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SUBJECT: U/S JEFFERY'S MEETING WITH PM ADVISOR ON
HYDROCARBON LAW

¶1. (U) SUMMARY: Thamir Ghadban, Advisor to the Prime Minister, on December 5 discussed the "way forward" for hydrocarbon law enactment with a delegation led by Under Secretary Jeffery. END SUMMARY.

¶2. (U) Participants: U/S Jeffery, Thamir Ghadban, Ron Jonkers, Tom Pierce, Abdulilah K. Al-Amir (Oil Advisor), and Ed Parks.

¶3. (C) Ghadban said progress towards enacting a hydrocarbons law requires the necessary "political will" from both the GOI and the KRG. For example, the GOI believes that prior to issuance of production sharing contracts/production sharing agreements (PSC/PSAs) the Ministry of Oil (MOO) needs to be consulted. But this consultation has not happened in the recent 20-plus PSC/PSAs awarded in the Kurdish Region, he said. Ghadban insisted that Iraq's existing oil law notice and consultation procedures must be followed prior to awarding any contracts. Since these procedures were not followed, the new PSC/PSAs issued in Kurdistan over the past six months are not legal, according to Ghadban. Additionally, the contracts are blocking progress on national legislation, including the Oil Framework Law, the Revenue Sharing Law, and the new INOC Law.

¶4. (C) Ghadban warned that if the KRG continues to unilaterally award PSC/PSAs in the Kurdish Region, this will further stiffen the GOI's opposition and diminish its interest in negotiating further compromises. Ghadban added that this may also negatively impact the revenue sharing

discussions, and future deliberations on Constitution Article 140 (Kirkuk).

¶5. (C) Ghadban reported that the Federal Government's coalition (excluding the KRG Parties) is losing internal consensus in support of a new hydrocarbons law. Ghadban added that public and personal attacks by KRG officials, including against MOO Shahrastani, have angered the GOI's coalition. Thus, further compromises on the draft Hydrocarbons Law are becoming more difficult. Ghadban suggested that the KRG should come to the GOI with a proposed political solution to the current impasse. PM Maliki has done all he can do and believes the matter now rests with the COR, according to Ghadban.

¶6. (C) Issues still in dispute, according to Mr. Ghadban, include:

- should Iraq stay with existing Oil Law, or pass a new one;
- how to form Federal the Federal Oil & Gas Council (FOGC);
- how the FOGC decides on contracts to be awarded and whether COR reviews its decisions;
- does MOO review contracts before execution;
- will contracts include a PSC/PSA format;
- will new INOC Law govern GOI's regional operating companies, or will MOO;
- to what extent will INOC in Kurdistan be managed by Kurds;
- will model contract and four Annexes be part of new Hydrocarbon Law, or left for FOGC decision;
- whether the 20-plus new Kurdish PSC/PSAs are legal or not;
- how will oil & gas revenues be split and is the formula part of the new Hydrocarbon Law, or in separate law;
- will there be a cap on revenues allocated for "sovereign expenditures" (e.g the Public Distribution System (PDS), etc.);
- will such a cap be decided by the Central Government only, or together with the Provincial Governments;
- will the Kurdish revenue share be outside the Federal Budget, or included within;

-- will KRG sign more PSC/PSAs and, if so, will GOI decline to negotiate further.

¶7. (U) The delegation cleared this message prior to departure.