Kurdistan Region and Kirkuk to Turkey and the Mediterranean. The ITP is also constrained — by infrastructure and political bottlenecks — and currently transports about 250,000 bpd. That is roughly 7% of Iraq's pre-war export volumes.

As a result, Iraq lost more than 81% of its oil exports in just one month, dropping from nearly 100 million barrels in February to 18.6 million barrels in March. Consequently, monthly oil revenues fell from 6.8 billion USD to a projected 1.9 billion USD. The figures that follow document this collapse in detail. They also place it in a longer-term context that deliver a blunt lesson: this is not an unprecedented shock that no one could have foreseen. It is the entirely predictable consequence of a structural dependence that successive governments chose not to address. The result of this enduring vulnerability is an acute crisis.

OIL EXPORTS · FEB → MAR

99.9M → 18.6M

BARRELS, DOWN -%81

OIL REVENUE · FEB → MAR

$6.81B → $1.93B

DOWN -%72

DAILY REVENUE LOSS

$160M

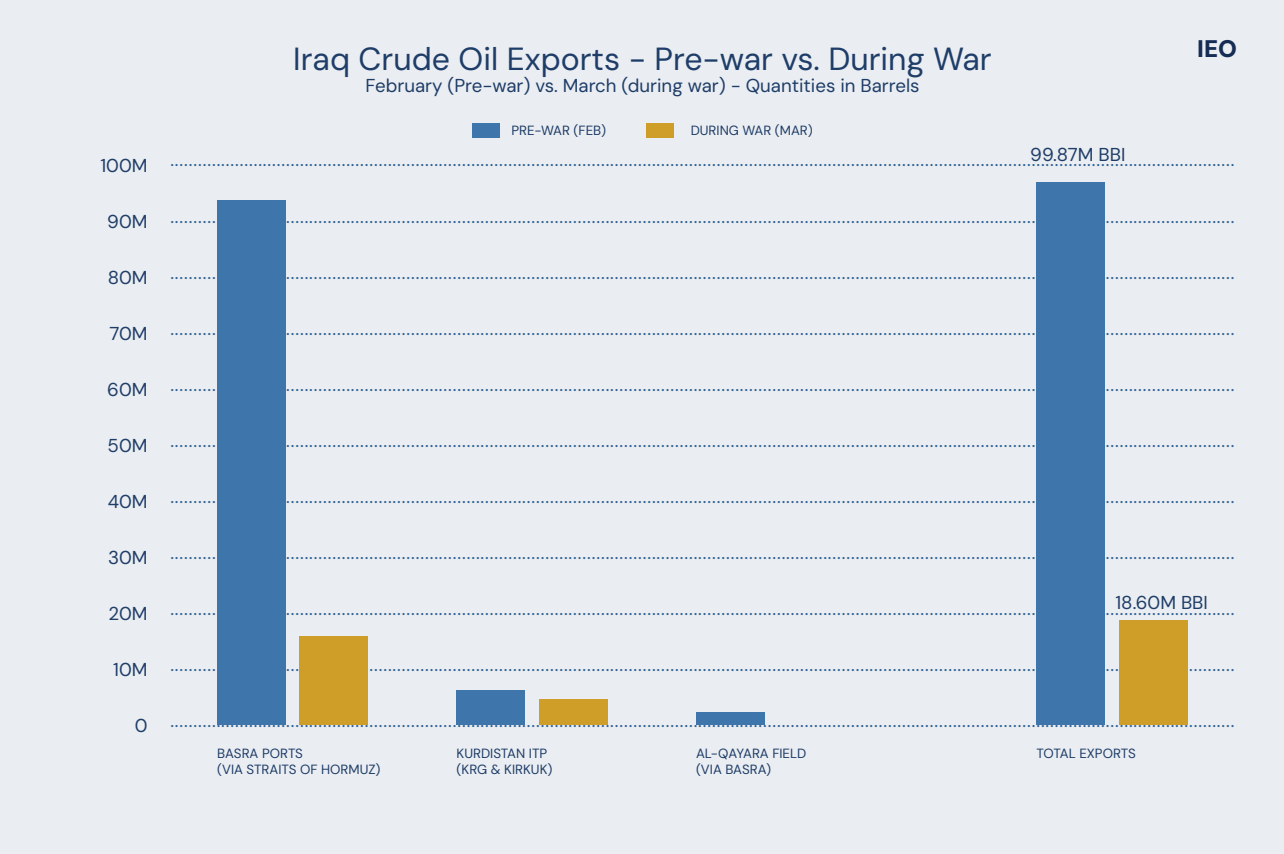
FOR THE DURATION OF THE CLOSURE

BASRA'S SHARE OF PRE-WAR EXPORTS

%92

CONCENTRATION RISK, MADE VISIBLE

FIGURE 1 — COLLAPSE OF OIL EXPORT VOLUMES

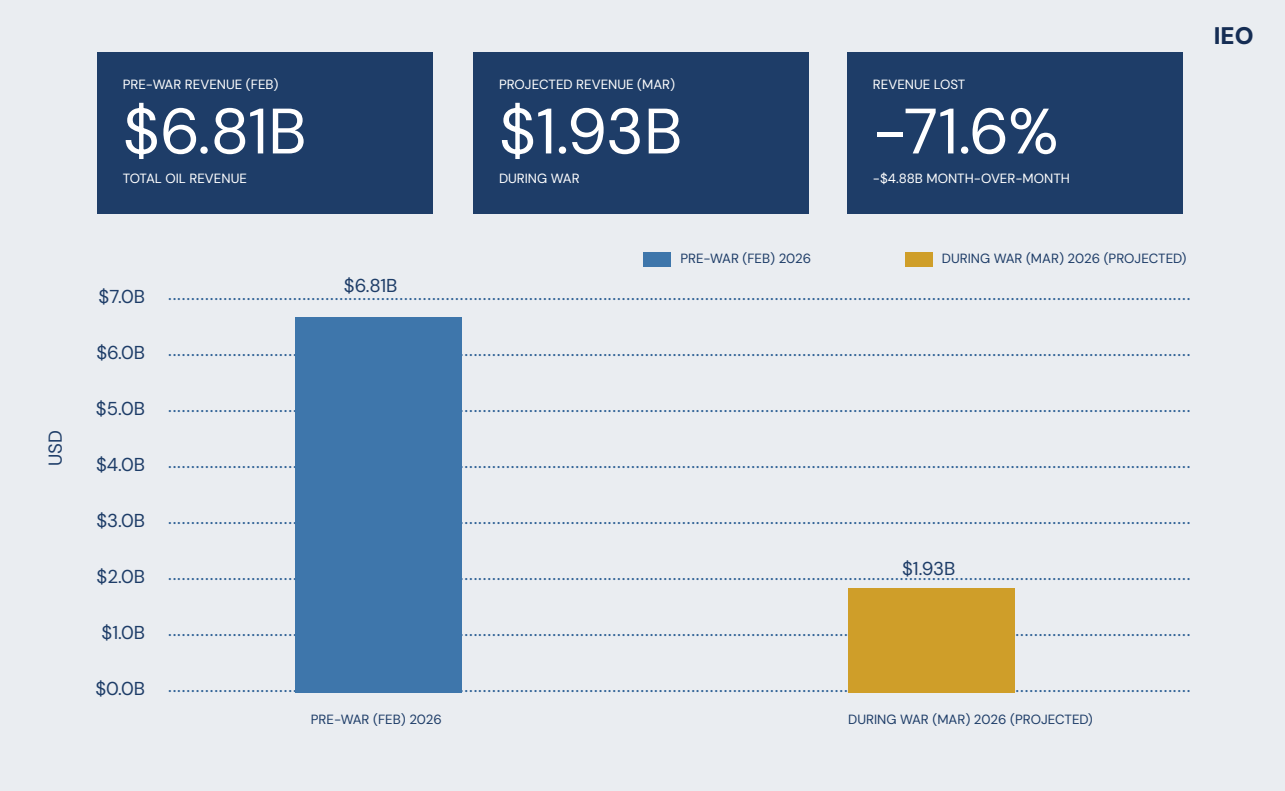


Sources: February export data —: https://somooil.gov.iq/annual-summary-chart, Northern Monthly Export Report. oil.gov.iq | Northern pipeline resumption. March figure reflects 14 days of northern exports only, following suspension at outbreak of hostilities.

