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# MAHABAD:

**Oil, the Peshmerga, and the  
Collapse of the Kurdish Dream**

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The Kurdish dream of establishing an independent state was on the verge of realisation after centuries of demands in Jan. 1946. This came when “Qazi Mohammad,” the Iranian Kurdish leader, declared the establishment of the Mahabad Republic in the province of the same name, now part of the Islamic Republic of Iran. However, this dream quickly dissipated when the Soviet Union withdrew its financial support for the nascent state. The intensification of the economic blockade on the region further compounded the situation, preventing the entry of

food supplies and reducing agricultural production. These pressures led to dramatic shifts in the loyalties of Kurdish tribal leaders who had initially allied with “Qazi” during the state’s formation, hoping to secure a share of Soviet financial and food aid.<sup>1</sup>

The food situation worsened over time, pushing some leaders of the Mahabad army to leave the capital, especially as Iranian forces were nearing its entrance, leaving the Kurdish leader and a small Kurdish

group behind to face an unequal battle with the Iranian army. Therefore, to spare Kurdish blood, it was decided to surrender on December 15 of the same year, leading to the Iranian army's occupation of Mahabad and the declaration of the state's fall. In the end, "Qazi" was executed in March 1947, marking the end of the closest attempt to establish a Kurdish state.<sup>2</sup>

About a quarter of a century later, the Iraqi Federal Supreme Court issued a series of rulings regarding Iraqi oil exported by the Kurdistan Region of Iraq. The latest ruling, issued in Feb. 2024, mandated the Kurdistan Regional Government's Council of Ministers to hand over all oil and non-oil revenues to the central government in Baghdad.<sup>3</sup> This could have a dual impact similar to that caused by the cessation of financial support and the Iranian blockade on the Mahabad army, but this time it affects the Peshmerga forces that represent the hope for preserving the "autonomy" of the Kurdistan Region of Iraq considered the second closest Kurdish attempt at establishing a national homeland for the Kurds.

Therefore, the **First Part** of this paper addresses the political situation of the Kurds, focusing on the status of the region in the Iraqi Constitution, the contentious issues between the region and the federal government, and the impact of these disputes on the continuity and existence of the Peshmerga. The **Second Part** reviews the economic situation, examining the effects of the series of judicial rulings on the conditions that undermine the autonomy of the regional government in selling oil and the repercussions of this on the Peshmerga as a Kurdish defence force that protects the "autonomy" of the region, forming the last line of defence against its collapse.

## **First: Political Situations of the Kurds in Iraq**

Iraq granted the Kurds autonomy in March 1970 through an agreement signed by Saddam Hussein, the then Iraqi vice president, and Mullah Mustafa Barzani, following a brutal civil war that lasted for years between

the two sides. The agreement led to the Iraqi government's recognition of the Kurds' full cultural and national rights and the identification of the governorates where Kurdish autonomy would be applied (**Erbil, Sulaymaniyah, and Dohuk**). Additionally, the agreement stipulated that the vice president of the Republic would be a Kurd and that the Kurds would hold some ministerial positions in the federal government. This agreement represented a significant symbolic victory for the Kurds as the first step toward establishing a Kurdish state in the region. However, this agreement quickly collapsed after four years, leading to fierce battles between the Kurds and the federal government in Baghdad once again. The Iraqi regime succeeded in suffocating the Kurdish movement through the signing of the Algiers Agreement with the Shah of Iran, which ended Iran's support for the Kurds in exchange for Iran receiving control over half of the Shatt al-Arab.<sup>4</sup>

The Algiers Agreement 1974 marked a turning point in the Kurdish struggle, leading to a significant fragmentation into distinct regional factions. The sudden abandonment of the Kurdish cause by Iran through the agreement, followed by a brutal crackdown by the Iraqi state, forced the Kurds into mass displacement to neighbouring countries. This resulted in the creation of geographically scattered resistance centres, weakening the cohesive strength of the movement. Internal divisions also emerged over the best course of action, with some advocating for continued armed struggle while others favoured negotiation, exacerbating the fragmentation.

The regional geopolitical landscape played a pivotal role in deepening these divisions. As the Kurdish issue became intertwined with the strategic interests of various countries, the factions found themselves relying on support from external actors. This reliance on foreign powers, each with its own agenda, led to further ideological and strategic divisions. The lack of meaningful international recognition of Kurdish self-determination left the movement vulnerable and isolated, allowing regional powers to exploit their cause for political gain. Ultimately, the Algiers Agreement accelerated the fragmentation process, dispersing

the Kurdish movement across different regions, with each faction facing unique challenges and opportunities in its context. This marked the first time the Kurdish movement was scattered across various regions of Iraq following the collapse of Mahabad.<sup>5</sup>

The invasion of Kuwait by Iraq, on the other hand, presented a golden opportunity for the Kurds to revive their dream of establishing an autonomous region. They took advantage of the no-fly zone imposed by the United States (U.S.) and Britain, which provided them the chance to establish the Kurdistan Regional Government (KRG) in 1992. Following the fall of the Ba'ath regime in 2003, the Kurds in Iraq played a decisive role in forming successive governments in Iraq, forging alliances with various Iraqi factions, and thus achieving semi-administrative and economic independence from the central government in Baghdad. The 2005 Iraqi Constitution further bolstered the unique status of the region, setting it apart from other areas of Iraq. However, the achievements of the Kurds have been in steady decline in recent years due to the ongoing conflict with the federal government in Baghdad. The latter has imposed a series of federal measures and resolutions aimed at undermining Kurdish control over the region and limiting the role of the Peshmerga forces in recent times.<sup>6</sup>

### **Distribution of Powers in 2005 Iraqi Constitution**

**Federal laws, or federations, are characterised by several features, foremost among them being the powers and authorities of the federal and regional governments, as stipulated by the constitution. These powers are often distributed as follows:**

- Defining the exclusive and mandatory powers of the federal authority and the regions in the constitution.
- Defining the exclusive powers of the regions, leaving all other powers to the federal authority.

- Defining the powers of the federal authority, with all remaining powers allocated to the regions.

Some constitutions specify shared powers between the federal authority and the regions to enable the latter to act while subjecting them to federal oversight. This may include requiring the approval of the federal authority for certain legal actions. However, regardless of the method used in distributing powers, the priority is always given to federal laws to achieve the objectives on which the federal state was established. In the case of Iraq, Article (110) of the 2005 Iraqi Constitution outlines the powers and responsibilities of the federal government, which include foreign policy, national security, the financial policy of the country, water policy planning, and population census. The article also specifies the powers and authorities of the regions.

