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Iraqi-iranian Relations Under U.S. Energy Influence

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Abstract: The Iraqi government faces increasing pressure from political forces and opposing factions as it attempts to strike a delicate balance between its relations with Washington and Tehran. This has made Iraqi politics—despite the diversity of factions and divisions—a strategic battleground for regional interests. These complex dynamics have contributed to a state of political and economic confusion within Iraq. Iraq heavily relies on importing Iranian gas to operate power plants, especially in central and southern regions, where Iranian gas imports cover approximately 40% of the country's energy needs. With the U.S. President signing a presidential memorandum in February 2025 aimed at reducing Iranian oil and gas exports to zero, Iraq faces the threat of an electricity sector collapse, especially with the summer season approaching and the increasing demand for energy.

Keywords: Iraq, U.S. sanctions, Iranian energy, energy security, geopolitical realism, economic diversification, regional cooperation

1. Introduction

Economic sanctions serve as one of the primary tools of coercive diplomacy, through which the United States aims to change the behavior of targeted states by exerting economic pressure instead of resorting to armed conflict. During the Trump administration, U.S. foreign policy saw an extensive use of sanctions as a means to achieve political and strategic objectives, with direct and indirect effects on different countries.

Sanctions have escalated to the point of threatening Iraq's energy security by restricting the import of electricity from neighboring Iran. Given that energy is a key driver of geopolitical conflict in the Middle East, where international interests intersect with regional alliances, this conflict inevitably affects Iraq's political landscape. This study seeks to answer the following question: *How do U.S. energy sanctions impact Iraqi-Iranian cooperation?*

The objective is to analyze the impact of U.S. sanctions on Iraq's electricity sector in 2025, evaluate available alternatives to compensate for the energy shortage, and provide recommendations for policymakers to enhance Iraq's energy security.

Trump's decision to revoke the exemption for importing electricity and gas from Iran poses a significant challenge to Iraq's economy, given its heavy reliance on Iranian energy. However, this crisis also presents an opportunity to strengthen Iraq's energy security by diversifying energy sources and investing in renewable energy. Achieving this goal requires international cooperation and local efforts to stabilize the electricity sector, which is the backbone of various other industries.

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Literature Review

Theoretical Framework

The study analyzes interactions through the lens of geopolitical realism, which focuses on the struggle of international powers to control strategic resources [1]. It also uses the concept of energy hegemony, which refers to the use of energy as a tool to impose political and economic influence[2]. Additionally, the theory of mutual dependence highlights how U.S. sanctions force Iraq to balance its alliances with Iran and Washington[3].

1. Concept of Coercive Diplomacy :

Coercive diplomacy involves the use of pressure tools (such as threats and sanctions) to change the behavior of a specific state without resorting to direct war[4]. It is a strategy that combines direct or indirect threats (military, economic, political) and negotiations to force a state or entity to change its behavior without entering into open war. It relies on two main elements:

- **Calculated Threat:** Such as deploying military forces near the borders of the targeted state, as happened during the Cuban Missile Crisis when the United States threatened invasion if the Soviet Union did not withdraw its missiles from Cuba. Similarly, the U.S. supported the Zionist entity in its war against Gaza and Lebanon by deploying naval vessels [5].
- **Gradual Escalation:** Starting with simple steps like economic sanctions, then increasing pressure based on the response of the other party, such as the gradual U.S. sanctions on Iran since 2018 until the present.

Key tools of coercive diplomacy include:

- **Economic Sanctions:** Measures imposed by a state or group of states to restrict the economic activity of a specific state to achieve political or security objectives.
- **Trade Blockade or Diplomatic Isolation:** As seen in the case of Syria before the fall of the Assad regime.
- **Implicit Threat through Political Messages or Military Maneuvers:** As is currently happening with Iran in 2025.

2. Concept of Energy Crisis :

An energy crisis is characterized by a disruption in energy supply, leading to shortages, rising prices, and negative impacts on economic growth [6]. Examples include:

- **Oil Crisis 1973 :** Used by Arab states as punishment for Western support of Israel, leading to a 400% increase in prices.
- **Russian-European Gas Crisis:** Russia restricted gas exports to exert political pressure on the European Union during the Ukrainian crisis[5].
- **Iranian Energy Crisis due to U.S. Sanctions:** Aimed at pressuring Iran to reorganize its nuclear program and reduce support for allied factions in the Middle East.

3. Historical Background

After the 2003 invasion of Iraq, the United States dismantled Iraqi state institutions, including the oil sector, favoring American companies like ExxonMobil and Chevron, which controlled 60% of Iraqi oil contracts by 2010 [4]. In contrast, Iran strengthened its influence by supporting Iraqi political and military factions such as the Popular Mobilization Forces and building alliances with pro-Iranian political parties, like the State of Law Coalition led by Nouri al-Maliki [7].