The numbers in Figure 1 are stark. Iraq exported 99.9 million barrels in February 2026. In March, during the war, that figure fell to 18.6 million — a decline of more than 81% within a single month. It makes visible what that means in structural terms: the entire collapse is attributable to the shutdown of Basra exports via the Strait of Hormuz, which had been the main corridor for over 92% of Iraq's total export flows.

What Figure 1 ultimately reveals is a concentration risk of extraordinary severity. Iraq's export system has no meaningful redundancy. One corridor handles the overwhelming majority of the country's crude. When that corridor closes — for any reason, whether war, sanctions, infrastructure failure, or a political dispute — there is nothing to fall back on. The disruption of the strategic export route for Basra crude transformed a regional conflict into a fiscal catastrophe, as had been foreseen in numerous venues.

FIGURE 2 — COLLAPSE OF OIL REVENUES



Sources: February export data —: https://somooil.gov.iq/annual-summary-chart, Northern Monthly Export Report. oil.gov.iq | Northern pipeline resumption. March data extracted from an interview with Ali Nizar Al-Shatri, Director General of SOMO. Kurdistan-ITP northern exports were suspended at the outbreak of hostilities and resumed on 18 March 2026; the March figure reflects 14 days of partial throughput only. al-Qayara heavy crude exports via Basra remained suspended throughout March.

Figure 2 translates the export disruption into its fiscal consequences. Total oil revenues fell from 6.81 billion USD in February to a projected 1.93 billion USD in March, which is a decline of nearly 72%. In absolute terms, Iraq lost approximately 4.88 billion USD over a single month.

Price dynamics during this war-related disruption deserve attention. The 82% of physical oil exports translated into nearly 72% of the revenue losses. This reflects a clear price-effect involving a wartime premium, with brent benchmark oil prices jumping from nearly 68 USD to above 100 USD. But these effects offer only partial relief. A price improvement means little when export volumes have fallen so much. Revenue is ultimately the product of both price and quantity.

The daily revenue loss implied by these figures runs to approximately 160 million USD. To put that in context: Iraq's federal budget requires sustained oil revenues to cover the public sector wage bill alone, which represents a commitment of roughly $90 billion USD annually, as was spent during the 2025 fiscal year. At the current wartime run rate, annualized revenues would amount to around 23 billion USD or barely one quarter of what is needed to pay wages, pensions, and other expenditures of the state. The partial resumption of Basra tanker movements through the Strait of Hormuz has softened the blow relative to a complete shutdown, but the fiscal arithmetic remains deeply stressed. Without a full restoration of southern export capacity, Iraq faces mounting pressure on salary payments, public services, and debt obligations.