### **Kurd's Status in the Iraqi Constitution**

The Kurds have a unique status recognised by the Iraqi Constitution of 2005 in Chapter 1 of Part Five, titled "The Regions." In Article (116), the constitution established that the Federal Law of the Republic of Iraq comprises the capital, regions, decentralised governorates, and local administrations. Article (117) confirmed the Kurdistan Region and its existing authorities as a federal region. Article (120) stipulated that the region would adopt its constitution, defining the structure of powers and authorities within the region, the mechanisms for their exercise, and the recognition of its cultural rights in the country as follows:

### **Kurdish Language**

The constitution elevates the Kurdish language to the status of an official language alongside Arabic. In its fourth article, the constitution specifies that Kurdish is an official language alongside Arabic, to be used in all official matters such as communications with the Council of Representatives, the Council of Ministers, courts, official conferences, and the Official Gazette. It also recognises its use in official documents

and correspondence. Furthermore, the constitution mandates opening schools in Arabic and Kurdish languages.

### **Powers Exercise**

The Iraqi Constitution grants the Kurdistan Region the right to exercise legislative, executive, and judicial powers in accordance with its provisions, including administration, education, healthcare, security, economic development, and the right to form a government. Article (121) refers to granting legislative power to the regions of Iraq over a wide range of matters within their territories, including education, healthcare, agriculture, and investment, except for those areas reserved exclusively for the federal authorities. The constitution also allocates a fair share of the revenues collected federally to the regions and governorates to help bear their burdens and responsibilities, considering their resources, needs, and population proportions.<sup>7</sup>

Upon reviewing the provisions in the Iraqi Constitution concerning the powers of the federal and regional governments, it is evident that the Constitution seeks to balance the federal government's broad powers with those granted to the regions. Regarding oil and gas resources, the constitution states that these are public property belonging to all the Iraqi people across all regions and governorates, and their revenues should be distributed relatively based on population distribution. However, the provisions and articles of the constitution did not fully account for Iraq's social and political realities, leading to points of disagreement and contradictions between the powers of the federal government and the regional government. These issues became apparent in instances of overlapping powers and the refusal of one party to comply with constitutional provisions, as indicated in Article (115), which states that anything not specified as a federal exclusive authority falls under the jurisdiction of the regions and governorates. This has led to numerous political contradictions between Baghdad and Erbil.

### **Political Contradictions between Baghdad and Erbil**

The constitutional contradictions in Iraq have created numerous political contradictions, leading to issues in interpreting and implementing the constitutional provisions. These issues have turned into disputes between the Kurdistan Region and the federal government over oil, the application of federalism, and particularly Article (140), which addresses power-sharing, financial resources, and the status of the Peshmerga. This has exacerbated the crisis of trust between the region and the federal government in Baghdad. The most prominent of these contradictions include:

#### **Disputed Territories**

Article (58) of the Iraqi State Administration Law, enacted during the American civil administration in 2003, outlined principles for achieving stability in Kirkuk, a historically contested area in Iraq due to its complex demographic composition. Since no satisfactory solutions were reached between the conflicting parties (Kurds, Arabs, and Turkmen) in Kirkuk between 2003 and 2005, this issue was incorporated into the constitution and ratified through a referendum on Oct. 15, 2005.

The constitution did not provide a precise definition of the term "disputed territories" except in the context of resolving the Kirkuk crisis through Article (140). This article outlines a multi-step process for resolving the status of these areas, including creating a secure environment for all ethnic groups, conducting a population census, and then holding a binding referendum.

However, the implementation of Article (140) stalled due to disagreements over its interpretation and security concerns, leading to ongoing political negotiations and tensions between the KRG and the Federal Government for nearly two decades to determine the status of Kirkuk and the disputed territories. Attempts to apply Article (140)

failed due to legal and logistical obstacles and objections from local populations. The situation was further complicated by signs of Kurdish efforts to control these areas since 2003, making it difficult to conduct an objective population census. If a referendum on self-determination were held in Kirkuk, it would not satisfy the other parties involved.

The dispute over the disputed territories did not stop at Kirkuk. Still, it extended to lands adjacent to the Kurdistan Region, such as Badra, Mandali, Khanaqin, the Sinjar district with its Yazidi majority, and dozens of villages in the governorates of Wasit, Diyala, Salah ad-Din, and Nineveh, which are inhabited by a mix of Arabs, Kurds, Turkmen, and Shabak.

### **Region's Share of Federal Budget**

Disputes resurfaced when the issue of approving the budget was raised, which was obstructed by the Kurdish Alliance bloc due to disagreements over the region's share. Some members of parliament and political blocs called on the financial committee in the Iraqi Parliament to reduce the region's share, accusing the Kurdistan Region of shirking its role in resolving conflicts and failing to adhere to agreements that allocated 17% of the budget to the region until a population census could be conducted in Iraq.

In response, the KRG announced the formation of a committee of experts and specialists to support the Kurdish Alliance in Parliament. It was emphasised that the committee would be advisory and would include experts in law, economics, and statistics as part of efforts to preserve the region's share of the national budget. The KRG refused to reduce its budget share unless the population census was conducted and the proportion of Kurds in the overall Iraqi population was determined.

### **Dispute Over Oil Extraction and Export**

The Federal Law proposed by the 2005 Constitution granted the KRG a significant role in managing the region's oil and gas resources. These provisions served as a guarantee: if the new Iraq failed, an economically independent Kurdistan could take the next step toward establishing a state, fulfilling the historic national dream of the Kurds.

The constitution also envisioned a federal oil law in which the Federal Iraqi Government and the KRG would share responsibility for oil policy and its revenues. However, in the years following its ratification, the Iraqi parliament consistently failed to pass a national oil and gas law that would regulate the energy sector and define these shared roles.

Determined to gain further independence from Baghdad, the KRG became reliant on external entities and factors beyond its control, including global oil prices, the exchange rate between the Dollar and the Dinar, and Turkey, through which its oil pipeline passes. The KRG also acted proactively when it passed its own natural resources law in 2007 and began signing approximately 55 contracts with international oil companies.

