

Kurdistan Agrees to Baghdad's Tentative Plan to Swap Oil for Budget Relief; Central Iraqi government would pay Kurds' municipal employees under proposal

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Abstract

BAGHDAD--Iraq's Kurdistan Regional Government provisionally agreed to funnel all of its oil production through the central government in exchange for Baghdad's paying the salaries of the Kurds' municipal employees.

Full Text

BAGHDAD--Iraq's Kurdistan Regional Government provisionally agreed to funnel all of its oil production through the central government in exchange for Baghdad's paying the salaries of the Kurds' municipal employees.

Under the agreement, the semiautonomous region in northern Iraq would sell its oil through the state-owned Oil Marketing Co., Kurdish officials said on Wednesday.

Although officials from both sides said the agreement is yet to be formalized, the move marks a sharp change in Kurdish policy in an acrimonious battle with Baghdad over control of the area's oil revenues.

The Kurds also cast doubt on the ability of cash-strapped Baghdad to honor the proposal, which was floated by Iraqi Prime Minister Haider al-Abadi earlier in the week.

An increasingly costly fight against Islamic State, coupled with low oil prices, has left both Baghdad and the Kurdish government facing financial crises. Iraq's government is budgeting for a deficit of more than \$20 billion this fiscal year.

Kurdistan itself has struggled to pay public employees their full salaries over the past year, leading to protests and worker strikes in the northern region, which was previously known for relative prosperity and stability.

Kurdistan on Wednesday said it employs 1.4 million people whose salaries amount to about \$886 million monthly. It said about \$304 million of that total is allocated to Peshmerga forces, the Kurdish fighters who have led important campaigns against Islamic State.

For the Kurdistan governments, the payments to the Peshmerga are critical because of rising concerns about attrition and poor morale just before a planned offensive to retake the city of Mosul, which Islamic State has declared as its Iraqi capital.

Faced with a brewing fiscal crisis that was sparked in large part by the Islamic State insurgency that took over nearly a third of the country in 2014, Kurdistan began ramping up oil sales through the Turkish port at Ceyhan. That angered Baghdad, which considers the crude sales illegal and deprives the central government of revenues from about 15% of daily oil production.

A prior deal between the central government and Kurdistan that would have formalized oil production and profit-sharing collapsed last year .

But a spokesman for Mr. Abadi tried to allay concerns over Baghdad's fiscal fitness. "The Iraqi government has managed to cover the salaries of employees in the rest of the country despite the decline in oil prices," said the spokesman, Saad Al Hadithi. "The government will do the same with Kurdistan employees."

Ghassan Adnan and Safa Majeed contributed to this article.

Corrections & Amplifications: An earlier version of this article incorrectly said Kurdistan employs 1.4 million people whose salaries amount to about \$88.6 million monthly, and about \$30.4 million of that total is allocated to Peshmerga forces. Those salary figures should have been \$886 million and \$304 million respectively. (Feb. 18, 2016)

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