



COALITION PROVISIONAL AUTHORITY
BAGHDAD

ACTION MEMO

19 April 2004

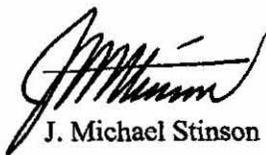
FOR: THE DEPUTY ADMINISTRATOR AND CHIEF OPERATING OFFICER
FROM: J. Michael Stinson, Senior Advisor – Iraqi Ministry of Oil
SUBJECT: AirScan Aerial Surveillance Mission Assistance

CPA-Oil requests your assistance in obtaining the required Federal Aviation Administration waiver to operate the AirScan aerial surveillance aircraft here in Iraq. This is the last step in the formal approval process to secure these sophisticated aircraft for the Task Force Shield mission to protect the Iraqi oil industry assets.

The CPA-Oil staff, particularly Cpt. Phil Noltemeyer, has been working this issue in conjunction with CPA-Transportation staff and have cleared two major approvals. State Department approval for the export of the aircraft from the United States has been received. The main issue there related to the sophisticated equipment onboard. Approval has also been received to base the aircraft at the Coalition airbase at Kirkuk. The only remaining issue resides with the F.A.A. and that relates to risk mitigation given the possibility of MANPADS or other similar weapons being deployed against the AirScan aircraft.

I have attached a letter for your signature addressed to the proper official at the F.A.A. Attached to the letter is the Risk Mitigation Plan, AirScan – Iraqi Operations. We believe a strong letter from the CPA will help accelerate this final step. We should have been deployed by now, and the planes have not even left the U.S. as yet. A letter from you emphasizing the importance of the mission will help.

Thanks for your willingness to help. Once this final approval is obtained we can commence this critical mission. Given the security situation with which we are now dealing the arrival of these aircraft in theater is of high importance.



J. Michael Stinson

Cc:

(b)(6)

Garv Vogler

(b)(6)

John W. Mansur, Chairman – AirScan Group

UNCLASSIFIED

MUTTITT 10-L-0263 000001

Scott:

Could you please have your staff send this communication to the F.A.A. via fax so that they will have it in Washington OOB today?

Thanks,

Mike

The fax number for the Associate Administrator for Regulation and Certification is listed as:

(b)(2)



COALITION PROVISIONAL AUTHORITY
BAGHDAD

19 April 2004

Mr. Nick Sabatini, Associate Administrator
Regulation and Certification
Federal Aviation Administration
Room 1000 West
Washington, DC 20591

Dear Mr. Sabatini,

The Coalition Provisional Authority has authorized AirScan Inc. to operate aircraft in Iraq to provide surveillance of the Iraqi Ministry of Oil's strategic pipelines in support of our efforts to restore Iraq's strategic petroleum industry. All approvals necessary to export the aircraft to Iraq and base the aircraft at the Coalition airbase in Kirkuk, Iraq, are now in hand. One final approval is required from the F.A.A. in order for AirScan to deploy to Iraq. I request that the F.A.A. expeditiously grant approval to AirScan Inc. to operate in Iraq under Section 3 of SFAR 77. I understand that the F.A.A. has requested that the Coalition Provisional Authority ratify AirScan Inc.'s Risk Mitigation Plan for this operation. Please find AirScan Inc.'s Risk Mitigation Plan attached hereto. I have ratified the Plan and have so indicated on the Plan document.