The step of extracting and exporting oil led to a new crisis between the governments of Kurdistan and Baghdad, following the latter's signing of contracts with foreign companies for oil exploration and extraction, the latest of which was with ExxonMobil and Chevron in 2011, without consulting the Federal Government. According to Article (111) of the Iraqi Constitution, the Federal Government views this as an inherent right, which declares that oil and gas are the property of all the Iraqi people, and no one has the authority to decide on it unilaterally. Article (112) further confirms that the Federal Government manages oil and gas extracted from existing fields in coordination with the governments of producing regions and provinces and mandates the federal government's fair distribution of oil and gas revenues to the producing regions and provinces.<sup>8</sup>

As a result, the federal government took a stance of not paying the dues of oil companies operating in Kurdistan, amounting to about \$1.5 billion, and only agreed to pay approximately \$560 million. This led the region to halt all oil exports in April 2012 in protest over the federal government's failure to pay the foreign companies in the region's oil sector. The situation was further complicated by the expansion of ISIS, which led to the withdrawal or suspension of international oil companies' planned developments. In response, the KRG compensated for the losses by seizing oil fields in Kirkuk after the withdrawal of the Iraqi army, increasing its crude oil exports to 550,000 barrels per day. However, these gains were undermined by a sharp drop in oil prices from \$115 in June 2014 to \$35 by Feb. 2016. Disputes between Erbil and Baghdad over oil revenues and customs escalated in 2014, prompting Baghdad to cut the Kurdistan Region's share of the national budget. Qubad Talabani described the financial situation at the time as a "financial tsunami."

The KRG did not seek permission or pardon from Baghdad, a strategy that ultimately paid off. By mid-2022, it was producing around 450,000 barrels of oil per day, most of which was exported via an independent pipeline through Turkey. In the second quarter of 2022, oil sales generated \$3.8 billion, with 41% of that reaching the KRG's coffers (the rest went to sector costs and debt servicing), amounting to \$1.6 billion. Natural gas production reached about 5.3 billion cubic meters annually in 2021.

All of these gains came at the cost of the federal government's claim to Kurdish oil, which forced the KRG to sell at a discounted price to mitigate political risks. The dispute escalated in 2022 when the Iraqi Federal Supreme Court ruled that the KRG's Natural Resources Law was unconstitutional and that its oil contracts and exports were illegal. The Iraqi government filed a lawsuit against Turkey for allowing the KRG to use the pipeline, and the court sided with Iraq, compelling Turkey to halt oil exports to the KRG.

## **Independence Referendum of Kurdistan Region**

By the late 20<sup>th</sup> century, the Kurdistan Region had achieved a level of stability, bolstered by its growing influence and international relations following the fall of Saddam Hussein's regime. This stability was disrupted by the rise of ISIS, prompting the Peshmerga forces to liberate eastern Mosul and Kirkuk, which had been under the group's control. The Kurdish flag was subsequently raised over Kirkuk, signalling a new era of Kurdish authority. In the wake of ISIS's defeat in 2014, the region's president, Masoud Barzani, announced plans to hold a referendum on independence.

The authorities of the Kurdistan Region believed that secession from the federal government would contribute to resolving many unresolved issues, in addition to alleviating the economic crisis that the region had suffered from for more than three years. This crisis was a result of the drop in oil prices in 2014, the emergence of ISIS mid-year, and disputes with the federal government over paying the region's share of 17% of Iraq's budget. For this reason, Barzani insisted on his call on Feb. 2, 2016, which repeatedly angered Baghdad, especially as Barzani's call included Kirkuk, Khanaqin, Sinjar, and Makhmur, all of which are disputed areas under Article (140) of the Constitution. The results of the September 2017 referendum cast their shadow over the region, widening the gap between the region and the federal government, ultimately leading to adverse consequences for the region.<sup>9</sup>

## **The Conflict Between the Peshmerga and the Federal Government Since Its Inception**

The Peshmerga, "those ready to face death," is a term synonymous with Kurdish bravery, rooted in the 20th-century struggle for Kurdish rights in Iraq. Clashes between the Peshmerga and the Iraqi army date back to the 1960s. Following the defeat of Iraqi Kurds in their 1974-1975 revolution, dissenting factions within the Kurdistan Democratic Party (KDP), then the main Kurdish political party, formed the Patriotic



Union of Kurdistan (PUK), a new Kurdish political entity. This division fragmented Kurdish society and nationalism, gradually establishing two major political currents. Consequently, the Peshmerga became split along partisan lines, functioning as militias for both the KDP and PUK, while retaining their status as anti-regime “freedom fighters.”

A second pivotal moment occurred after the Kurds gained de-facto autonomy in 1991. Following Iraq’s defeat in the Gulf War, Kurdish groups in northern Iraq and Shia groups in the south revolted against Saddam Hussein’s regime. The subsequent crackdown resulted in the death of approximately 20,000 Kurds in the north. The unfolding humanitarian crisis prompted the United Nations Security Council to issue Resolution 688, condemning Iraq’s repression of its civilian population. This resolution later served as the basis for establishing a “safe haven” in northern Iraq, protected by U.S., British, French, and Dutch forces.

In May 1992, the Kurdistan Region held its first general elections, where the KDP and PUK received nearly equal shares of the vote. The two parties agreed to a 50-50 power-sharing arrangement, forming a unified government under the leadership of President Masoud Barzani. Alongside efforts to institutionalise the Peshmerga, the parties enacted Law No.5 concerning the Peshmerga, officially transitioning it, on paper, from partisan militias into a formal armed force under the KRG. They also passed legislation prohibiting political parties from maintaining private militias or armed groups and established a Ministry of Defence for the region, named the Ministry of Peshmerga Affairs.

### **The Peshmerga: Between Partisan Polarisation and Patronage Politics**

The KDP and the PUK have maintained significant control over their respective Peshmerga forces. These forces were not only used to fight against the Iraqi government but also to wage battles against each other. Efforts to unify the various Peshmerga factions have fluctuated

over time, largely influenced by the ebb and flow of political dynamics and the relationship between the KDP and PUK.

