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SUBJECT: BAGHDAD-ERBIL OIL RAPPROCHEMENT? MPS OFFER
SKEPTICISM AND OLD IDEAS FOR NEXT STEP

¶1. (C) Summary: Key members of the parliament's oil and gas committee offered little hope for a quick resolution of the disagreement between the 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. They did offer insight into the current thinking of the GOI and the KRG and suggested that a blue-ribbon committee could be formed to determine whether the two KRG-negotiated oil contracts published on January 17 are legitimate. Both MPs predicted that no real progress would be made until after national elections on March 7. End summary.

¶2. (SBU) On January 17, the KRG published 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 D). Econoffs met separately with the chair of parliament's oil and gas and natural resources committee, Ali Hussain Balo, and the vice-chair of the committee, Abdul-Hadi al-Hassani to assess initial reactions and potential responses to the KRG's action. (Note: Balo is a member of the Kurdistan Democratic Party (KDP). Hassani is a member of Da'wa. End note.)

Kurd Oil & Gas Chair Says Baghdad Not Ready for Resolution

¶3. (C) Both Balo and Hassani said that the KRG's decision to

disclose the contracts was a crucial first step. In their view, the GOI and the KRG ultimately have no choice but to compromise and cooperate in a federal system of governance. However, Balo surmised that neither side had a next step in mind to resolve the disagreement over the contracts and that PM Maliki and GOI Minister of Oil Hussain al-Shahristani had no serious intention to press forward. He told econoffs the KRG had formed a committee to collaborate on next steps and was prepared to advance.

¶4. (C) Striking one of his recurring themes, Balo said the GOI should cede more authority to the KRG and claimed the GOI was trying to diminish the KRG. He also accused the GOI of being bound by Iranian influence, which he implied was counter to KRG interests. He underscored that because the KRG does not regard the GOI oil minister as having jurisdiction in the KRG, the KRG will not submit to his unilateral decisions.

Shia Oil & Gas Vice-Chair Says Erbil Does Not Want Resolution

¶5. (C) While acknowledging the KRG disclosure of two oil contracts as a crucial first step, Hassani characterized the manner in which they were disclosed as an "insult," citing what he perceived as a lack of respect and proper procedure in the KRG's action. Hassani expressed deep annoyance that the KRG had published the two contracts on its website as a grand gesture but had not delivered copies directly to the oil and gas committee, even though he had requested in writing the contracts from KRG PM Barham Salih several times.

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Q This characterization -- more extreme than even his most
partisan rhetoric in past engagements with econoffs --
highlights the GOI's position that it has the authority and
responsibility to approve or disapprove the KRG contracts.
(Comment: This debate over who has the final authority to
enter contracts is central to the struggle between the GOI

and the KRG over defining federalism in the new Iraqi government. Econoffs encouraged Hassani to look past the fact that copies of the contracts had not been sent directly to him and to accept the KRG's publication of them in good faith as a reasonable response to repeated GOI demands that they be disclosed. End comment.)

¶6. (C) Hassani accused the KRG of jockeying for independence and railed against what he perceives as unnecessary ethnic animosity and Kurdish chauvinism that undermines Iraqi unity.

Emotionally recounting losses his own family had suffered during the Saddam Hussein regime, he declared, "We have both

(Arabs and Kurds) suffered, but now we must work together to build a united Iraq and a world-leading oil sector." He claimed KRG insistence that Kirkuk be incorporated into Iraqi Kurdistan was preventing the resolution of oil sector disagreements. If the KRG's intentions were serious, he noted, it would turn over to the GOI all the revenues it receives, not just those from oil exports. (Note: A reference to both acknowledged and surreptitious revenues. End note.)

But Oil & Gas Chair Offers Possible Next Step

¶7. (C) Balo asserted that the GOI's PM does not have the authority to legitimize KRG contracts alone and that the GOI and KRG PMs together do not have the authority to resolve the disagreement either. A broad coalition was necessary, he said. In response to econoffs' prodding, he offered a possible next step: the GOI and the KRG could select a group of mutually acknowledged experts, and this group could then select a temporary committee to decide whether the contracts are legitimate. (Comment: Although this is a reasonable next step, the concept of a committee to legitimize oil contracts has been raised in other fora and is included in the draft Oil and Gas Law, which has been awaiting passage since 2007. However, the composition of such a committee would certainly

be a source of conflict. End comment.)

¶8. (C) When further prodded about who might be the mutually respected brokers to initiate any process to resolve the disagreement over the KRG contracts, Balo immediately identified the chair of the prime minister's advisory commission, Thamir Ghadhban, for the GOI and former KRG PM Nechirvan Barzani (KDP) for the KRG. However, he added that Barzani would send KRG Natural Resources Minister Ashti Hawrami as his representative. Balo insisted that current KRG PM Barham Salih (Patriotic Union of Kurdistan, PUK) could not resolve the disagreement alone. Both Chair Balo and Vice-Chair Hassani predicted that no real progress would be made until after the March 7 national elections. Balo intimated that the KRG preferred to wait because it anticipated a new prime minister and a more favorable resolution from him.

¶9. (C) Comment: Hawrami is perceived by the GOI as a hardline partisan and has been a perpetual antagonist to GOI Oil Minister Shahrastani. For his part, Shahrastani's influence has risen with the successful 2009 oil bid rounds (ref C). We believe Hawrami would not be accepted as a reasonable broker. We understand that KRG PM Salih did not want Hawrami in the new KRG government, but was compelled to keep him because of the close relationship Hawrami has with former KRG PM Nechirvan Barzani. Balo's identification of Hawrami, not Salih, as the KRG's representative in resolving this contract dispute might reflect the limits of Salih's authority over the KRG's oil sector. By most accounts, the Barzani clan maintains a tight grip on the KRG's oil sector, with Hawrami as their surrogate. However, Balo, as a KDP member, is likely to be understating the influence of Salih, who is a PUK member, as the current power struggle between the KDP and the PUK continues. KRG President Masoud Barzani told RRT Erbil team leader on January 20 that he had formed the KRG committee (the same committee referenced by Balo in his conversation with econoffs) to collaborate on next steps to

Qconversation with econoffs) to collaborate on next steps to respond to PM Maliki's public statements expressing the GOI's interest in resolving the disagreement. End comment.