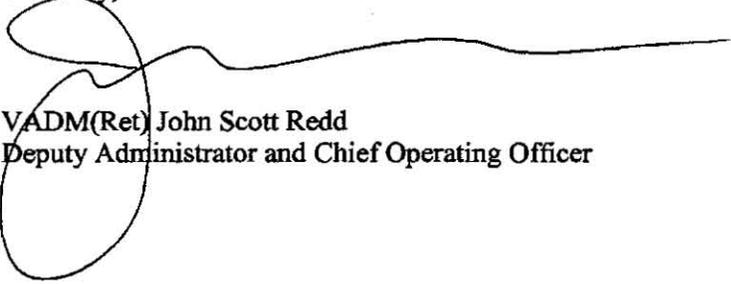
The restoration and preservation of Iraq's petroleum industry is of the highest priority. This process conforms to the strategy of President Bush and the Congress to make the new Iraq economically self-sufficient as early as possible. This project has been delayed in order to provide time for the consideration of its somewhat unique configuration and deployment to a region that is obviously not entirely stable. It is now time to act and avoid any further delays. It is not an overstatement to state that these aircraft will potentially save hundreds of millions of dollars from the detection and interdiction of saboteurs. I believe it will potentially save Iraqi and Coalition country personnel's lives. It is that important.

AirScan will employ the following aircraft in support of its surveillance mission:

- 2 - AirScan Cessna 337 Airborne Surveillance Aircraft
- 1 - AirScan Piper Navajo PA-31-350 Tactical Surveillance Aircraft

I trust this letter and its attachment will qualify AirScan Inc. for a Section 3 waiver.

Sincerely,



VADM(Ret) John Scott Redd
Deputy Administrator and Chief Operating Officer

Muttitt 10-L-0263 3

RISK MITIGATION PLAN

AirScan – Iraqi Operations

AirScan Inc. is contracted to provide surveillance of oil infrastructure assets in northern Iraq. The company will use Cessna 337 aircraft modified to carry sensor equipment allowing surveillance of specified facilities from an approximate altitude of six thousand feet above ground level. AirScan is also tasked to provide a transport category aircraft – proposing to use a Piper Navajo Panther Chieftain – to complement the Cessna 337's by allowing security personnel with the Iraqi Ministry of Oil, US Army Task Force Shield, and / or the Coalition Provisional Authority employees to survey the oil infrastructure for the purpose of planning tactical operations to secure the resource.

Several news stories and responsible reports indicated that relatively sophisticated man-portable air defense systems (MANPADS) are operative in Iraq to include first and second generation man-portable missile systems. Additionally, Rocket Propelled Grenades (RPG's) and small arms have been used to inflict damage to Coalition air assets – principally helicopters. AirScan received sensitive information from theater intelligence sources regarding specific systems and current tactics employed by various forms of irregular opposition. The company has been assured by the contracting authority that it will continue to receive updates and current intelligence information regarding the general situation as well as the anticipated situation relative to anticipated operations. Note: AirScan personnel possess collateral security clearances and will be afforded complete intelligence briefings before each operation.

In preparation to accomplish the contracted services, AirScan engaged the US Air Force test range and personnel at Eglin AFB, FL to evaluate the C-337 and by extrapolation, the PA-31-350. While the specifics of the tests are classified, the information indicated the need to adjust our infrared signature and operational tactics to accomplish the contracted tasks and mission. Modifications to the aircraft and training for the aircrews include:

- Exhaust diffusers have been added to both the front and rear engines. This action dissipates exhaust gasses in a much more rapidly thus reducing the infrared signature of the aircraft.
- Tactical operations and aircrew training –
 - All operations will be conducted during hours of darkness (not twilight or daylight)
 - Time of departure will be varied to avoid setting a predictable operational pattern
 - Time of recovery will be likewise varied
- Random arrivals / departures will be accomplished arriving and departing the assigned base of operations – unpredictable actions complicates or precludes opposition planning to be in a position to use MANPADS or other weapons.