However, since the Ministry of Peshmerga Affairs lacked absolute authority in its early years, the Peshmerga functioned as a hybrid security organisation with the KRG, alternating between competition and cooperation. Loyalty remained firmly tied to the KDP and the PUK, rendering the forces accountable to their party leaders rather than the minister. This lack of unity was painfully exposed in 1993 when clashes erupted between Peshmerga forces aligned with different parties, escalating into a low-intensity civil war that lasted until 1998. The conflict, known in Kurdish as the “Fratricidal War,” created a deep divide in Kurdish society that remains unresolved to this day.<sup>10</sup>

The peace agreement brokered by the U.S. and signed by the PUK and the KDP in Sep. 1998 ended the fighting among the Kurds but failed to reconcile the political parties. Both the KDP and the PUK established their governments and administrations in Erbil and Sulaymaniyah, respectively, and maintained separate security forces to guard their areas of control. Importantly, this division applied not only to the Peshmerga but also to the internal security apparatus in the Kurdistan Region of Iraq. Both the PUK and the KDP created their own specialized units for security, intelligence, gendarmerie, and counterterrorism, in addition to the Peshmerga forces.<sup>11</sup>

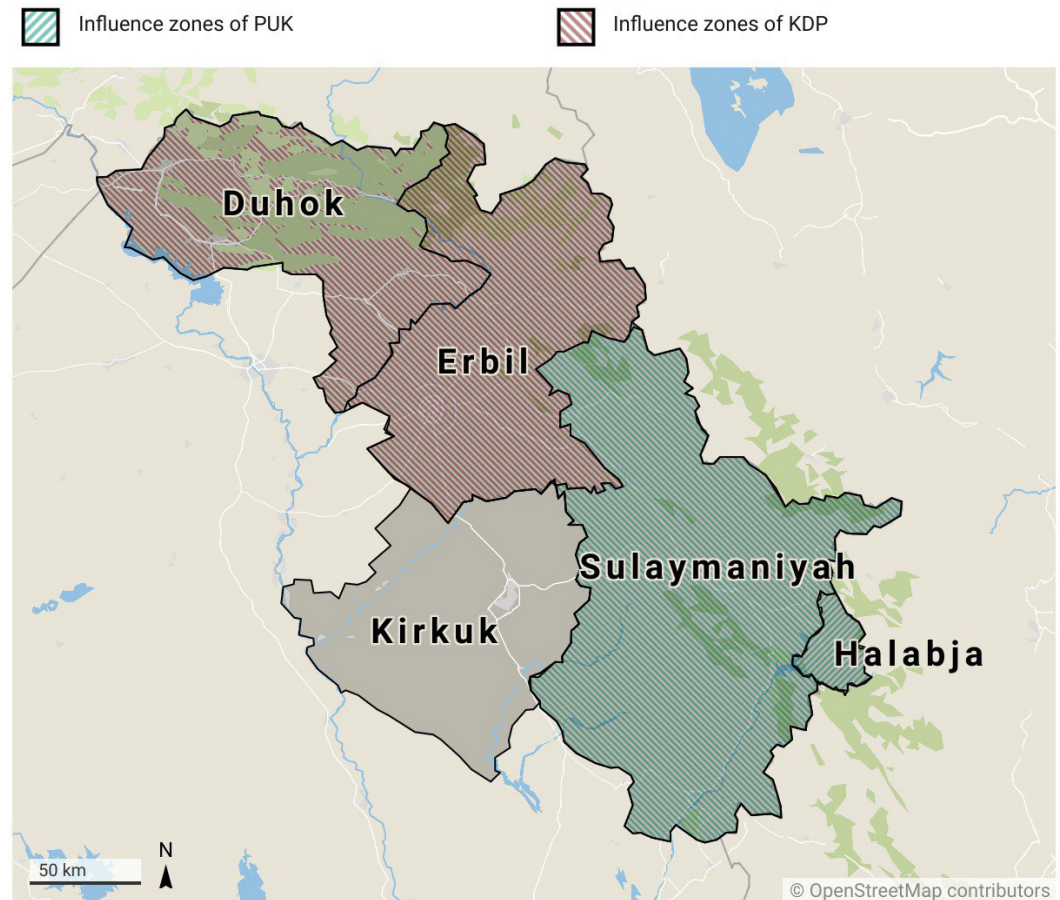
This dual political and security framework persisted until 2006, when the KDP and the PUK signed a unification agreement, recommitting to the integration and de-politicisation of the Peshmerga forces. However, a key factor that ensured the Peshmerga remained a hybrid security entity (essentially a party militia) rather than a unified force capable of mobilising against the central government in Baghdad was the entrenched mistrust between the various Kurdish political factions.

Following the 2006 agreement, substantial progress was made toward unifying the Peshmerga under a single command structure. A

landmark achievement came in 2009 with the reunification of the Peshmerga ministries of the KDP and PUK into the unified Ministry of Peshmerga Affairs of the Kurdistan Regional Government (KRG). In the following years, 14 integrated Peshmerga brigades were established under the ministry's command, comprising approximately 40,000 fighters. Notably, recruitment into these integrated brigades was no longer contingent upon party affiliation, marking a significant step toward the force's de-politicisation. However, the loss of disputed territories in Oct. 2017 has seemingly reversed much of this progress, as the integrated brigades were again reorganised along party lines.<sup>12</sup>

Despite the positive strides made in curbing the influence of party politics, these political affiliations continue to play a significant role in shaping the structure of the Peshmerga. The command hierarchy within the integrated brigades of the Ministry of Peshmerga Affairs remains largely aligned with party loyalties, with each brigade headed by a commander from one party and a deputy from the opposing party. Moreover, the majority of the Peshmerga forces remain outside the formal institutional framework of the Ministry. Approximately 100,000 Peshmerga fighters are organised outside the 14 integrated brigades, distributed across party-specific units such as the KDP's Unit 80 and the PUK's Unit 70. These units operate independently from the KRG's Ministry of Peshmerga Affairs, a legacy of the Kurdish uprising in 1991.

