FOR SAUDI ARABIA, AN ELECTRIC OPPORTUNITY IN IRAQ. BY EVAN LANENHAHN

Last month, protests broke out in Basra after the Iranian government cut one-third of the total electricityused by Iraq's second-largest city. Demonstrations against power shortages and other longstanding grievances such as unemployment quickly spread throughout Iraq's Shia-majority south, leading Prime Minister Haider al-Abadi to dismiss his minister of electricity. Iran, a major provider of Iraq's electricity in the wake of the war against the Islamic State group (ISIL), variously blamed its neighbor's nonpayment of electricity bills, spiraling electricity demand and demonstrations at home, and U.S. sanctions for the shortfall. Some Iraqi politicians have countered that Iran deliberately cut electricity to weaken Abadi, a U.S. ally, and strengthen its hand in forming a new, more Iran-friendly government. One Iraqi official decried Tehran's decision as "political blackmail."

With Iran unable or unwilling to restore most of the power, Iraq has engaged Saudi Arabia and Kuwait in the hope that one or both might help alleviate the crisis. A flurry of proposals and denials has followed on all sides, with some suggesting that Iran is deliberately pressuring Iraq to reject Gulf Cooperation Council (GCC) assistance. Certainly, the Iraqi government has appeared to be ultra-sensitive to Iran's concerns on the matter. When Bloomberg reported on July 29 that Iraq had arranged for Saudi Arabia to supply it with electricity at one-quarter of the price charged by Iran, an Iraqi government spokespersonrushed to deny the deal on Iranian state television.

Economic domination is one of Iran's key levers of influence in Iraq and is underpinned, in part, by leverage over its neighbor's power supplies. The Islamic Republic understands that its influence over Iraq's power sector is a major geopolitical coup and that any changes would have implications for its control over Baghdad as well as regional power dynamics. In the short term, Saudi Arabia and Kuwait may only be able to offer Iraq Band-Aid fixes such as fuel or portable generators. However, in the medium to long term, the two countries together have the resources to provide Iraq with the electricity it requires, diminishing Iranian control over Iraq's economy, depriving Iran of hard currency, and bolstering political stability through economic development. Success in Iraq will give Saudi Arabia and Kuwait a new way of using economic power to bring about favorable geopolitical outcomes. For these countries, Iran's military strength in Iraq is unassailable. Its economic control, however, can be challenged.

Iran's Economic Influence

Iranian influence in Iraq relies mainly on armed proxies and economic domination. Its success cultivating highly capable and loyal sectarian militias is unparalleled. But Tehran's stranglehold on Baghdad's economy is equally impressive. Each year, Iran sends between 18 and 20 percent of its non-oil exports, valued at between \$5 and \$6 billion, to its western neighbor. As successive sanctions regimes have squeezed Iran, Iraq has become a crutch by which it keeps its economy afloat. Iranian goods and services have monopolized key sectors, crushing Iraqi agriculture and industry. Iran has also traditionally used its freefalling rial to purchase U.S. dollars in Iraq, although recent U.S. sanctions will complicate those efforts.

Iran's control over Iraq's power sector is especially strong. Fifteen years after the fall of Saddam Hussein, Iraq generates just over two-thirds of the electricity it needs. While war, fuel shortages, ISIL, and corruption are responsible for most of this shortfall, Iran has exploited the gap in services. TAVANIR, Iran's state-led utility, which is believed to be under the sway of the Islamic Revolutionary Guard Corps, earns \$100 million per month supplying electricity to between one and two million Iraqi households. Tehran also takes Iraqi oil as payment for natural gas powering an additional three million Iraqi households. In all, according to my estimates based on publicly reported figures and basic household electricity usage, the Islamic Republic directly or indirectly controls one-quarter of Iraq's electricity supply.

An Alternate Source of Power

Enter Kuwait and the Kingdom of Saudi Arabia. In January, a delegation from Kuwait's Ministry of Electricity and Water met with Iraqi officials to discuss linking the Iraqi and GCC electric grids. Kuwait's proximity to Iraq and its role as a neutral mediator for the Persian Gulf region make it especially well-suited to be the point of interconnection. On its own, Kuwait probably cannot produce the quantity of electricity needed. But Saudi Arabia can.

Riyadh is already investing heavily in power generation, particularly renewables, to conserve more oil for export. But the scope and scale of these projects will eventually generate surplus electricity well beyond what the kingdom can use. In March, Saudi Arabia and SoftBank announced their intention to build the world's largest solar installation, producing a staggering 200 gigawatts — nearly triple the kingdom's total present electrical output. Even if Saudi Arabia falls far short of this target, other renewable projects are advancing quickly. In 2018 alone, the kingdom will launch enough solar and wind projects to power three million homes.

The idea of turning Saudi Arabia into an electricity exporter is not new. Three years ago, then-Saudi Oil Minister Ali al-Naimi told UNESCO that the kingdom aimed to develop its solar energy industry to the point where "instead of exporting fossil fuels, [Saudi Arabia] will be exporting gigawatts of electric power." Domestically, electricity exports can advance Saudi Arabia's effort to diversify its economy, provide jobs for Saudi citizens, and help to fund new industries. Identifying viable foreign markets for this electricity has, however, proven complicated. With more generation capacity coming online, intra-GCC electricity trading is already largely limited to emergency outages. Plans for a Saudi–Egyptinterconnection, first raised in 2010, have been repeatedly put on hold due to political and financial considerations. Europe is a possible new market — one the Saudis are currently exploring — but Europe's immediate focus is on interconnecting with its Mediterranean neighbors.