RISK MITIGATION PLAN – AirScan Iraqi Operations

Page 2

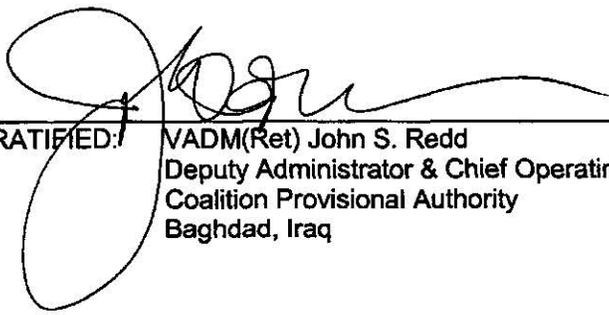
- Operational altitudes will be varied between six and ten thousand feet above the surface in the vicinity of the aircraft. These altitudes avoid small arms and RPG's entirely, and complicate the use of MANPADS.
- Approaches and departures from the area of interest will be varied and not repeated – this tactic complicates or precludes the use of threat devices with predictable results.

AirScan requested and received permission, codified within the contract signed by all parties, related to the mission to:

- Make all operational decisions based on "all" known or suspected information – the mission commander – pilot has the final choice (operational authority) to operate or remain on the ground depending on all of the information made available at the time of the mission.
- Should the threat situation, as experienced, reported, or suspected, change for the worse, AirScan has the authority to park the aircraft until the threat is neutralized or eliminated.

In conclusion, AirScan understands the mission, has tested its aircraft, trained its aircrews, and agrees to operate the mission. AirScan understands the potential threats (missiles, small arms, shoulder-fired systems and other weapons trained against air assets of the type and class operated) and has completed research related to counter measures and tactics to defeat these known threats. AirScan has installed reasonable counter-measures to mitigate the known validated threats (based on information provided by Task Force Shield supplied intelligence). AirScan has announced to all concerned parties a commitment to operate safely in a high-threat environment and that includes the unilateral right not to conduct missions if the threat is untenable. AirScan has taken these measures to insure the safety to operators (all company personnel operating the mission) and to the general public in Iraq. AirScan believes that all the above mitigate the risks inherent in Iraqi operations.

RATIFIED:


VADM(Ret) John S. Redd
Deputy Administrator & Chief Operating Officer
Coalition Provisional Authority
Baghdad, Iraq

20 April 2002
DATE



010121 2 (2)

COALITION PROVISIONAL AUTHORITY
BAGHDAD

ACTION MEMO

April 29, 2004

FOR: THE ADMINISTRATOR
FROM: J. Michael Stinson, Senior Oil Advisor *JMS*
SUBJECT: AK-47's for Oil Ministry

LPB HAS SEEN

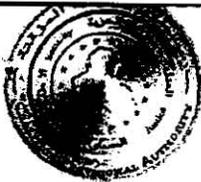
As a follow up to an earlier memo, the Ministry of Interior is willing to lend 2,000 AK-47's for oil security. The oil security contractor, Erinys, borrowed 500 weapons last week from MOI. With your authority, MOI will lend an additional 2,000 weapons until the weapons on order for Erinys get delivered in 60 to 120 days.

RECOMMENDATION: Authorization for oil security weapons increase so that the Ministry of Interior may lend 2,000 AK-47's to Erinys until its shipment of weapons get delivered.

Approve: *WJL* Disapprove: _____ Approve with modification: _____

COORDINATION: COO, LTG(R) Jeff Oster - ok

ASAP



COALITION PROVISIONAL AUTHORITY

BAGHDAD

LPB HAS SEEN

INFO MEMO

April 29, 2004

FOR: THE ADMINISTRATOR ✓
FROM: J. Michael Stinson, Senior Oil Advisor JKT
SUBJECT: Follow up to Oil Minister Meeting

✓ agree
make it
better ASAP

The following information is a follow up to your meeting with the Oil Minister on Thursday, April 29.