### Distribution of Influence and Power in the Kurdistan Region



Iraqi Kurdistan remains divided into distinct security zones: the (KDP) controls the yellow zone, while the (PUK) controls the green zone. Each of these zones is patrolled by party-affiliated Peshmerga units in addition to the Peshmerga forces of the Iraqi Ministry. Both the KDP and PUK have preserved their security, intelligence, and counterterrorism forces, which have become increasingly politicised over time.<sup>13</sup>

The Peshmerga's fragmentation extends beyond party lines, encompassing personal allegiances to influential members of the ruling Barzani and Talabani families. This entrenched loyalty underscores the Peshmerga's identity as a hybrid security force within the KRG, despite its formal designation as a state security apparatus. While its role as an anti-regime force has receded since the post-Saddam era, it remains a latent facet of its operational profile.<sup>14</sup>

**This intricate structure and ambiguous identity are mirrored in the Peshmerga's funding sources, which span both internal and external channels.**

### **Internal Funding Sources**

The primary domestic funding stream for the Peshmerga is the Iraqi federal government. Under Article (121) of the Iraqi Constitution, the Peshmerga is recognised as a regional security force and an integral part of the national defence system, albeit restricted to light and medium weaponry.<sup>15</sup> Consequently, the federal government is constitutionally mandated to finance the force. However, relations between Baghdad and Erbil are fraught with political and financial tensions, often leading to delays or denials of budget allocations. This fiscal inconsistency extends to the Peshmerga, with salaries for public employees in the KRG frequently becoming contentious during federal budget negotiations.

The second-largest funding source is the KRG's own budget, which covers approximately 60-70% of the Peshmerga's expenditures. Yet, the allocation varies annually, heavily influenced by the region's economic conditions. Factors such as global oil prices, regional trade dynamics, and the KRG's tax collection efficacy play pivotal roles. Competing demands on the budget, ranging from social programmes and infrastructure projects to civil service wages, further strain financial resources. These pressures can reduce Peshmerga funding, adversely impacting operational readiness and troop morale.

The KRG's financial stability hinges largely on revenues from independent oil exports. However, the proportion of these revenues allocated to the Peshmerga remains opaque and a point of contention with Baghdad. The KRG controls several oil fields, using some proceeds to sustain the Peshmerga. Yet, the federal government asserts that the KRG's oil exports violate Iraqi Law, complicating revenue flows. Two critical setbacks have significantly constrained this income stream. In 2017, the Peshmerga relinquished control of the disputed, oil-rich city of Kirkuk to federal forces, marking the first blow. The second came in Feb. 2022, when the Iraqi Federal Supreme Court deemed the KRG's oil and gas law unconstitutional. This ruling deterred foreign investment and curtailed oil exports, exacerbating the financial strain on the KRG. Consequently, long-term fiscal planning for the Peshmerga has become increasingly challenging, as oil revenues are inherently volatile and unpredictable.

The commercial activities undertaken by Peshmerga units represent another complex aspect of their funding structure. These ventures, from operating gas stations and restaurants to managing construction projects, generate largely undisclosed revenue. This lack of transparency complicates efforts to assess their contribution to the Peshmerga's overall budget. Moreover, these activities raise concerns about potential conflicts of interest and the diversion of resources from essential military duties.

### **External Sources**

The Peshmerga's most significant external funding source is international assistance, with the U.S. playing a pivotal role. Since 2014, Washington has provided hundreds of millions of dollars in military and financial support, including funding the salaries of over 30,000 Peshmerga personnel under the Counter-ISIS Train and Equip Fund (CTEF) programme. Although U.S. aid has fluctuated recently, it remains a crucial component of the Peshmerga's financial framework. Other nations, including Germany, the United Kingdom, and France,

have also contributed military and financial assistance, collectively accounting for an estimated 20-30% of the Peshmerga's funding.

The KRG has procured military equipment and weapons from countries such as the United States, Russia, and Turkey. While the exact value of these transactions is not publicly available, this source is generally smaller than international aid. Dependence on foreign-supplied weaponry presents challenges related to maintenance and self-sufficiency. Additionally, such purchases require approval from the Iraqi central government, adding another layer of complexity and potential bureaucratic hurdles.

The Peshmerga's reliance on diverse funding sources, especially foreign aid, raises significant questions about autonomy and operational independence. Multiple funding streams introduce layers of accountability and transparency concerns, particularly given the internal political divisions that fragment the Peshmerga into competing factions. These divisions often translate into resource competition, further complicating the financial and operational landscape. Ultimately, this intricate funding structure underscores the broader challenges facing the Peshmerga: balancing external dependencies, internal cohesion, and the quest for sustainable financial autonomy, all within a politically volatile environment.

### **Baghdad's Punitive Procedures**

The Kurdish secession attempt on Sep. 25, 2017, ended with a pivotal ruling by Iraq's Federal Supreme Court, which deemed the referendum unconstitutional and nullified all subsequent consequences. This legal stance was reinforced by coordinated military operations, forcing Kurdish administrative and military forces to withdraw from key disputed territories, including the oil-rich Kirkuk Governorate, Nineveh, Diyala, and Salah al-Din provinces. Alongside these measures, economic sanctions added further pressure, eventually leading both parties to negotiate a temporary framework for cooperation.<sup>16</sup>

Baghdad, now experiencing unprecedented strength since the fall of Saddam Hussein, has consolidated power through its robust military apparatus, including the Popular Mobilisation Forces (PMF), which can be reinforced with regional and international support. This enhanced military posture underscores the central government's readiness to confront Kurdish political and territorial ambitions.<sup>17</sup>

