



مركز المنصة للتنمية المستدامة  
PLATFORM CENTER FOR SUSTAINABLE DEVELOPMENT

## Issue and Analysis

# Energy Exchange Agreement

## between Iraq and Iran (Barter)







# Issue & Analysis

Monthly publication from PSDIraq that sheds light on a salient issue that dominates policymaking circles and public opinion



## About the Center

Platform Center for Sustainable Development (PSDIraq) is a registered NGO at the Directorate of Non-governmental organisations in the General Secretariat of the Council of Ministers under the number (152106012). It is a space for thinking, discussing, and working towards positive change in Iraq.

## Vision

We seek to establish a platform for dialogue and policies to contribute to achieving sustainable development goals in Iraq.

## Mission

Bridging the gap between the state and society in a way that ensures the realization of the essence of democracy represented by the participation of citizens in the decision-making processes, through training, monitoring, analyzing, researching, awareness raising, and advocacy campaigns.

## Strategic Goals

Preparing Youth to fulfill their societal obligations by analyzing root causes of problems, proposing feasible and desirable policy alternatives and advocating for their implementation

Presenting statistics and issues that occupy the political and societal scene to reflect a deeper understanding of Iraq's realities

Encouraging youth to work towards achieving sustainable development goals

Establishing a network of active, informed, and committed citizens towards Iraq's state-building project



# First

## Issue/Subject

- On July 11, 2023, Prime Minister Mr. Mohammed Shia' Al-Sudani announced that his government had reached a new approach to energy exchange with Iran, involving the swap of gas for crude oil. Iraq imports electricity and gas from Iran to operate its power plants, which collectively account for about 33% to 40% of its energy supply. This move aims to circumvent US sanctions on Iran's energy sector, which has caused significant financial accumulations for Iraq due to its inability to fulfill its financial commitments to Iran. As a result, Iran reduced its gas supplies to Iraq by over 50% starting from July 1, 2023, after Baghdad failed to secure US approval for the payments it owed at a crucial time of need. The energy system collapsed due to its heavy reliance on Iranian gas.
- This agreement could have represented a strategic solution to overcome US sanctions without requiring exceptions or permissions from the US. Iraq has often obtained exceptions from time to time to settle financial obligations or import energy and fuel from Iran, despite the stringent US sanctions on various sectors including energy and banking.
- It's worth noting that Iran had previously renewed an agreement to supply Iraq with fuel for another five years. This was announced during the recent visit of the Iranian Energy Minister in mid-April to Iraq, leading a high-level delegation for consultations with Iraqi officials. Such agreements are not unprecedented; the former Minister of Electricity, Luay Al-Khatteeb, had signed an agreement with Iran for energy exchange and expertise transfer to develop Iraq's energy sector.



# Second Analysis

## Iraq's Energy Imports

- Iraq imports two types of energy from Iran: electricity and fuel in the form of gas for power generation. Despite initial estimates by the Ministry of Oil indicating Iraq's reserves to be around 132 trillion cubic feet of gas, approximately 70% of Iraq's gas is associated with oil extraction. Iraq ranks 11th among gas-rich countries globally.
- The power transmission line between Iraq and Iran (Amara–Karkhah) was established in 2011, spanning 73 km with a capacity of 400 kV.
- Iraq began importing gas from Iran in late June 2017, from the Shahr Oil Station, through two pipelines—one to Baghdad via Diyala Province and the other to Basra Province.
- Iraq has allocated significant funds for importing electricity, which are included in the federal budget under sovereign expenditures. In some years, this allocation exceeded 1% of the general budget, such as in 2017 and 2021, as shown in Table (1).

Table (1): Financial Allocations for Electricity Import (2015–2023)

Allocation (USD)	Year
432,692,308	2015
304,000,000	2016
1,379,520,000	2017
311,538,462	2018
53,846,154	2019
-	2020
1,325,628,009	2021
-	2022
868,461,538	2023

Source: Federal Budgets (2015–2023).





According to the Iraqi Ministry of Electricity, the annual cost of importing electricity and gas is around 8 trillion Iraqi dinars, approximately 6 billion US dollars.

Iran, according to the Financial Tribune, produces 850 million cubic meters of gas daily and can only export 10% of that amount, around 85 million cubic meters. Due to export contracts with other countries like Turkey and Armenia, and Iran's growing domestic needs, it has been unable to meet Iraq's demand of 50 to 55 million cubic meters per day.

## 2. Iran's Debt to Iraq:

- Baghdad faces difficulties in repaying its debt of around 11 billion euros (approximately 12.34 billion US dollars) to Iran. These amounts are accumulated in the Iraqi Bank for Trade (TBI) and represent the cost of imported gas and energy that Iraq has been unable to pay due to US sanctions.