- AK-47's for Eriny's guards
 - Eriny's was required to procure their AK-47's through the US government in a large consolidated buy. Over 9,000 AK-47's scheduled for delivery over the next 60 to 120 days.
 - Eriny's borrowed 500 AK-47's from MOI last week. MOI has agreed to provide additional 2,000 upon approval from Ambassador Bremer. This would ensure a weapon for each guard on duty.
- Security for pipeline repair crews
 - The emergency pipeline repair project with TD Williamson has a security element provided by SAS Security.
 - The scope and value on the SAS contract will be modified to include providing security for Ministry of Oil pipeline personnel as well as TDW. We will triple the size of existing contract.
- Security at the oil terminal in the Arab Gulf
 - Marines have been assigned to secure both terminals in the Gulf. They have 25 marines living on each terminal. They are rapidly hardening the site.
 - Eriny's has 8 guards on each terminal.
 - CPA Oil and the Navy in conjunction with CENTCOM will develop a plan to better protect the terminals with higher caliber weapons and other defensive measures. This plan with cost estimate will be completed by 15 May.
- Oil Ministry Communications
 - Plan developed in July 2003 to build the Oil Ministry communications network throughout the country at an estimated cost of \$50 million. Temporary communications consisting of satellite telephone systems provided at remote sites until permanent system implemented.

Muttitt 10-L-0263 7

- Delays kept occurring to the implementation of the permanent communications package because of ~~low priority~~. Responsibility for the project was taken by the Ministry of Communications late in 2003, but was ~~recently returned to Oil~~ due to a lack of funding.
- Project is presently considered an unfunded requirement with a high priority.

COORDINATION: COO, LTG(R) Jeff Oster - ok

*What is being
done to set it up?*

UNCLASSIFIED

2



COALITION PROVISIONAL AUTHORITY
BAGHDAD

040601-64
3

June 1, 2004

FOR: THE ADMINISTRATOR
FROM: J. Michael Stinson, ^{MT} Senior Advisor to the Iraqi Ministry of Oil
SUBJECT: Briefing Paper – Ministry Of Oil Transition

This is in response to Tasker #150 dated 31 May 2004 in which seven questions were posed in three groupings. The answers to those questions follow:

Concerning the Senior Advisor to the Iraqi Ministry of Oil

The Senior Advisor to the Iraqi Ministry of Oil is J. Michael "Mike" Stinson, a Department of Defense 3161 employee. The expectation is that the Senior Advisor will extend beyond 15 July. This assumes, of course, that the Department of State concurs and the terms and conditions of employment, work content, and relationship to the Ministry of Oil remain essentially as they are now under the CPA.

There are no plans in place currently for a replacement of the Senior Advisor. This does bring up an issue that may merit some consideration. CPA – Rear in the DOD has handled the recruiting, vetting, hiring, and processing for the advisors' positions in the CPA Ministry of Oil. If replacements are required after 1 July and if suitable candidates are not already present in Baghdad what organization will handle these tasks in the future?

Transition Planning

The current Minister of Oil is departing and a new Minister has been named. There are no transition issues related to that change itself because the incoming Minister of Oil is a long-serving and highly regarded executive in the Ministry. The incoming Minister is a man with whom most of the advisors in CPA – Oil have an excellent relationship. We are in complete alignment on the necessary steps to ensure that the transition from the CPA to the Iraqi Interim Government is smooth and that the transition from the outgoing to the incoming Minister is also without problems.

We have made certain, as best we can, that currently serving advisors and our administrator, with one exception, will be in-place at least until 15 July to help identify any remaining small issues in the aftermath of the CPA's handover of sovereignty on 1 July. Our counterparts at the Ministry of Oil, again with one or two possible exceptions, will stay in their positions. Continuity, therefore, is well in-hand until the latter part of

July, and senior, long-serving former CPA people will be in the new Oil advisory organization until at least the end of August.