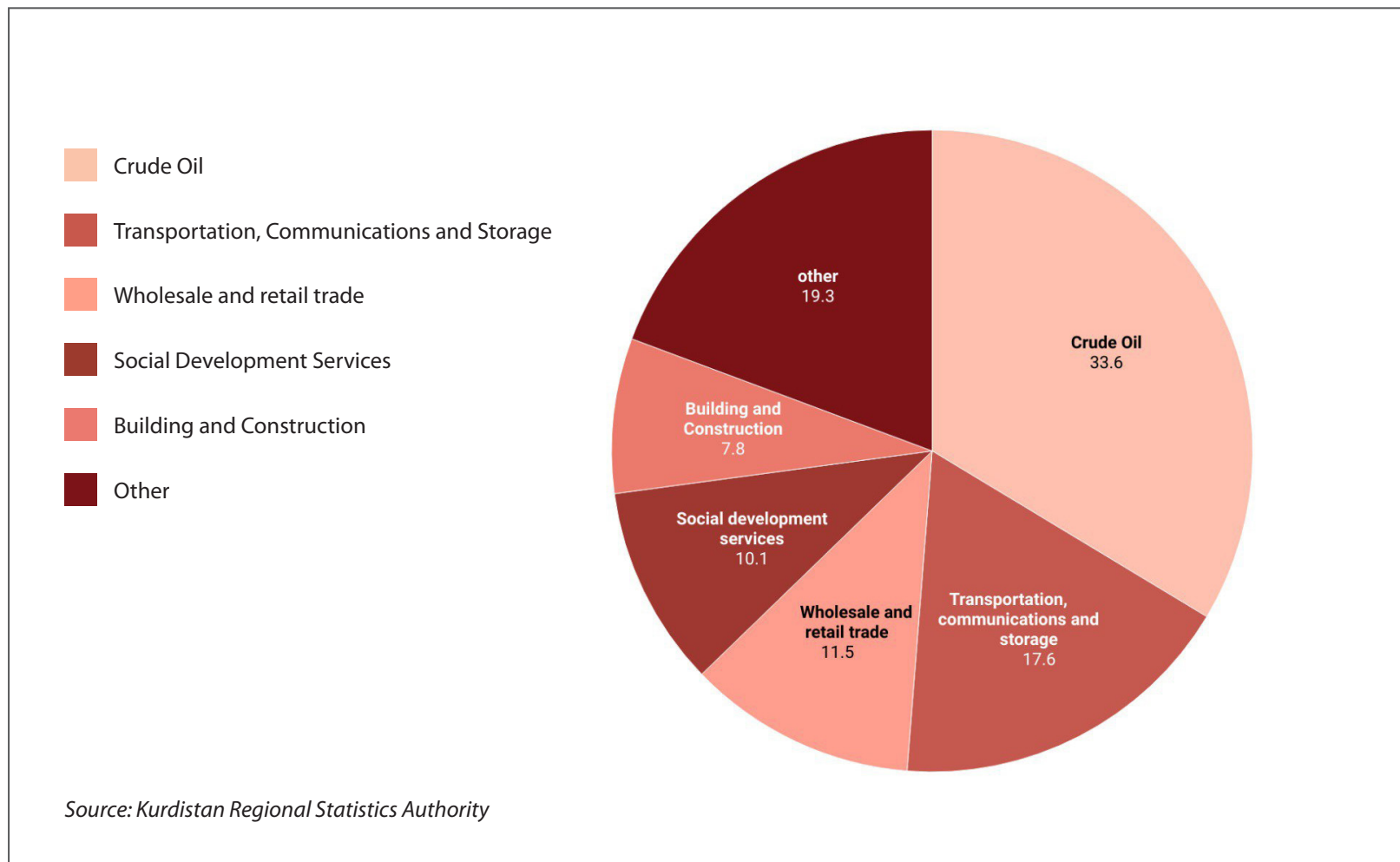
Under Prime Minister Mohammed Shia al-Sudani, supported by a coalition of Shiite parliamentary factions, Baghdad has leveraged Iraq's relative stability to reassert authority over the Kurdistan Region. Central to this effort is a series of Federal Supreme Court rulings, particularly the decision invalidating the KRG's independent oil exports, an economic lifeline for the region. The March 2023 international arbitration ruling in Baghdad's favour halted Kurdish oil exports through Turkey, a vital conduit for nearly a decade.<sup>18</sup> Furthermore, a Feb. 2023 court decision mandated the central government to directly pay public employees in the Kurdistan Region, addressing persistent delays by the KRG. These combined actions reflect a calculated strategy to tighten Baghdad's economic grip, recalibrate its relationship with the Kurdistan Region, and neutralise challenges to its authority.<sup>19</sup>

## **Second: The Economic Conditions of the Region**

### **The Role of Oil in the Kurdistan Region's Economy**

Oil constitutes the most significant contributor to the economy in Iraq overall, and the Kurdistan Region is no exception. In 2018, oil accounted for 33.6% of the region's GDP, according to the latest data released in 2022. This dominance is only comparable to the transportation, communications, and storage sectors, which contributed approximately 17.6%. This data underscores oil's pivotal role as the primary driver of the regional economy,<sup>20</sup> as illustrated in the following figure:

### Contribution of Different Sectors to the GDP of the Kurdistan Region



This stems from the substantial volume of oil produced by the region. During the first quarter of 2023, production reached 32.3 million barrels, most of which were exported, generating approximately \$17.2 billion

at an average price of \$6.7 per barrel.<sup>21</sup> The following table presents the production rates and revenue from Kurdish oil exports every quarter for the period from 2018 to 2022:

### Total Kurdish Oil Lines via Turkish Oil Lines (In Billion USD)

	Q1	Q2	Q3	Q4	Total
2018	1.6	1.8	2.2	2.14	7.74
2019	2.03	2.29	1.99	2.11	8.42
2020	1.3	0.59	1.24	1.27	4.4
2021	1.8	2.2	2.4	2.5	8.9
2022	3.06	3.7	3.1	2.4	12.26
2023	2.1				

The table demonstrates that the region earned approximately \$44 billion from oil sales over the five years indicated, with an average daily production of 320,000 barrels per day. This was achieved without coordination with the Federal Government through Turkey via an oil pipeline linking Kirkuk to the port of Ceyhan on the Mediterranean. However, this flow ceased after the International Chamber of Commerce in Paris ruled it illegal in March 2023.<sup>22</sup> As a result, the largest direct source of Kurdish revenues was interrupted, and the regional government was forced to rely on federal government transfers, leading us to the next point.

### Regional Revenues and Expenditures

The Kurdistan Regional Government has ceased announcing its general budget since the fiscal year 2013 without providing any official explanation. The latest available budgets indicate revenues of approximately 2.15 trillion Iraqi dinars (\$6.1 billion at current 2024 prices), of which 4.1 trillion dinars are allocated as the region's

share of the federal budget, with an additional 1.7 billion dinars from local revenues.<sup>23</sup> The remainder of the amount is derived from other expenses. As such, the central government's transfers to the region have been the primary source of revenue, which, until recently, flowed in reverse, meaning the region would first deduct its dues from oil and gas sales before transferring the remaining amount to the central government. This transfer occurred through one of two mechanisms:

- **Direct Transfers to SOMO (the State Oil Marketing Organisation):** SOMO is the primary Iraqi entity responsible for selling and marketing oil. Under this mechanism, the regional government would remit the proceeds from oil sales to SOMO after deducting certain costs, including production, marketing, transportation expenses, and payments to foreign partners.
- **Transfers through Escrow Accounts:** Escrow accounts are financial arrangements in which a neutral third party holds assets, funds, or property on behalf of both parties involved. The escrow agent is

responsible for managing the account and releasing the assets only when the conditions stipulated in the agreement are met. In this context, the intermediary would hold the Iraqi government's funds until the two parties reached an agreement on their release, which would only occur once the region had secured its entitlements from the central government.