The crisis of importing Iranian gas (2020-2023) began when U.S. sanctions forced Iraq to pay Iran in Iraqi dinars instead of dollars, leading to accumulated debts of \$11 billion [8]. Iran responded by repeatedly cutting off supplies, exacerbating Iraq's electricity crisis, with supply hours in Baghdad dropping to 8 hours per day [9].

U.S. sanctions have become a key strategic tool in U.S. foreign policy against Iran, particularly targeting the energy sector to undermine Iran's economy by crippling its oil, gas, and electricity exports and restricting its ability to fund its nuclear programs. Consequently, Iran has sought alternative ways to compensate for economic losses caused by international isolation, including resorting to informal and indirect channels such as fuel smuggling networks, which are methods to evade U.S. restrictions [10].

Additionally, U.S. policies aimed at undermining the Iranian regime through increased economic and military pressure have created a division within Iraqi society. Some factions see cooperation with Iran as a source of political and economic stability, while others believe that continued cooperation could expose Iraq to further international isolation and direct U.S. Intervention.

2. Materials and Methods

The methodology of this study employs a qualitative research approach to examine the impact of U.S. sanctions on Iraqi-Iranian energy relations and their broader geopolitical implications. The research is grounded in geopolitical realism, which frames the analysis of energy as a strategic tool used by global powers to exert influence. The study relies on secondary data sources, including government reports, policy documents, academic literature, and industry analyses from credible institutions such as the U.S. Energy Information Administration (EIA), the International Monetary Fund (IMF), and regional studies from Al-Monitor and the Institute of Regional and International Studies (IRIS). A thematic analysis is conducted to identify patterns in the implementation and consequences of U.S. energy sanctions, with a focus on Iraq's dependency on Iranian gas and the resulting economic and political challenges. Additionally, historical data on past sanctions and their effects on energy security are examined to draw parallels and assess potential future scenarios. To strengthen the analysis, expert opinions and policy recommendations from global think tanks are integrated to explore alternative strategies for Iraq to mitigate its energy vulnerabilities. Comparative analysis is applied to evaluate alternative energy partnerships, including potential cooperation with Gulf states, China, and Russia. The study ensures credibility by cross-referencing multiple sources and triangulating data to provide a comprehensive understanding of the complexities surrounding Iraqi-Iranian energy relations under U.S. influence. This approach enables an in-depth exploration of both short-term disruptions and long-term opportunities for Iraq's energy security and geopolitical positioning.

3. Results

3.1 Factors Influencing Bilateral Relations

A. Economic-Energy Factors:

Iraq relies on importing Iranian gas to meet 40% of its electricity needs, despite U.S. sanctions that prevent transferring funds to Iran. In 2022, Iraq's debt to Iran reached \$11 billion, leading Iran to suspend supplies five times in one year [10].

The two countries also compete over oil reserves in border fields such as Majnoon and Azadegan, with Iran accused of illegal horizontal drilling in Iraqi fields, causing estimated annual losses of \$2 billion [10].

B. The U.S. Factor

U.S. administrations have followed varying policies:

- Trump's "Maximum Pressure" Sanctions on Iran in 2018: These sanctions hindered projects like the Iraq-Iran gas pipeline, which was expected to generate 1.5 gigawatts of electricity [11].

- Biden Administration's Attempt to Ease Tensions: By granting Iraq temporary exemptions to import Iranian gas, but maintaining sanctions, which restricted Chinese investments in the South Rumaila field [12].

C. Political Factors:

- Regional Alliances: Such as the Axis of Resistance versus the U.S.-Gulf alliance.
- Shared Security Issues: such as the war against ISIS.
- Iraqi Diplomatic Balancing Act: The Iraqi government, led by Prime Minister Mohammed Shia' Al-Sudani, is attempting to balance U.S. pressures and Iranian interests. In 2024, an agreement was signed to withdraw U.S. troops by 2026, while maintaining an advisory presence in Kurdistan.

3.2 Challenges and Opportunities

A. Challenges:

- Iraq's Energy Dependence: Iraq's reliance on Iran exposes its national security to risks, as U.S. sanctions threaten to cut off supplies [9].
- Weakened Infrastructure Investment: U.S. sanctions have weakened Iraq's ability to invest in its oil infrastructure, leading to an 8% decline in production between 2020 and 2023 [13].
- Energy Shortages: These sanctions have caused electricity shortages, disrupting industrial, agricultural, and commercial operations, reducing production, and increasing the risk of inflation. Additionally, energy shortages hinder the provision of medical and educational services.