FIGURE 3 — OIL DEPENDENCY OF GOVERNMENT REVENUES

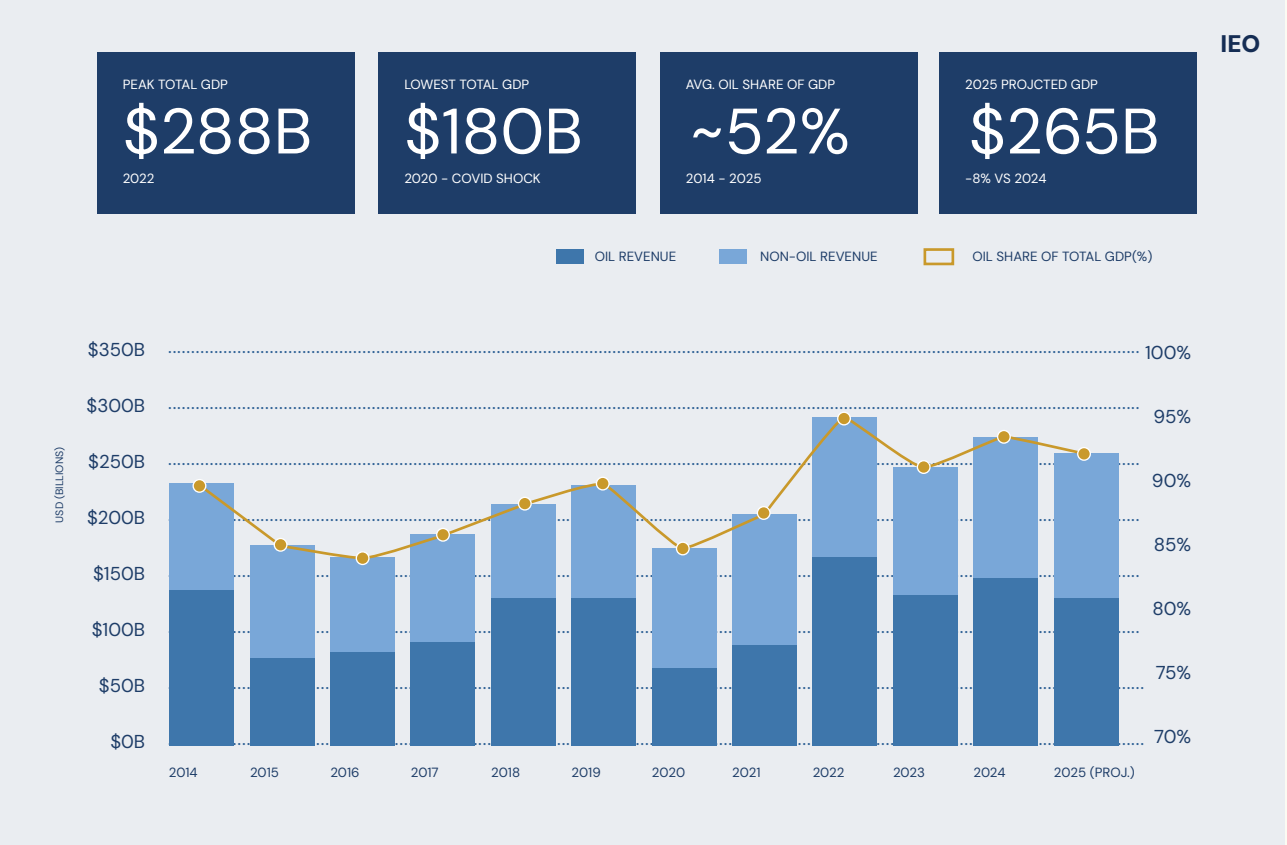
Source: Authors' calculations based on International Monetary Fund (IMF), World Economic Outlook Database (October 2025), Iraq country data. IMF Data Mapper — Iraq.

Figure 3 steps back from the immediate crisis to ask a harder question: is this a shock or is it a system behaving exactly as its structure predicts? The answer is the latter according to these numbers. Over the past twelve years, oil revenues have consistently accounted for between 85% and 95% of all government income, regardless of where oil prices were in the cycle. The dependency line barely moves. It is one of the most stable features of Iraq's entire macroeconomic profile — and the most dangerous.

The chart makes clear that Iraq's non-oil revenue-base has not grown in any meaningful sense. It has fluctuated between 5 billion USD and 11 billion USD per year while total revenues swung from 45 billion USD to 119 billion USD depending on oil prices. Non-oil revenue, which includes taxes, customs, and income from state enterprises, is structurally inert. It has not expanded in line with population growth, GDP, or public spending commitments. In a country of 46 million people growing at 2.5% per year, this is not a marginal fiscal issue; It is a failing of economic governance.

The periods of high oil revenue — 2018, 2019, and especially 2022 — presented genuine opportunities to invest in diversification, strengthen tax institutions, and build fiscal buffers. They were not taken as opportunity for reform. The 2023 federal budget, which was drawn up in the immediate aftermath of the 2022 revenue peak, was the largest in Iraq's history and was allocated overwhelmingly to recurrent spending, including wages, transfers, and subsidies. The structural dependency that Figure 3 documents was not just tolerated during good times — it was actively deepened.

FIGURE 4 — OIL'S ROLE IN THE BROADER ECONOMY



Source: Authors' calculations based on International Monetary Fund (IMF), World Economic Outlook Database (October 2025), Iraq country data. IMF Data Mapper — Iraq.

Figure 4 widens the lens beyond government finances to show oil's role in the economy as a whole. Oil GDP has accounted for roughly half of Iraq's total output in every year since 2014, with the non-oil economy contributing the remainder in broadly flat fashion. The total GDP line — swinging from a low of 168 billion USD in 2016 to a peak of 289 billion USD in 2022 — tracks oil prices almost perfectly. The non-oil economy barely registers on the chart as an independent force.

