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SUBJECT: BAGHDAD-ERBIL OIL RAPPROCHEMENT? PM ADVISOR OFFERS
CRITICISM AND HIMSELF AS THE INTERMEDIARY

¶1. (C) Summary: The chair of the prime minister's Advisory Commission, Thamir Ghadhban, offered little hope for a quick resolution of the disagreement between the central Government of Iraq (GOI) and the Kurdistan Regional Government (KRG) over the legitimacy of the two KRG-negotiated oil contracts published on January 17 and over related oil-sector issues. He did offer insight into the GOI's current thinking and suggested that he was the best GOI representative to the KRG to resolve oil-sector disagreements. He predicted that no real progress would be made until after national elections on March 7 and the formation of the new government. End summary.

Possible Reasons for the KRG's Disclosure and Announcement

¶2. (C) On January 17 the KRG published, for the first time, on its website, two of its estimated 30 oil field development and production contracts with oil companies working in the Iraqi Kurdistan Region (IKR). The KRG also announced its desire to resolve the disagreement that has prevented the export of oil produced under these contracts (ref B). In a recent conversation, Ghadhban surmised that the KRG's contract disclosure and announcement was a consequence of three factors. First, the new influence of KRG Prime Minister Barham Salih (appointed on September 30, 2009). Second, the success of the 2009 oil bid rounds that has diminished the GOI's need for KRG oil. Third, the escalating demands of oil companies DNO, Genel Energy, and Addax Petroleum (now owned by Sinopec) to export oil produced under the two published contracts and to be paid in full for that production.

Differences in Approach Hinder Progress

¶3. (C) Ghadhban characterized the KRG's January 17 announcement as a demand for unilateral concessions from the GOI. He criticized the tactlessness of KRG Natural Resources Minister Ashti Hawrami's announcement, saying that Hawrami always unilaterally publishes his own solutions to oil-sector disagreements and too often insults Oil Minister Hussain al-Shahrastani in the process. Ghadhban said Hawrami should have simply announced the KRG's willingness to participate in bilateral negotiations, without announcing preconditions or a predetermined solution. He labeled as nonsense the KRG's stipulation that the Oil Ministry's State Oil Marketing Organization (SOMO) directly pay either the KRG or the oil companies for the KRG's oil exports under the two contracts. (Note: SOMO is responsible for all of Iraq's oil exports. All revenues from these oil exports flow to and are disbursed by the Finance Ministry, not by SOMO. End note.)

GOI Might Demand Complete Resolution of All Oil Disagreements

¶4. (C) Ghadhban emphasized that all oil-sector disagreements between the GOI and the KRG must be settled concurrently. He said that during this process the KRG must "open its books, disclose all its oil field development and production contracts, and submit them for approval to the GOI." Other GOI concerns about the KRG's management of its oil sector also must be resolved during this process, he said, Qalso must be resolved during this process, he said, clarifying his previous statement. As an example, he asked rhetorically where the signing bonuses from the KRG's oil contracts had gone and pointed out that the signing bonuses from the ten contracts resulting from the Baghdad's 2009 bid rounds have been or will be deposited in the central government's treasury.

Ghadhban Offers Himself as the GOI Representative to the KRG

¶5. (C) Unprompted by econoffs, Ghadhban offered himself as the best representative from the GOI to the KRG to resolve oil-sector disagreements. He assumed that the KRG would be represented by Hawrami and said, "I know Ashti very well. I am the only one who can work with him." This suggestion was a noteworthy echo of the endorsement by Ali Hussain Balo, the chair of parliament's oil and gas and natural resources committee and a Kurdistan Democratic Party (KDP) member, of

Ghadhban as the best GOI representative to the KRG to resolve the disagreement over the two oil contracts the KRG published on January 17 (septel). Although Ghadhban acknowledged the KRG's contract disclosure as a crucial first step, he predicted that no real progress in resolving the disagreement would be made until after the national elections on March 7 and the formation of the new government.