## 3. Barter Element:

- Black oil (high-sulfur fuel oil) is a derivative of crude oil, used as fuel for power plants, in petrochemical industries, asphalt and brick factories, and as fuel for oil tankers. Iraqi refineries produce around 335,000 barrels per day, with daily demand being about 189,000 barrels and a surplus of around 146,000 barrels usually sold near the "Makhaf" in the Arabian Gulf as fuel for tankers. Additionally, Iraq engages in a barter arrangement with the Lebanese Republic, where Iraq supplies Lebanon with 10.8 million barrels annually in exchange for Lebanese goods and services.
- Iraq sells black oil domestically at 35% of international market prices, not exceeding 200 dollars per ton. However, on international markets, it is sold for about 650 dollars per ton according to the Iraqi Ministry of Oil.
- Iran, on the other hand, produces around 384,000 barrels per day and consumes around 255,000 barrels in petrochemical industries. It exports an unofficial surplus of 129,000 barrels to China and other markets not subject to US sanctions.



#### 4. Gas Pricing:

- Gas pricing differs from oil due to various factors such as distance between producer and consumer, transportation conditions, and technical considerations.
- Liquefied Natural Gas (LNG) Market: LNG prices are often closely tied to global oil prices. For example, as one barrel of oil contains about 5.8 million thermal units, if the oil price is 100 dollars per barrel, the price of one million thermal units of oil is about 17 dollars. These are the typical rates for global LNG prices, as it is transported in massive maritime vessels from producers like Malaysia and Qatar to markets like Japan and Europe.
- Pipeline Gas Market: In the US, natural gas is produced and priced based on the Henry Hub gas trading center, determined by supply and demand. Prices range from 5 to 13 dollars per million thermal units.
- In Europe, gas prices often fall between global LNG prices and US prices, ranging from 10 to 12 dollars per million thermal units.

#### 5. Pricing of Iranian Gas:

- Iraq purchases Iranian gas under a special pricing equation (Iranian pipeline gas).

**The gas price (dollars/million thermal units) equals  $0.08 + (\text{oil price} * 0.1088)$ .**

For example, when the oil barrel price is 100 dollars, the price of one million thermal units is 10.96 dollars, which is a reasonable rate for both parties.

#### 6. US Stance on the Agreement:

- Following the Iraqi–Iranian agreement, the United States issued a new exemption for Iraq to repay Iran's debt to a third party (Oman). The US State Department spokesperson confirmed that this new package expands the exemption to allow the transfer of funds from those restricted accounts in Iraq to selected external accounts and banks. The conditions for these transactions remain the same as before, with the funds only usable for non–sanctioned activities and requiring approval from the US Treasury Department. This may indicate US dissatisfaction with the barter idea, leading them to propose an alternative mechanism to reduce pressure on Iraq while ensuring funds reach Iran without violating sanctions.





## 7. Previous US Waivers for Iraq:

- **Previous US Waivers for Iraq:** Since November 2018, Iraq has obtained 20 waivers from US sanctions for the purpose of importing fuel and covering its costs with Iran. These waivers typically ranged from 45 to 120 days and were extended based on requests made by Iraq to the US.

# Third

## Challenges in Implementing the Agreement

### 1. US Sanctions on the Iranian Energy Sector:

- The Iranian energy sector is subject to US sanctions that prevent any exchange without prior coordination and obtaining exemptions. This poses a threat to any entity attempting to bypass the sanctions as they could face the same sanctions imposed on this sector. Without obtaining permission from the US, any agreement faces these challenges.

### 2. Iran's Lack of Need for Black Oil:

- Iran has a surplus of black oil and is seeking markets for its products, selling to limited customers outside the global energy market system. This lack of guaranteed sustainability for the barter agreement raises concerns.

### 3. Iran's Inability to Meet Future Demand:

- As previously discussed, Iran lacks the capacity to meet Iraq's increasing energy demand and might eventually be unable to supply Iraq's full gas needs. Despite Iraq's ability to cover the costs in various ways, Iran's inability to provide sufficient supply is a significant challenge.



#### 4. Modernization of Iraq's Refining Sector:

- Old refineries produce larger quantities of black oil, while modern refineries produce less due to transforming it into white products. The ongoing modernization of Iraq's refineries and the introduction of the Karbala refinery to operation might lead to a reduction in black oil production. This, in turn, could hinder Iraq's ability to meet the required quantities for the barter agreement.

#### Sources:

- Nabeel Al Mersoumi / Iraqi Economists Network
- Iraqi Ministry of Oil / Oil Marketing Company – 2021 data
- General Budget for the Years (2015–2023)
- Energy news platform.







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