This matters for understanding the nature of Iraq's vulnerability. The exposure is not only fiscal, it is also structural. When oil revenues collapse, the knock-on effects run through the entire economy: government contractors go unpaid, public investment dries up, and consumer spending contracts. The state is the dominant economic actor because it employs more than 4 million people and accounts for the vast majority of capital expenditure. When its budget shrinks both public and private sector economic activity is suppressed.

The non-oil GDP line tells its own story. It has grown from around 100 billion USD in 2014 to roughly 132 billion USD in 2025, representing modest absolute growth. However, this is largely explained by population expansion and public spending, rather than genuine private sector development. Agriculture, manufacturing, and services have not diversified away from the state-oil nexus. They remain dependent on it, both directly and indirectly. In that sense, Figure 4 is a picture of what an economy looks like when a decade of revenue windfalls fails to produce structural transformation.

Non-oil GDP has grown from approximately $100 billion in 2014 to roughly $132 billion in 2025, representing modest absolute growth over the period.

Agriculture, manufacturing, and services have failed to diversify away from the state-oil nexus, remaining dependent on it — both directly and indirectly.

ENERGY DEVELOPMENTS IN CONTEXT

The Strait of Hormuz Crisis and Iraq's Structural Export Vulnerability

BY IEO EDITORIAL TEAM

Strait of Hormuz — USCGC John Scheuerman (WPC-1146) transits the waterway alongside an L3Harris Arabian Fox MAST-13 unmanned surface vessel, April 2023 ,19. Photo credit: Information Systems Technician 1st Class Vincent Aguirre.

What Happened?

The recent U.S.–Israel war with Iran has disrupted shipping through the Strait of Hormuz, immediately exposing a long-standing structural weakness in Iraq's oil export system. Nearly 93% of Iraq's crude exports flow through Basra's export infrastructure, which is wholly dependent on uninterrupted Gulf access.[1] With oil exports averaging around 3.26 million barrels per day (bpd) at roughly 68 USD per barrel in the month before the war, a full disruption would cost Iraq about 221 million USD in daily revenue. This is a sobering figure given that oil accounts for nearly 90% of federal state revenues.[2]

Why It Happened?

Iraq's export geography has not meaningfully changed in decades. The majority of Iraq's exports flow through the Persian Gulf from the al-Basrah Oil Terminal and several single point moorings. Alternative corridors, including the Iraqi Pipeline in Saudi Arabia (IPSA) to the Red Sea, the Iraq-Syria Pipeline through Syria to the Mediterranean, and the Iraq–Turkey Pipeline (ITP), were all developed in the 1970s and 1980s. Jordan and Iraq have been discussing the potential for an Iraq-Jordan pipeline since 2013, but this remains a concept on paper. Today, only the ITP remains nominally active, with actual export of around 250,000 bpd against a nameplate capacity of 1,600,000 bpd. However, it is constrained by infrastructure deterioration, production-decline in northern fields, and regional instability. The other routes have fallen into disuse through a combination of physical degradation, unresolved political disputes, and shifting regional alignments.

Why It Matters for Iraq?

Export concentration is not merely a logistical problem with substantial economic and fiscal implications. The northern corridor could theoretically have moved 400,000–500,000 bpd, but security uncertainty and the unresolved Baghdad–Erbil dispute delayed any export resumption for nearly 18 days after the Strait of Hormuz was closed. The absence of credible security guarantees for international oil companies operating in the Kurdistan Region has kept an additional 200,000 bpd effectively stranded. Iraq's relationships with the countries that could unlock alternative routes — Saudi Arabia, Jordan, and Syria continue to be complicated by domestic political pressures that have historically obstructed normal bilateral engagement.

What to Watch for Next

As long as the current crisis endures, Iraq will suffer financially. The new Iraqi cabinet will need to determine if it will prioritize serious infrastructure investment. Iraq is well aware of the policy and technical discussions regarding export diversification. The question is whether institutional inertia, fiscal constraints, investor confidence, and the political economy of sectarian populism will once again prevent the government from acting on a lesson it has already paid to learn.

