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SUBJECT: OIL MINISTER RECOMMENDS RESUMING OIL EXPORTS FROM IRAQI KURDISTAN

¶1. (C) Summary: Oil Minister Hussain al-Shahristani told ACMAT Haslach and USF-I DCG Hunzeker that he has recommended to Prime Minister Nouri al-Maliki that exports of oil from the Iraqi Kurdistan Region (IKR) resume. However, Shahristani also said that "many serious problems" remain in resolving disagreements between the Government of Iraq (GOI) and the Kurdistan Regional Government (KRG) over the structure and terms of the two contracts under which the oil for export would be produced. This disagreement is based on broad ideological differences that are unlikely to be settled soon without significant concessions during post-election government formation. Therefore, any resumption, much less increase, of IKR oil exports might be short-lived. Separately, KRG Prime Minister (PM) Barham Salih told SANI Misenheimer that he hoped to resolve disagreements with the GOI over the two contracts before the national elections on March 7, but that the GOI has yet to engage with the KRG to seek a resolution. End summary.

Oil Minister Recommended Iraqi Kurdistan Oil Exports Resume
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¶2. (C) In a February 11 meeting with Assistant Chief of Mission for Assistance Transition (ACMAT) Haslach and U.S. Forces-Iraq (USF-I) Deputy Commanding General for Support (DCG) Hunzeker, Oil Minister Hussain al-Shahristani announced that he had sent, the previous day, a letter to PM Nouri al-Maliki recommending that exports of oil from the IKR resume. Shahristani said payments for these exports would be made directly to the companies producing the oil. He also recommended that the GOI accept the KRG's proposal to form a committee to determine the companies' actual production costs eligible for reimbursement. However, he indicated that the reimbursement schedule would be more extended than the KRG had proposed, especially for capital expenses.

¶3. (C) Comment: Agreement to immediately reimburse the companies for continuing operating expenses might enable exports to resume. The companies have been producing oil for IKR use in return for payment of only operating expenses. But lack of quick reimbursement for accumulated capital expenses as well as continuing capital expenses might make any resumption of exports short-lived and preclude any increase in exports. End comment.

But "Many Serious Problems" Might Make Resumption Short-Lived
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¶4. (C) Shahristani emphatically stated that "many serious problems" existed with the two contracts under which the oil for export would be produced. He said the structure of the KRG production-sharing contracts and some of their terms (e.g., the amount of profit paid to the companies) are unacceptable and do not meet "international oil industry norms." Shahristani said resolving the issues necessary for the GOI to accept these contracts as legitimate will take a long time. He insisted, though, that the contracts would not require parliament's approval.

¶5. (C) In a February 11 with Senior Advisor for Northern Iraq (SANI) Misenheimer and Regional Reconstruction Team (RRT) Erbil Team Leader, KRG PM Barham Salih (Patriotic Union of Kurdistan, PUK) was optimistic that the KRG would reach QKurdistan, PUK) was optimistic that the KRG would reach agreement with the GOI on the two contracts before the March 7 national elections. Salih said that he has had encouraging telephone conversations with PM Maliki and that Oil Minister Shahristani had made public comments that oil exports from the IKR will resume, both of which indicate the GOI's openness to seeking agreement. Salih admitted, though, that the GOI has yet to engage in meaningful discussions on a potential agreement, but he hoped such discussions would begin soon. He asked for U.S. assistance in initiating these discussions. In addition, in a January 25 meeting with the Ambassador, Deputy Prime Minister Shaways (Kurdistan Democratic Party, KDP) said that although PM Maliki had not yet spoken to Shahristani, he was optimistic that Maliki could clear the way forward to work on the more intractable issue of hydrocarbons legislation if the GOI accepted the two KRG contracts as legitimate.

¶6. (C) Comment: Reaching agreement on payment of reasonable past and future profit to the companies will be a significant negotiation challenge for the GOI and KRG to overcome. They appear to be far from agreement and ideologically distant from each other on this issue. But without this agreement, any resumption, much less increase, of oil exports is unlikely to be durable. In addition, a broad ideological divide over contract structure and terms other than profit separates the GOI and KRG. We believe, and all econoffs' interlocutors believe, that this ideological divide will not be resolved soon, unless one side makes significant concessions during post-election government formation. Some compromise on the two contracts should be less difficult than the far more intractable disagreement on a framework for oil and gas policy or hydrocarbons legislation. The apparent willingness of both the GOI and the KRG to seek a resolution is an important attempt at resolving one of the many issues dividing Baghdad and Erbil. End comment.