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SUBJECT: DEPUTY PRIME MINISTER ON HYDROCARBON LAWS

¶1. (C) Summary: At an April 2 dinner with Deputy Prime Minister for Economic Affairs Barham Salih, the Ambassador noted President Bush,s frustration with the GOI,s failure thus far to complete the hydrocarbon-related package of laws to send to the Council of Representatives. The DPM responded with a frank read-out of what he sees as the state of play regarding the hydrocarbon-related laws' drafting process. Salih began by noting that getting agreement on the framework law had required spending a lot of political capital. Finding agreement on the full package, including the revenue-management, Ministry of Oil reorganization and Iraq National Oil Company reformation laws, and other parts of the package, will also require continuous "kicking of butts" to keep the political players in Baghdad and Erbil moving. He pledged to keep the pressure on. End Summary

¶2. (C) On April 2, DPM Barham Salih hosted a small welcome dinner for the Ambassador, also present were the DCM, Coordinator for Economic Transition in Iraq, Acting Econmin and emboff. On-going efforts to find a suitable venue for the Neighbors Conference and International Compact with Iraq signing meeting were discussed (and acted on via phone), but the principal focus was on the need for immediate action on the hydrocarbon-related laws and the draft revenue-management law in particular. The Ambassador noted the President,s frustration with the GOI,s failure as yet to complete the hydrocarbon-related package of laws to send to the Council of Representatives. In response, DPM Salih gave the Ambassador a frank read-out of his view of the state of play regarding the hydrocarbon-related laws, drafting process. Salih began by observing that getting agreement on the framework law had

required spending a lot of political capital. Finding agreement on the full package, including the revenue-management, Ministry of Oil Reformation and Iraq National Oil Company laws, will also require continuous "kicking of butts" to keep the political players in Baghdad and Erbil moving. The top GOI leaders, including the DPM, need to keep the pressure on because "we need action now." Oil is of critical importance to Iraq,s future. The completion and implementation of the laws will also be tangible evidence to Iraqis and the international community of the GOI,s ability to do its job of governing.

¶3. (C) According to the DPM, the Kurdistan Regional Government,s (KRG's) Prime Minister Nechirvan Barzani has made a policy decision to reach agreement on the revenue-sharing law now being negotiated, but his negotiators have been "playing their own games" by delaying their visit to Baghdad, now promised for April 4. Salih noted that the Kurds are right to be concerned about the Ministry of Finance,s (MOF) role in paying out the region,s share of oil revenue under the new law because MOF has withheld \$360 million owed the KRG under the present system. He emphasized that the problem was with Ministry officials, not the Finance Minister himself. The KRG PM,s visit is expected on the heels of the arrival of the negotiating team and would enable the revenue-sharing draft to get top-level KRG approval without delay. The DPM, noting he is himself a Kurd, was very forceful in saying that the Kurds need to act responsibly and that all the parties need to act now.

¶4. (C) DPM Salih said that the fundamental problem in drafting, passing and implementing the hydrocarbon-related laws, as with other laws such as the DeBaathification law, is that politics is everything. Iraq now has a powerful oligarchy based on money. Few of the leadership "Shia, Sunni or Kurd" are concerned about demonstrating that the government is competent by delivering goods and services to Iraqis, and promoting economic growth for the country.

Everyone is fighting for power pure and simple. A major problem for the Prime Minister is that there is no reliable Sunni partner available. The DPM concluded that he was relieved to see that the "United States had finally woken up to two realities: 1) That Iraqi leaders are undeserving of additional undeserving love, and 2) That Iran is a major (and unusually unhelpful) player which at times is more powerful than the United States."

¶5. (C) The DPM argued that Iraq should be producing 6 million barrels of oil per day (mbpd), not 1.5 mbpd. In spite of the clear failure of the centralized system, Minister of Oil Shahrastani has been a "disaster" running his Ministry, and still takes a statist approach to its future. He can be expected to try to use the new Ministry reorganization law to that end. Further, he balks at implementing instructions from the Prime Minister or Energy Committee. The Prime Minister cannot, however, replace him because of the Minister's family connections to Grand Ayatollah Sistani. (Minister of Finance Jabr is, in the DPM's view, reliable. He follows, even if at times reluctantly, Prime Ministerial and Cabinet orders.)

¶6. (C) Salih contended that a major problem is that the Ministry of Oil has been decimated. Many competent officials have been pushed out for sectarian political reasons. Others have taken jobs abroad where they and their families can be safe and where compensation is far higher than in Iraq.

¶7. (C) The DPM concluded by pledging to move the vital hydrocarbon legislation forward. He noted that PM Maliki would be going on an official trip to Japan April 7, but added that, even so, he would be available for decisions on legislative drafts if needed. Salih also said that he hoped President Talibani would be able to go to the Mayo Clinic "soon" for medical treatment.