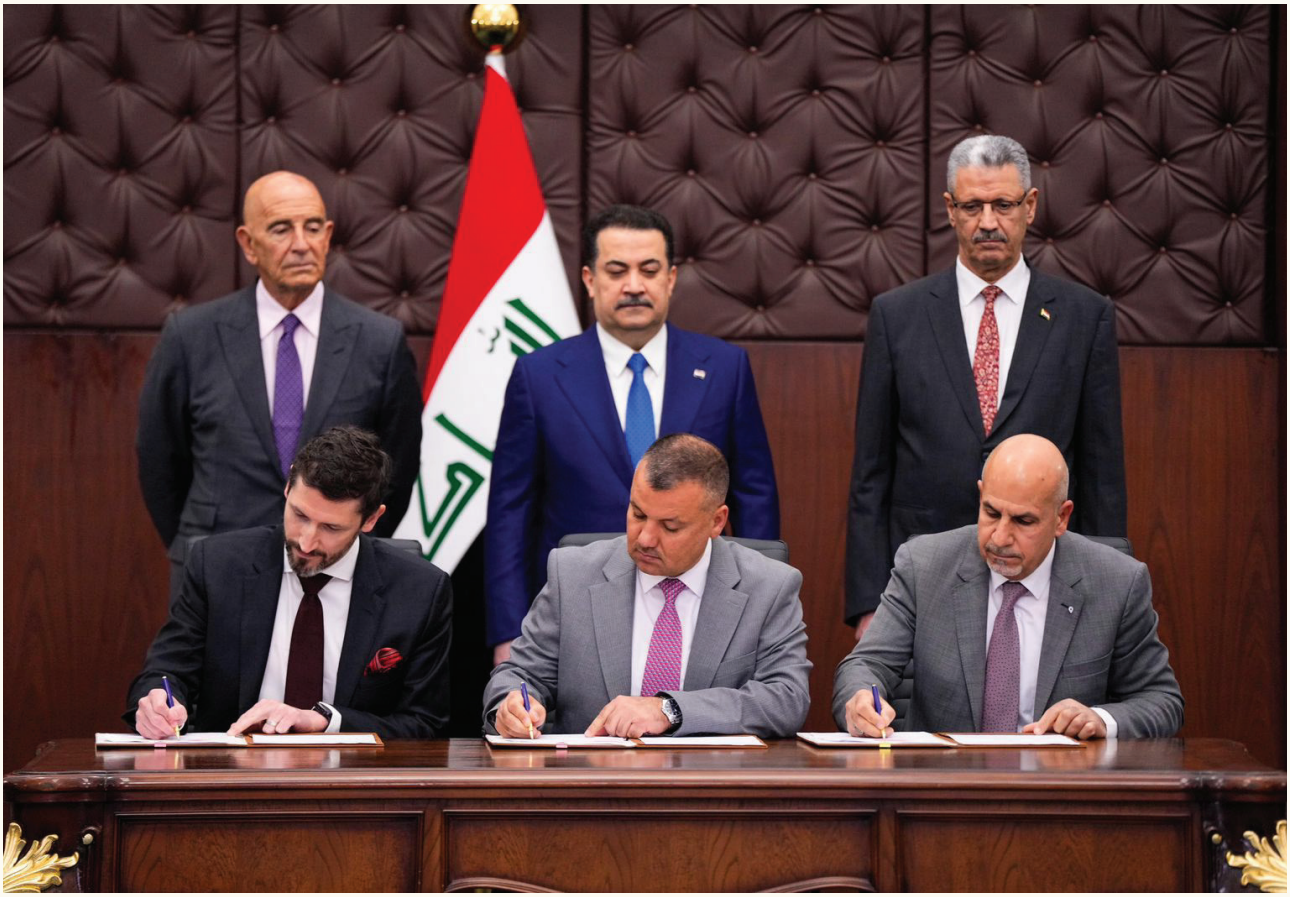
1/ Staff of Iraq Oil Report. "Iraq begins nationwide production shutdowns." March 4, 2026. https://www.iraqoilreport.com/news/iraq-begins-nationwide-production-shutdowns-47571/

2/ Iraqi Ministry of Finance data on public revenues and expenditures, https://mof.gov.iq/Budget-implementation-Archive.aspx

ENERGY DEVELOPMENTS IN CONTEXT

Chevron's Potential Entry Signals Shifting Investment Dynamics in Iraq's Upstream Sector

BY IEO EDITORIAL TEAM



The signing ceremony of the Chevron-Iraq deal took place in Baghdad on February 2026 ,23. Photo credit: Office of Prime Minister Sudani.