B. Opportunities:

The search for energy alternatives and diversification of income sources have become strategic priorities in Iraq's economic policies. This can be achieved through various strategies, including cooperation with friendly countries, investment in modern energy technologies, and enhancing financial transparency to combat informal economic activities. Opportunities that Iraq should not overlook include [7]:

- Investment in Renewable Energy: This can achieve sustainability and reduce environmental pollution. Iraq can utilize its natural resources, such as solar and wind energy, to generate electricity sustainably and enhance energy security while preserving income sources lost through energy imports.
- Energy Cooperation: Iraq can strengthen cooperation with Gulf states through the "Development Corridor" project, which aims to link Iraqi gas networks with Gulf countries.
- Russian-Chinese Role: Russian and Chinese companies may provide an alternative to Western dominance, such as the \$3 billion "Southern Gas" agreement between Russia and Iraq. Additionally, China signed an "Oil for Investment" agreement with Iraq in 2021, which includes developing southern oil fields with investments of up to \$10 billion. China also supported the construction of the Grand Faw Port, which could become a major outlet for Iranian oil exports under Iraqi cover, raising U.S. concerns about growing Chinese-Iranian influence.
- Improving Energy Efficiency: Through awareness programs to rationalize electricity consumption and enhance energy efficiency in homes and institutions.

4. Discussion

4.1 Potential Scenarios

A. 2025 Elections and Political Transformation:

Iraq is set to hold parliamentary elections in 2025, which may redraw alliances. It is expected that moderate forces, represented by the Shiite National Current, will attempt to reduce Iranian and U.S. influence and mitigate external conflicts that affect Iraq's regional

standing. They aim to work within political and economic balances, while the Coordination Framework seeks to maintain its gains and allegiance to other countries.

As usual, Muqtada al-Sadr seeks to form a "national majority" government away from traditional sectarian quotas, emphasizing the fight against corruption and the exclusion of corrupt individuals from the government. He considers this the key to reforming the state, particularly the administrative and judicial systems, to ensure justice and hold accountable those responsible for corruption, if it is in their interest to do so, or to apply transitional or restorative justice in exchange for returning what they stole and repairing what they destroyed.

He proposed a vision based on moving away from the policy of axes, emphasizing that Iraq should be a sovereign state independent in its decisions. He also called for balanced relations with both the United States and Iran, ensuring that Iraq is not subordinate to either. He expressed openness to cooperation with Gulf Arab states and Europe to enhance the economy and investment.

B. Regional Energy Integration:

Focusing on economic diversification and not relying entirely on oil, as well as diversifying energy sources and optimally utilizing resources through foreign investment and attracting foreign companies, whether from neighboring countries or elsewhere.

Encouraging investment in non-oil sectors, such as industry, agriculture, tourism, and services, to provide job opportunities, reduce unemployment, and increase local production.

If the Shiite National Current, as stated in their leader's statement, emphasizes the importance of supporting the poor and providing basic services such as electricity, water, education, and health, and revitalizing various economic sectors.

Iraq could become a bridge for energy cooperation between neighboring countries, Iran, the Gulf, Turkey, and Europe, especially with the "Nabucco" gas pipeline project, which is supported by the United States to enhance Iraq's independence, if the United States is sincere in supporting Iraq's economy and foreign policy.

C. Security Risks:

Security threats, such as the terrorist organization ISIS, still pose a challenge, especially as they become active during the timing of U.S. troop withdrawals. This is an implicit indication of who finances this organization and who supports instability in Iraq and the Middle East. Based on the activity of such organizations, Iran will redeploy its allied factions in Iraq to fill the void under the pretext of national security, increasing instability.

5. Conclusion

Conclude U.S. influence In the energy sector has proven to be a decisive factor in undermining Iraqi-Iranian cooperation, especially through sanctions targeting Iran. However, Iraq remains a battleground between international powers (the United States, China, Russia) and regional powers (Iran, Gulf states). To achieve stability, Iraq needs a balanced foreign policy that prioritizes its national interests over ideological alliances.

Recommendations:

- a. Restructuring Security and Political Relations in Iraq: This requires reconsidering U.S. foreign policies, which seem to adopt a contradictory approach between the desire to pressure Iran and the need to support Iraq's stability as a pivotal state in the region.
- b. Building an International System: International actors should work towards building a system that enhances state sovereignty and reduces reliance on sanctions as a tool for political pressure, which may contribute to easing regional conflicts and achieving greater stability in the Middle East.

- c. Diversifying Energy Partners: Such as Gulf states and Turkey, as well as encouraging the establishment of home solar power stations and providing banking facilities and loans to citizens.
- d. Activating Agreements with European Companies: For foreign investment In the energy sector.
- e. Developing Natural Gas Infrastructure: To reduce imports

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