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SUBJECT: KRG MINISTER OF NATURAL RESOURCES DISCUSSES  
HYDROCARBON LEGISLATION

¶1. (C) SUMMARY. In an April 9, 2007, meeting with econoffs and the Energy Attach, the Kurdistan Regional Government (KRG) Minister of Natural Resources, Ashti Hawrami identified issues to be addressed by KRG and Government of Iraq (GoI) negotiators working on the hydrocarbon Revenue Management (RM), Iraqi National Oil Company (INOC), and Ministry of Oil Reorganization (MinOil) laws. Hawrami also addressed issues related to the Annexes to the Framework Hydrocarbon Law. Hawrami's primary disagreements with the current GoI draft of the RM are passing the regional share of oil revenue through the Ministry of Finance-controlled central budget and what is done with surplus revenues at the end of the fiscal year. Hawrami feels that the current draft MinOil law is too vague in its description of which of the companies currently within the Ministry of Oil become part of INOC and which will remain within the Ministry of Oil (MinOil). He also feels that the draft MinOil law needs to provide for the potential privatization of those companies remaining within the MoO. He also wants the law to contain stronger language separating INOC from MoO's control. Regarding the draft INOC law, Hawrami wants the draft law to include local representation on the board of directors, and fewer, if any appointees by the Minister of Oil. He feels that the law, as currently drafted, provides for too many members of the board of directors to be appointees of the Prime Minister. He is also concerned that INOC will be given oil and gas fields comprising over 80% of Iraq's proven reserves, without appropriate incentives to maximize production of all those fields. Hawrami also proposes that Annex 1 to the framework Hydrocarbon Law contain a comprehensive list of the oil and

gas fields that INOC will develop and operate. Annex 2 would contain a list of the more difficult to produce oil and gas fields that INOC could produce with a private sector company or achieve production by demonstrating the accomplishment of milestones. If certain levels of production were not accomplished according to set periods of time, INOC would lose the opportunity to produce those fields. End Summary.

¶2. (C). On April 9, 2009, econoffs and the Energy Attach met with KRG Minister of Natural Resources, Ashti Hawrami, to review the status of Iraqi efforts to finalize the RM, INOC, and MinOil laws, and to review any issues that the Minister may be discussing with his counterparts in the GoI. Hawrami noted that he finally had copies of the GoI's draft RM law. He observed that while the GoI version had incorporated some items from the KRG version, there were two significant unresolved issues. First, the KRG would not agree to passing its share of oil revenues through the central government budget, with disbursement of the region's share controlled by the Minister of Finance. Second, the GoI draft law requires that surplus funds remaining in the central Oil Revenue Fund be used to finance any existing deficits. (Note: Hawrami commented that the GoI draft of the RM law requires that surplus regional funds be returned to the central government, but the text of the drafts we have seen are not consistent with this comment. Hawrami said he wants these surplus funds to remain with the regional governments for expenditure according to the needs identified by the regional governments.) He said he had no objection to an audit of the expenditure of those funds by the central GoI. At various times, Hawrami expressed both optimism and pessimism that an agreement with the GoI could be reached on these points, but he observed that since Minister of Finance Jabr, Minister of Oil Shahrستاني, and Prime Minister Maliki were out of the country until next week, serious substantive negotiations would have to await their return. Hawrami stated that he is not interested in a protracted round of negotiations of this law similar to those that produced the framework Hydrocarbon

Law currently under review by the Shura Council. (Note: During the conversation with Minister Hawrami, Deputy Prime Minister Barham Salih entered the room and reinforced the point that the distribution of surplus funds was a major issue.)

¶3. (C). Hawrami expressed concern that the current GoI draft of the MinOil law does not provide sufficient clarity regarding INOC's relationship to the Ministry of Oil. (Note: Deputy Prime Minister Barham Salih also expressed his opinion that the law be clear that INOC is completely independent from the Ministry of Oil.) He said that the law retains within the Ministry of Oil too many of the 15 operating "companies" currently controlled by the Ministry; only a few major operating companies would become part of INOC. In his opinion, the MinOil law should contain provisions that would place those companies remaining in the Ministry in separate departments and restructure them in a way that would eventually provide them the opportunity to become private entities. (Note; Hawrami suggested that privatization could occur after a period of two years and the completion of a feasibility study.) Hawrami stated that he had been discussing these issues with Advisor to the Prime Minister, Thamir Ghadhban, and that Ghadhban was preparing another draft of the MinOil and INOC laws for Hawrami's review. Hawrami will share a copy of this draft with ecoffs when he receives it.

¶4. (C). Hawrami was concerned that current draft of the INOC law does not provide for local representation on INOC's board of directors. The current draft provides for too many Ministry of Oil appointees on the board. The current draft law provides for three board members to be selected by the Minister of Oil. Hawrami anticipates that the next draft prepared by Thamir Ghadhban will propose two appointees. While Hawrami does not want any appointees on the board, he is likely to accept one. Hawrami is also concerned that the GoI draft gives INOC control of approximately eighty percent

of Iraq's proven reserves, in effect continuing much of the present state-controlled Ministry of Oil operating/producing structure under a different label.

¶5. (C). Hawrami noted that Annex 1 to the framework Hydrocarbon Law contained the list of existing producing oil and gas fields that will be managed and operated by INOC. He suggested that some of the less-developed fields be placed in a separate Annex 2, and that the INOC law contain requirements for INOC to develop the Annex 2 fields or lose control of them. He suggested that one requirement might be that INOC engage in joint ventures with other companies with greater expertise or better technology.

¶6. (C). While Hawrami expressed optimism that a resolution of the MinOil and INOC issues could be reached, he was hesitant to suggest that those draft laws should proceed through the legislative process unaccompanied by the RM law. He views the RM law as clearly the most important part of the legislative package, however, he did not believe it worthwhile to remain in Baghdad to discuss the RM law with PM Maliki, Minister of Finance Jabr, and Oil Minister Shahrستاني absent.

¶7. (C). At the conclusion of the meeting, Hawrami was asked if any fuel from Turkey had been delivered to the KRG via an arrangement with the State Oil Marketing Organization (SOMO).

Hawrami claimed that, since the KRG must pay for its fuel imports from its 17% share of the national budget, no fuel could be imported from Turkey until the GoI provided the budget funds. (Note; Turkey will not do business directly with the KRG.) Hawrami told us that Shahrستاني had been advising the Iranian government not to contract directly with the KRG because efforts could distract the KRG from finalizing the draft hydrocarbon legislation.

¶8. (C) Hawrami returned to Erbil on April 10. In a follow-up conversation on April 11, he told econoff that he

was working on counterproposals to the GoI INOC, MinOil, and Annex drafts. He would not predict a specific date for a KRG negotiating team's return to Baghdad because future talks must address the RM law and this depends on Maliki, Jabr, and Shahrستاني's return. Hawrami believes that the RM law will require KRG PM Nechirvan Barzani's personal intervention. Econoff told Hawrami that the hydrocarbon legislation and the KRG's schedule for continuing negotiations would be priority issues for the Ambassador's discussions with KRG leaders in Erbil later this week.