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SUBJECT: OIL MINISTER TO CHANGE SIGNING BONUSES FOR 2009
FIRST BID ROUND CONTRACTS

¶1. (C) Oil Minister Hussain al-Shahristani told Assistant Chief of Mission for Assistance Transition (ACMAT) Haslach and U.S. Forces-Iraq (USF-I) Deputy Commanding General for Support (DCG) Hunzeker on February 11 that the refundable signing bonuses, stipulated in the three contracts awarded from the first oil bid round last June, were actually loans that must be approved by parliament. However, to avoid submitting these contracts to parliament, Shahristani said he intended to make the signing bonuses nonrefundable. (Note: The signing bonuses in the seven contracts awarded from the second bid round last December have always been nonrefundable. End note.) Shahristani said he intends to pursue this alternative because parliament (Council of Representatives) approval is not practical until after a new parliament is seated at an indeterminate, but presumably far off, time in the future. Both ExxonMobil and Occidental Petroleum are in consortia awarded contracts from the first bid round and would be affected by Shahristani's intentions.

Comment

¶2. (C) Until now, the Ministry of Oil (MOO) has insisted that the refundable signing bonuses were not loans and therefore did not require parliament approval (ref D). MOO had even argued this point in the Federal Supreme Court case against Prime Minister Nouri al-Maliki and Oil Minister Shahristani (ref D). Shahristani's apparent concession may indicate he concluded that MOO's argument would not prevail in court.

¶3. (SBU) Converting the signing bonuses from refundable to non-refundable would unfavorably change the economics of MOO's contracts awarded to international oil companies (IOCs) as a result of Iraq's first oil bid round. The financial calculations used by the IOCs in determining whether to accept these contracts assumed reimbursement of the signing bonuses over time, although this reimbursement is diminished by the time value of money.

¶4. (SBU) The refundable signing bonuses stipulated in the contracts awarded from the first bid round are two to five times larger than the nonrefundable signing bonuses stipulated in the contracts awarded from the second bid round. Converting these larger refundable bonuses to nonrefundable would therefore penalize IOCs with first bid-round contracts in comparison with IOCs with second bid-round contracts.

¶5. (U) We will follow up with our IOC contacts to better understand the potential impact of Shahristani's intentions.
End comment.