Iraq, on the other hand, requires enormous amounts of electricity, shares a border with the kingdom, and occupies one of the most strategically important locations in the Middle East. It has been a geopolitical buffer for Saudi Arabia against Iran and can serve as a stepping stone to get GCC electricity to markets in Turkey and Europe. The kingdom is aware of the opportunity presented by its northern neighbor. In January, the Arab Petroleum Investments Corporation, which is owned by ten Arab oil-exporting states including Saudi Arabia, wrote that an interconnection between the GCC and Iraq "offers huge potential."

But Riyadh does not need to wait for new power generation projects to be completed to help Iraq. The kingdom already produces 45 percent more power than it can use in winter (although it has no spare capacity during the summer months). The Saudi and Kuwaiti grids, which are already connected to one another, could be retrofitted using "HTLS" (high-temperature low-sag) conductors to carry two to three times as much electricity. The Saudi–Kuwaiti interconnection could then be extended from Kuwait into Basra.

According to one energy consultant with close ties to Arab Gulf utilities, for the transnational link to function, Saudi Arabia would have to sell electricity to Kuwait, which would then sell it on to Iraq. The three countries would need to agree on rules and fee structures, and may need their electric utilities to set up special-purpose vehicles to sell the electricity across borders. The Gulf Cooperation Council Interconnection Authority, which governs power sharing among GCC member states, could help with this. The consultant, who wished to remain anonymous due to their involvement in government projects in the GCC region, estimated that the interconnection could be completed in less than five years for several hundred million U.S. dollars.

There are, however, real obstacles to implementation. A resurgent ISIL, which destroyed eight power plants and inflicted $7 billion in damages to Iraq's power infrastructure during its three-year occupation of the country, continues to target Iraq's national grid. Given Iranian opposition to GCC assistance, there is also a possibility that Iran-allied militias could sabotage the power lines — although there is no clear evidence that they have attacked power infrastructure thus far. Iraq also has a serious problem with electricity theft; in 2015, the Ministry of Electricity collected payments for just 12 percent of the electricity it produced.

Saudi Arabia and Kuwait could alleviate the threat of sabotage by asking Iraq to hire private security to guard new power infrastructure. As a failsafe, both countries will be able to cut the power if the infrastructure is seized by ISIL or Iran-allied militias. Electricity theft, which targets local low-voltage networks, is a thornier problem. Saudi Arabia and Kuwait could help mitigate, although certainly not eliminate, this problem by providing Iraq with electricity meters and perhaps reconfiguring the ministry's utility payments system along the lines of the Saudi Electricity Company's highly successful model.

An Iraq–GCC interlink will give Saudi Arabia the Iraqi foothold it has long sought. In so doing, it can serve as one possible geoeconomic alternative to traditional Saudi checkbook diplomacy — the exchange of economic aid and investment for political concessions — which has yielded diminishing returns for the kingdom. For example, while billions of dollars in oil and cash may have helped Saudi Arabia reacquire the islands of Tiran and Sanafir from Egypt, it did nothing to prevent Cairo from opposing Riyadh at the United Nations or sending just 800 troops to back the kingdom's war in Yemen. Similarly, keeping Lebanon's economy solvent has not diminished Hizballah nor has bankrolling friendly politicians in Iraq done much to advance GCC interests.

Utility exports like electricity are more cost-effective, less prone to graft, and, because the electric grid traverses an entire country, affect much larger populations than the types of foreign aid and direct investment Saudi Arabia typically employs. Moreover, because electric grids are dispersed, they are more difficult to seize than cash or oil and harder to destroy than agricultural and industrial investments. Most importantly, they distribute benefits across *all* social strata rather than just a small subsection of elites, making them more likely to spark generalized economic development. This is important because the radical and sectarian transnational ideologies Iran and ISIL employ thrive on economic marginalization. As the director of the United States Institute of Peace's Middle East project recently warned, "[The Basra] protests demonstrate Iraq's fragility and an accumulation of public grievances that could lead to the rise of new extremist violence if not addressed." Insofar as they encourage widespread economic development, electricity exports can weaken the appeal of both Iran's Islamic Revolution and ISIL's revived caliphate.

Conclusion

While scholars and policy planners have written about the use of energy as a geopolitical tool, most of their analyses have focused on the ability of autocratic states to cut off oil and natural gas exports as a means of achieving policy objectives. Electricity exports are a way for Saudi Arabia to use its economic clout to achieve desirable political outcomes without relying on proxies or checkbook diplomacy. Saudi electricity exports to Iraq can weaken the Islamic Republic, whose economy is already vulnerable, by denying it income and influence in one of the Middle East's most strategically important states. By facilitating generalized economic development, these exports can also undermine the appeal of radical and sectarian ideologies, which rely on economic uncertainty.

If this project is successful, Saudi Arabia, Kuwait, and Iraq could eventually form the nucleus of a Middle East common market for tradeable utilities like power and water, revitalizing moribund efforts to achieve regional economic integration along lines discussed by scholars like Michael Hudson, Luay al-Khatteeb, and others. Furthermore, a Saudi–Iraqi accord will signal to the United States and Europe that the kingdom is firmly invested in Iraq's integrity. This may help convince the international community to increase its own commitments to Iraq's stabilization and development. Electricity, however simple it may seem, can provide the beginnings of an economic foundation upon which Iraqis can start to rebuild their livelihoods, their national identities, and ultimately their country.

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