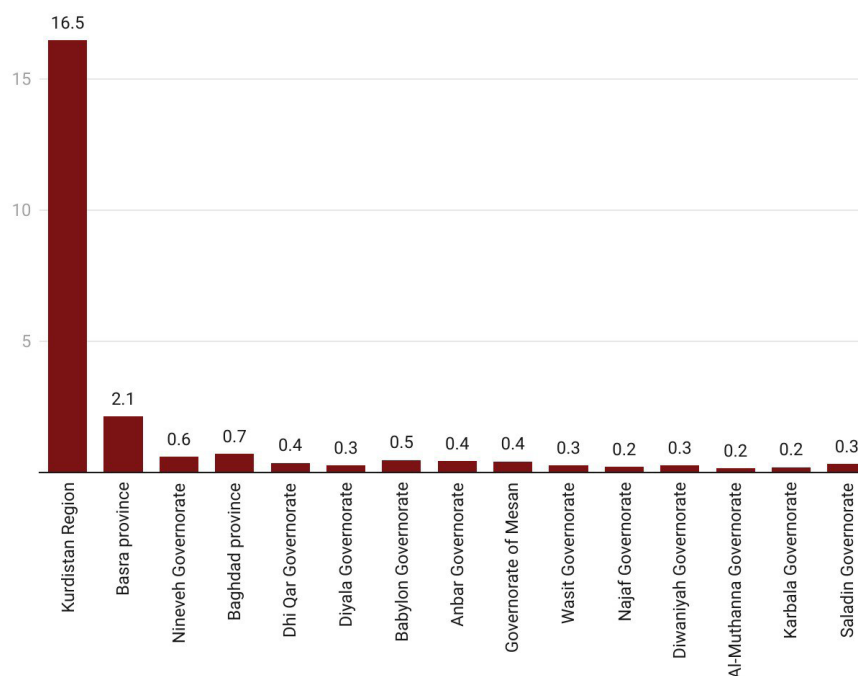
The mechanisms of oil revenue transfer have positioned the Kurdistan Region as a dominant player in controlling exported oil revenues. This dynamic has given the region a powerful leverage tool over the Federal Government, granting it significant financial autonomy and an advantageous position within the federal budget framework. By managing both its revenues and a share of the federal government's revenues, the Kurdistan Region secures a disproportionately large allocation of Iraq's general budget compared to other federal entities, including critical national security agencies such as the Ministry of Defence.

This imbalance is starkly evident in Iraq's 2023 federal budget.<sup>24</sup> Total revenues were recorded at 134.5 trillion Iraqi dinars (approximately \$102.8 billion at 2024 current prices), while expenditures reached 198.9 trillion dinars. The Kurdistan Region was allocated 16.5 trillion dinars, accounting for around 12% of total revenues and 8% of overall expenditures. These figures underscore the substantial financial resources allocated to the Kurdistan Region, particularly when contrasted with the allocations to other Iraqi governorates.

Such a budgetary arrangement reflects the Kurdistan Region's unique status within Iraq's federal structure and raises questions about equitable resource distribution and the broader implications for federal cohesion and governance. The preferential allocation highlights a critical area of fiscal policy and intergovernmental relations that warrants deeper scrutiny to ensure a balanced and sustainable federal framework, as the following figure shows:

### Allocations of Iraqi Governorates in the FY 2023

In Trillion Iraqi Dinars



The figure shows that the region’s allocations amount to 238% of the total remaining allocations of all other governorates, even though the region includes only three governorates. The region’s allocations even exceed those of the Ministry of Interior, which amounts to 8.1 trillion dinars, and the Ministry of Defence, which amounts to 7.9 trillion dinars. The region does not surpass any other entity in the budget, except for the Ministry of Finance, which is allocated 2.4 trillion dinars, of which 12 trillion are designated for repaying loans and interest.

When examining the distribution of the region’s expenditures as outlined in the Iraqi federal general budget, it is evident that the majority, exceeding 4.1 trillion dinars, are operating (current) expenses, most of which are dedicated to the salaries of the region’s employees. Furthermore, 400 billion Iraqi dinars are allocated for debt repayment, while only 6.2 trillion dinars are set aside for capital expenditures

(investments). This strong emphasis on consumer spending can be attributed to the large number of employees in the region, the country’s third largest employer of government workers, with about 658,000 employees. This figure surpasses the Ministry of Defence, which employs 453,000 individuals, and the Ministry of Health, which employs 488,000. The region’s employee base is exceeded only by the Ministries of Education (with approximately 964,000 employees) and Interior (with 701,000 employees), which results in significant financial obligations to cover salaries.

It should also be noted that what raises the cost of these employees is their job grades, as most of them are concentrated in the higher financial grades in a manner that does not align with the government distribution in other sectors. This discrepancy is illustrated in the following table:

**Allocations of Iraqi Governorates in the FY 2023**

Authority	Operating Expenses (Trillion Iraqi Dinars)	Indebtedness	Total Special Programmes	Total Capital Expenditure	Number of Degrees (in Thousands)	Average Share of Operating Expenses per Degree (Million Iraqi Dinars/Year)
Ministry of Interior	12.9	0.0	0.0	0.9	701.4	18.4
Ministry of Defence	7.8	0.0	0.0	1.9	453.9	17.2
Popular Mobilisation Authority	3.5	0.0	0.0	0.2	238.0	14.7
Kurdistan Region	13.4	0.0	0.0	0.2	658.1	20.4



It is clear from the table that the region's jobs alone represent approximately 19% of the total government workforce, with a significant concentration in the higher ranks, specifically between grade A and the third grade. Employees in the highest-grade A alone account for 75% of the total number of employees in the country, excluding the region. This concentration of employees in the top ranks is expected to incur the highest costs, though it is difficult to calculate the actual figures. The Ministry of Finance, as previously mentioned, is the only entity with higher costs. This leads us to the next point, the relationship of the Peshmerga to this distribution.

