

***Cards from Kurdistan: #1 - Silver Birds and Yellow Cranes Flock to Iraq's Northern Gateway***

Commerce in Kurdistan is looking up. The KRG, the regional government for Iraq's three northern provinces, has benefited from nearly a dozen years of autonomy following Saddam's invasion of Kuwait and relative political stability and security since 2003. More recently the KRG is moving to reap benefit from the speedy unification of its two constituent administrations, passage of a regional investment law, and drafting of a regime for the exploitation of the region's oil and other natural resources, all of which appear aimed to spread the wings of a growing private economy in this part of Iraq. The region is also fashioning itself as the gateway to Iraq, a strategy that will rely heavily on progress in transport and construction, the first two sectors glimpsed impressionistically in a collection of *Cards from Kurdistan* that report on commercial developments up north.



Irbil International Airport: Original terminal complex at upper left of photo; new terminal and runway, lower right.

**RIGGED FOR THE LONG-HAWLER:** The working construction site that is Erbil's Hawler International Airport today is emblematic of the turn of fortune of the region it serves. What was once an arm of Saddam Hussein's physical subjugation of Iraq's Kurdish population as a military airport now reflects the growth of the region and embodies a budding optimism about its future. An appreciable share of the region's and the country's imports already enter via an air bridge from Dubai, given the sabotage and piracy plaguing overland routes from the South to Baghdad. Even as the airport processed 17,000 in-bound and out-bound passengers in a recent month (it was designed for 3,000), a \$200 million expansion on the current and an adjoining site is underway. When completed in the fall of next year the new airport will boast an extra wide, three mile-long runway, a second terminal to be used exclusively for international transit, a business and VIP lounges, cold-storage facilities and a cargo terminal. The facility will have a capacity for 35,000 passengers monthly, although that could swell to 3 million per year, should the airport achieve its objective to become a supplemental hub to Dubai for the busy Asian routes. Another feature that the cranes flanking the superstructure of the new international terminal reveal is that Kurdish planners and administrators are looking strategically at growth and basing plans on foreign models. The recently completed airport in neighboring Sulaimaniyah is being developed as the regional complement to Erbil's long-haul aspirations, and to facilitate a hoped for boom in tourism to southern Kurdistan. A third regional airport in the north by Dohuk is another target.



Expansion to the original terminal complex quintuples the covered space at this orderly installation.

***AMERICAN BYE?*** The airport serves as base to 14 carriers servicing two national, six Middle Eastern and six European destinations, all on a charter basis with leased aircraft. Austrian Airways delayed its Spring 2006 launch of scheduled service to Vienna due to air traffic control and other issues, but hopes to begin before year's end. Just the other day FedEx received its first shipment into Hawler, a facility that the company and its local partners hope to develop into a prime terminal. The fact that the general contractor for the Irbil Airport expansion is Turkey's Yak Mol is also revealing; Turkish suppliers and builders are the dominant foreign players up north by a wide margin. But here, too, the receptivity to specifically American firms is high. There is no "Yankee Go Home" slogan anywhere in sight. In fact, when two U.S. based suppliers of passenger boarding bridges pressed their offering in a recent tender for the airport expansion, they were fairly re-examined and one was ultimately selected over aggressive Chinese competition. Another notable trend: while over half of the traffic to Irbil Airport in a recent month was tallied as Arab in origin, travelers from Europe made up the second largest source, exceeding American travelers by a factor of ten. While the major populations of expatriate Kurds in Germany or Sweden doubtless represent much of this count, it also apparent that German, French, Scandinavian and Czech citizens and companies are more numerous on the Kurdish business circuit than are Americans or British. And even UK firms may be stealing a march – two public-private trade delegations, one officially sponsored, are scheduled for this fall, while British seismologists and other technical firms have joined Canadians in providing much of the early exploratory services to the Northern Oil Company and KRG Resource Ministry officials



One U.S. newcomer to the airport is pictured here. FedEx teamed with Iraq's Falcon Group. The new passenger terminal takes shape in the background.

**ROAD RAGE:** The development of cargo and passenger infrastructure and the mushrooming of carriers bode well for the wider development of Kurdistan's economy. But it is only part of a bigger challenge. It is clear that investment on a far greater scale will be needed to overcome large transport bottlenecks in Kurdistan. A number of smooth new boulevards already sweep across the city and neat new bridges have improved transit. But thousands of kilometers of roads need to be built, notwithstanding a major shortage of bitumen and asphalt in the area. It has been said that the KRG's greatest enemies are the region's own roads, for the rage the infamous potholes inspire. The shortages of warehousing and cold storage need to be addressed, as does the state of border processing and customs administration if Kurdistan is to realize Prime Minister Barzani's ambition to have Kurdistan serve as "the gateway to the rest of Iraq," for foreign products, services and people.



Up-scale living in "Dream City," will soon become reality for those ready to scale up above the two-story norm.