What Happened?

On February 23, 2026, Iraq signed a package of agreements that could bring Chevron into West Qurna-2, one of the country's largest producing fields, following the anticipated exit of Russia's Lukoil under Western sanctions.[3] The deal transfers interim operatorship to Basra Oil Company and grants Chevron a one-year exclusive window to negotiate a new contract. Additional memoranda of understanding cover potential cooperation at Balad and several exploration blocks in Dhi Qar province.

Why It Happened?

Chevron's potential entry reflects a visible geopolitical rebalancing in Iraq's upstream sector, following TotalEnergies' presence at Basrah's Ratawi, ExxonMobil's invitation to return to Majnoon, and BP's return to fields in Kirkuk.[4] Over the past decade, Western companies have gradually reduced their exposure in Iraq, while Russian and Chinese firms have expanded their involvement. Recent sanctions on Russian energy companies have now disrupted that arrangement. Baghdad appears to be using this opening deliberately by not simply filling an operational gap but signaling a broader repositioning of its investment partnerships.

Why It Matters for Iraq?

West Qurna-2 produces around 450,000 bpd, which represents a significant share of Iraq's total output.[5] Therefore, keeping the field operational is central to Iraq's production strategy and revenue generation. Chevron's potential entry carries a broader signal: that Iraq can attract a U.S. major at a moment when geopolitical realignment is reshaping who invests where in the Middle East's energy sector.

Iraq has struggled to attract large Western oil companies since the first two bid rounds in 2009. A smooth ownership transition that avoids production disruption will protect revenue continuity at a time when Iraq's budget remains under pressure. The risk, however, is that the agreements were concluded under a caretaker government, leaving their legal standing and political durability uncertain until a new Iraqi government is formed and confirms them.

What to Watch for Next

The West Qurna-2 negotiations will effectively set a precedent for Iraq's upstream contracting environment. How Baghdad manages this as a strategic opportunity will determine long-term production growth, associated gas-capturing for electricity-production, and state revenues. Plus, how the regional geopolitical developments associated with the US-Israel war against Iran affect Iraq's economy, and specifically its energy sector and the working environment for Chevron, is also a key variable to watch.

3/ Media Office of Iraqi Prime Minister Mohammed Shia Sudani.
https://www.facebook.com/photo/?fbid=1399847452189210&set=d41d8cd9

4/ raqi Ministry of Oil: https://www.oil.gov.iq/?article=2201

5/ "Uncertainty surrounds Iraq's West Qurna-2 oilfield." https://www.iraqinews.com/iraq/uncertainty-surrounds-iraqs-west-qurna-2-oilfield/#google_vignette

ENERGY DEVELOPMENTS IN CONTEXT

Regional Conflict Disrupts Domestic Fuel Market

BY IEO EDITORIAL TEAM

A full tanker being loaded at the Karbala Refinery. Photo credit: Karbala Refinery official website

What Happened?

The war between Iran, the U.S., and Israel has triggered fuel shortages across Iraq and affected the availability of both gasoline and liquefied petroleum gas (LPG).[7] Iraq's cabinet authorized emergency gasoline imports, granting the State Oil Marketing Organization (SOMO) an exception from standard procurement rules.[8] The shortages were caused by refinery disruptions, the evacuation of foreign technical personnel from key facilities, and the loss of some captured associated gas supply when production dropped in Basra's oil fields.

Why It Happened?

These disruptions were due to a number of specific factors. The departure of expatriate workers at the Karbala Refinery disrupted higher-grade gasoline production. Limited storage capacity for heavy fuel oil at other refineries forced operators to reduce throughput. In the Kurdistan Region, the shutdown of the main processing facility at Khor Mor sharply compressed LPG supply. These are not new vulnerabilities, but rather reflect the downstream sector's aging infrastructure and operating conditions that leave little margin for external shocks.