### Decisive Factor: Peshmerga Salaries

Estimates of the number of Peshmerga forces vary sharply between 130,000.00 and 180,000.00. However, it is agreed that the Peshmerga

is divided into two corps, each semi-independently operated by one of the two main parties: the (KDP) and the (PUK). As previously mentioned, these forces compete for power in the region, particularly in the 70th and 80th units. They are nominally unified under the Ministry of Peshmerga Affairs.<sup>25</sup> This division prompted both parties to rapidly recruit as many soldiers as possible, especially during the period of ISIS expansion. However, this competition has also led to a deterioration of combat readiness, particularly after the events of October 16, when federal forces took control of Kirkuk, causing Kurdish forces to retreat without significant resistance.<sup>26</sup>

Additionally, the region is home to other regular and semi-regular forces, with the total number of forces, including the Peshmerga, estimated to be about 300,000.00.<sup>27</sup> The distribution of these forces is detailed in the following table:

**Estimation of Basic Forces in the Kurdistan Region**

Force	Estimation in Thousands	Party
Regional Guard Brigades	43:40	PUK
Kosrat Rasul Forces	2:3	PUK
Counter Terrorism Force	5	PUK
Main Peshmerga Brigades	-	PUK
Unit 70	60	PUK
Emergency Forces	3	PUK
ASAYISH Force	-	PUK
Presidential Guard (Iraqi Kurdistan)	-	-
Unit 80	70:90	KDP
Zeravani Force	51:120	KDP
Uzbekistan Protection Force	7:8	The Yazidi Democratic Party, as a part of the Ministry of Peshmerga
Nineveh Plain Guard Force or "Christian Peshmerga"	1.5	Chaldean Syriac Assyrian Popular Council
ASAYISH Force	-	KDP

According to previous estimates, more than 50% of the regional ranks are allocated to these large numbers of fighters, whose salaries are covered by the region's budget, which is primarily dependent on oil transfers. Consequently, oil serves as the primary source for sustaining these military organisations and ensuring the continuation of their regular operations. This places a significant burden on the region's

budget, especially in terms of operational expenses, as previously mentioned. A simple comparison between the region's budget and those of the Ministries of Interior and Defence, along with the Popular Mobilisation Authority, as well as the job grades in each of these entities, highlights the cost of salaries for these forces, as illustrated in the following table:

**Comparison between Operating Expenses and the Number of Professions in the Budgets of Some Iraqi Entities**

Authority	Operating Expenses (Trillion Iraqi Dinars)	Indebtedness	Total Special Programmes	Total Capital Expenditure	Number of Degrees (in Thousands)	Average Share of Operating Expenses per Degree (Million Iraqi Dinars/Year)
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### **Comparison between Operating Expenses and the Number of Professions in the Budgets of Some Iraqi Entities**

The table shows that the average cost of financing one level of total operating expenses in the Kurdistan Region is higher than in comparable budget agencies, despite the fact that the number of jobs in the Region exceeds that in comparable agencies. This is due to the Region's dominant position in terms of transfers and its ability to deduct its expenses from them before transferring the remainder to the federal government. However, this situation is beginning to change with the recent ruling by the Iraqi Supreme Court regarding Kurdish oil sales and the confirmation it received from international arbitration concerning its transfer to Turkey, which brings us to the next point.

### **The Peshmerga Between Function and Issue**

The ruling of the Federal Supreme Court altered the leverage held by the KRG, turning it into tools in the hands of the Iraqi government through two consecutive rulings. The first came in Feb. 2022 regarding the constitutionality of the Kurdistan Region's Oil and Gas Law of 2007, which allowed the KRG to manage and export oil independently. The court concluded that the law was unconstitutional, affirming that oil and gas resources belong to all of Iraq, not just the Kurdistan Region. This means that all oil contracts and operations within the Kurdistan Region will fall under the Federal Government's sole authority, significantly reducing the KRG's independence over its oil sector and delivering a major blow to its ability to generate independent revenues.

The KRG had not yet recovered from this judicial blow when the court delivered another ruling in Feb. 2023 regarding the legitimacy of financial transfers from the federal government to the Kurdistan Regional Government. The court deemed these transfers illegal, concluding that they violated the Iraqi Constitution and financial regulations. The old mechanism, where the federal government would transfer funds to the regional government, which then paid salaries to

its employees, was ruled unconstitutional. The court determined that transfers should be made directly between the federal government and the employees of the region without the mediation of the regional government. This decision exacerbated the financial problems of the Kurdistan Regional Government, leaving it without influence over most of its employees, particularly the Peshmerga and similar forces.

The circle was completed when the Iraqi government won a case it filed against Turkish authorities for facilitating the export of Kurdish oil through its territory without Baghdad's approval. The Paris-based tribunal concluded that Turkey had violated the 1973 agreement between the two countries by allowing the independent export of Kurdish oil via a pipeline to Ceyhan. Turkish authorities were fined one billion Dollars.

The three rulings collectively had catastrophic immediate and future effects on the Kurdistan Regional Government, ultimately preventing it from achieving the independence it sought and nearly attained in 2017. The most significant of these effects are as follows:

- **Loss of Autonomy for the Kurdistan Regional Government:** The rulings of the federal court have significantly undermined the independence of the Kurdistan Regional Government concerning its oil resources and revenues. The regional government is now forced to hand over all oil produced in the region to the federal government for marketing and export.
- **Financial Pressures on the Kurdistan Regional Government:** The regional government is facing severe financial pressures due to the loss of control over oil exports and the loss of control over-budget transfers from Baghdad. This has impacted its ability to pay public sector salaries and fund essential services.
- **Weakening of the Kurdistan Regional Government's Situation in the Face of the Iraqi Government:** The Peshmerga forces and the

security forces, which have been built over the past 50 years primarily to confront the Baghdad government, strengthening the regional government's situation and enhancing its independence, are now under the authority of the central government due to the salary payment agreement, which now comes directly from the central government without the intervention of the regional government. This puts the Peshmerga forces in a difficult situation should a dispute arise between the two governments, a dispute summarised as whether to side with the function that finances expenditure or the issue of independence.

Perhaps the events of the Mahabad State, which ended due to the refusal of the ancestors of the current Peshmerga forces to fight and their withdrawal when the Soviet Union stopped its financial support for Qazi Muhammad's state, leaving their positions in the capital, leading to the collapse of the first and only Kurdish state, offer a future answer to the question at hand. Or perhaps the Kurds have learned a costly lesson from Mahabad, for history does not offer a state daily. The days will confirm the choices of the Peshmerga and their alignment, whether smaller between Kurdistan and Baghdad or larger between Iraq and Iran.

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