**DREAM CITY MEETS THE CITADEL:** The next indicator of Kurdistan's vibrant economy the outsider encounters is the city's panorama of construction cranes, usually accompanied by heavy machinery and concrete batch plants – but often by wooden pole

scaffolding and now and again by mule drawn carts, as well. As home to the Citadel, quite possibly the world's longest continually inhabited community with 5,000+ years of tenancy, Irbil is a town that knows from lodging. Building has long sustained the area's economy and it seems that two of every three firms encountered in Kurdistan today are traders, general contractors or both. Of interest to potential investors, local construction firms have re-defined "turnkey partnerships" to include packages of assistance to foreign companies that include physical security services and currency transfer, as well as the expected local construction workforce and local "know-who." Like much else in the Kurdish marketplace, the basic materials for the building boom --apart from stone and marble-- is imported from outside the region and country. To help correct the import dependency, an industrial city the KRG plans to develop 25 kilometers outside of Irbil calls for a large share of building products in its production mix. A harbinger of domestic building product capacity is a Sulaimaniyah producer of wooden furnishings, which is successfully melding state-of-the-art production, safety and recycling methods on top of its traditional family workshop. The impressive businessmen who own the factory are applying for a U.S.-facilitated credit to fund their expansion.

At least a dozen mixed residential and commercial complexes are underway or nearing completion, including Erbil's flagship real estate development, "Dream City," a collection of up-market high-rise buildings spread over one million square meters. Just across the way a joint Kurdish and Kuwaiti team is planning a \$100 million hotel and office complex. Another notable project is a handsome, soon-to-be-inaugurated convention center. In one area stone and marble villas are springing up, while a startlingly American-looking single-family house stands apart in a large field—apparently a model home. Other districts exhibit clusters of the one and two-story cinder block and brick construction more typical of the city's construction. The housing market is said to be highly volatile, with square meter rental costs in Irbil lurching upward from an average of \$5 to \$25 before 2003, to the \$50-\$500 range today, and up to as much as \$2,000 per square meter in pricey districts like the Assyrian Christian suburb of Ainkawa. Most of the construction projects underway to date reportedly have been either Kurdistan Regional Government (KRG)-financed housing projects or private works done by Kurdish consortia and marketed, cash in advance, to clients. Several Baghdad developers and at least one American have entered the fray seeking to design, finance and build much larger complexes with government and private employer-backed mortgage schemes. It is estimated that Kurdistan confronts a deficit of 1.5 million units of affordable family housing. KRG funded and administered construction cannot meet the vast needs, so private and public-private arrangements are being studied. In the heady, cash-flush days immediately post-liberation, the regional government overspent and finances are likely to remain in the red until substantial new oil revenues come about or the effective federal budget allocation is adjusted. Also, favoritism in award making through to outright corruption is every bit as prevalent as elsewhere in Iraq, leading some major local contractors encountered to forgo KRG tenders for all but those projects that come to them by

selected invitation to bid – a negative factor which, nonetheless, is also fueling a shift to private sector-led development.



A suburban American transplant turns up in Ainkawa, Irbil.

***A CONDO TOO FAR?:*** Yet even on the private side there is concern that there may have been over-building of high-end dwellings and even skepticism that Kurdish families will ever take to high-rise living, a break with custom. There is clearly a desire to ride the construction boom further, however, as shown by the abundance of construction firms – Kurdish, Turkish, and a smattering of Lebanese or Gulf firms – all alternatively chasing or touting the next shopping center and housing mega-project. Middle East outsiders are also getting involved. A German firm recently won a \$2 million contract to produce an urban design plan for Sulaimaniyah. Local investors are teaming with an Austrian firm specialized in hospital development to build a 250-bed, \$70 million facility in the very north of the region, that awaits a final financing component. Sewerage projects have been taken on by

American and German firms. It remains to be seen whether or how the allowance in the new Kurdistan Investment Law for foreigners to acquire title to land connected with their investment projects (via an Investment Board) might bring foreign real estate investment to the region. This is a potential local officials watch warily, having been burned by local speculators who sought to effectively re-zone and turnover land for a quick profit. Interestingly, the scare may prove to have little more foundation in fact than was the case in the United States in the mid-1970s over fears of petrodollar rich Arabs snapping up American farmland. And, interestingly, the same outsider group appears to be the prime concern in Kurdistan, as well.



Kurdistan appears ready to leap-frog traditional methods in its rush to grow.

***WANTED: YANKS IN THE GAME:*** Due to the U.S. Government's steadfast support of the Iraqi Kurds, Americans and American companies enjoy a prestige and well-spring of goodwill in this economically stirring region that is likely unmatched elsewhere. Nonetheless, apart from official reconstruction and technical assistance from civilian agencies like USAID and the few hundred U.S. troops spread across the region, there is relatively little U.S. presence. As in transport, there is today vast scope for U.S. and other out-of-region firms to enter the Kurdish and Iraqi construction sector, make important contributions -- and wager on significant profits. Urban planners, construction design

engineers, and suppliers of efficient building methods (Kansas-based Lite-Form, hit of the U.S. Pavilion at the May 2005 Rebuild Iraq show with its combined forming and insulating technology, springs to mind; [www.buyusa.gov/iraq/recentevents](http://www.buyusa.gov/iraq/recentevents)), would all appear to have an open oyster before them in Kurdistan. Unlike a prior draft, the new investment law does not carve out retail trade from foreign participation, so commercial and residential project management may eventually be attractive to U.S. developers. The significant security, financing, essential service, and governance challenges that remain in Kurdistan can be managed and ameliorated by the U.S. private sector. For example, the absence of industrial, quality and safety standards for the building trades is likely as acute as it is in the rest of Iraq. In this case the problem being attacked in a public-private partnership, under which the National Institute of Standards and Technology of the U.S. Department of Commerce recently gave a seminar for the sector, as well as having placed a standards expert at the Embassy.

***More Information Needed? USEFUL CONTACTS:***

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