Why It Matters for Iraq?

The price effects were immediate and regressive. By early April, official LPG retail prices in the Kurdistan Region jumped from around 425 IQD per liter to approximately 1,100 IQD (or from 9,000 to 20,000 IQD per cylinder). Prices were even higher on the informal market. Kerosene rose from roughly 700 to 950 IQD as households switched fuels. For lower-income families and small businesses dependent on subsidized energy, these are not minor fluctuations: they are welfare shocks. The resort to emergency imports also underscores the paradox that Iraq, one of the world's largest crude producers, remains structurally exposed in refining and gas processing.

What to Watch for Next

Iraq's downstream vulnerabilities are well documented. This latest crisis demonstrates the necessity for investment in the refining sector with a focus on more storage capacity and LPG production. What has been missing is the institutional follow-through to address them before the next disruption arrives.

6/ Formal Facebook account of the company: https://www.facebook.com/photo?fbid=1337847318377739&set=pcb.1337847445044393

7/ "Majeed, Ghareeb. "Gas prices has soured by three folds, and some bakeries have closed." March 22, 2026. Rudaw. Published in kurdish https://www.rudaw.net/sorani/business/220320262

8/ "The Prime Minister chairs the 12th regular meeting of the Council of Ministers in the presence of the Deputy Prime Minister for Energy Affairs and Minister of Oil." Ministry of Oil, Government Media and Communications Office. March 24, 2026. https://www.facebook.com/ministryofoil201/posts/pfbid02Fin4UZUqtiFbVUJCzWjbSJi1P76Qj6e89QKUsmyqxACZB6W9toSr3FbbxVgY1cAcl?rdid=QqadTWTookZhAw98

ENERGY DEVELOPMENTS IN CONTEXT

Iraq Opens Syrian Export Route to Relieve Fuel Bottlenecks

BY IEO EDITORIAL TEAM

On March 2026 ,18, the state-owned Oil Products Distribution Company announced the seizure of several LPG distributors and vehicles for price manipulation and product smuggling. Photo credit: Oil Products Distribution Company website

What Happened?

On April 1, 2026, SOMO began exporting heavy fuel oil (HFO) by truck through the port of Baniyas in Syria. This represents the first such export in decades. Initial shipments ran at around 200 trucks per day, with plans to scale up to 500. The move came as Iraq faced acute export constraints following the disruption of Gulf shipping routes. Early indications suggest the same corridor could be extended to crude oil exports if maritime disruptions persist.[9]

Why It Happened?

The immediate driver for restarting this export route was the accumulation of HFO within Iraq's refining system. Because most Iraqi refineries are relatively simple or old, they produce HFO at rates of 40% to 50% of total output. It is a byproduct that must be continuously evacuated for refinery operations to continue. When Gulf export routes were disrupted and onsite storage for HFO reached capacity, several refineries were forced to reduce or halt production entirely. This directly contributed to domestic shortages of gasoline, diesel, and LPG for Iraqi households. Reopening the Syrian route provided an urgently needed outlet to clear inventories and restore throughput across the refining system.

Why It Matters for Iraq?

At a moment when Iraq had already absorbed substantial revenue losses from maritime disruptions, the Baniyas corridor offers a partial but meaningful addition to the country's export flexibility. More broadly, the move signals a revival of energy cooperation with Syria after decades of interruption — itself a notable geopolitical development. That said, trucking is an expensive and inherently limited solution for exporting crude oil. The cost per barrel is significantly higher than pipeline transport, volumes are constrained by road capacity and logistics, and the route remains vulnerable to security conditions on both sides of the border. The reopening is better understood as emergency relief than structural diversification.

What to Watch for Next

The critical question is whether Iraq treats this corridor as a temporary fix or the foundation for something more durable. Restoring pipeline infrastructure between Iraq and Syria would transform the route's economics and strategic value considerably. Whether Baghdad moves in that direction — and whether the political conditions in Damascus allow it — will determine if this development marks a genuine turning point in Iraq's export diversification or simply another missed opportunity.

9/ Syrian Petroleum Company, Public Statement, April 1, 2026. https://www.facebook.com/photo?fbid=1221276758071224 30&set=a.122115497445122430

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