Other steps to ensure a smooth transition on 1 July will include:

- CPA-Oil has assisted the PMO organization in the development of relationships with the Ministry of Oil managerial and technical staff. Since PMO will be working in Iraq for the coming eighteen months to two years, these professionals will represent a strand of continuity.
- DESC has been working with the State Oil Marketing Organization (SOMO) for several months to improve their skills and performance as a refined product importer to augment their long-standing skills at international crude oil marketing. DESC and SOMO are in the final process of agreeing a complete handover of import responsibilities to SOMO in a few weeks following TOA.
- The Ministry is taking the steps to assume responsibility for the Erinys security contract. They will install a Command Structure within the Ministry in the coming weeks under a Director General of Security.
- CPA-Oil and the Ministry of Finance have transferred significant capital budget funds over to the Ministry of Oil for 2004 and are seeking additional funds, particularly in the area of security.
- CPA-Oil is leaving behind a body of plans, procedures, and processes to assist the Ministry to become a viable internationally competitive petroleum organization.
- CPA-Oil will offer longer term advisory services from the former Senior and Deputy Senior Advisors, at the election of the Ministry.

Steps to be taken post-TOA to ensure a smooth working Ministry will include:

- The successor to CPA-Oil intends to leave behind a comprehensive body of recommendations on long-range plans for exploration and production, refining, transportation, natural gas, and marketing incorporating our international experience. Additionally, we hope to leave recommendations on licensing policy for foreign investors, basic petroleum contract provisions necessary to attract sound foreign and domestic companies, product pricing and subsidies.
- We would propose to offer "after action reviews" with our counterparts to thoroughly discuss the results of our joint efforts during the period from April/May 2003 until August 2004.
- Continue to offer sound advice on organizational structure, personnel policies, HSE policies, and other aspects of sound petroleum organizational management.

In summary, the two top issues in the Ministry of Oil between now and the TOA are as follows:

- Security of people and critical strategic assets, most notably the major export pipeline and terminal systems in the north and south and the major refineries and products pipelines serving the central part of the country.
- Ensuring the adequacy of fuel supplies to the people of the country and crude oil and fuel oil to industries, primarily the country's refineries and electric power generating stations.

After TOA, the two top issues for the Ministry of Oil are a bit different as seen from our vantage point. Security remains a primary issue, but longer range objectives begin to predominate:

- Planning for the future of the Ministry and its organizations, organizational structures, and staffing as well as planning for the major initiatives, being: systematic replacement of all the outmoded and obsolete refineries in the country, means to significantly increase crude oil production and reserves, and means to utilize the significant amounts of natural gas in the country.
- Integrating the provision of energy to the country, including the provision of fuels for the growth of electric power and the replacement and modernization of pipelines and other infrastructure components. Given the security situation, redundancy and optionality will be criteria to be taken into account.

COALITION PROVISIONAL AUTHORITY
BAGHDAD

June 1, 2004

FORWARDED

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- SCC
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COALITION PROVISIONAL AUTHORITY
BAGHDAD

040614-05

LPB HAS SEEN

INFO MEMO

June 14, 2004

FOR: THE ADMINISTRATOR
FROM: Michael Stinson, Senior Consultant of Oil
SUBJECT: Briefing Paper for your Meeting with the Minister of Oil Thamer Abbas Ghadhban

Priority Issues Prior to Transfer of Authority

Critical success factors for the next 16 days all are influenced by national security and infrastructure security issues to a greater or lesser degree:

- Maintaining crude oil production and export volumes, refinery throughput and refined products distribution, fuel deliveries to power plants, and natural gas processing plant throughput all at the highest available capacity in spite of the efforts of saboteurs and insurgents to interdict these foundations of Iraq's economy.
- Maintain security of the Minister and his family during the time between now and when he moves into permanent quarters. Assist in the maintenance of security of the Minister and his family after TOA.
- Enhancing security of the employees and assets of the Ministry through internal resources such as the Erinys guard force; Iraqi security and emerging military assets, and Coalition Forces. Strengthen and extend information efforts to communicate with the Iraqi people to seek their individual and collective influence to abate the attacks on our systems.
- Finalizing the organization of the Ministry, the Iraqi National Oil Co., and other units of the Ministry. Identifying and naming a Deputy Minister(s) and other senior executives. The company structures should be designed to focus on developing infrastructure, operations, and technology fully competitive with the world's leading organizations.

Longer-Term Priority Issues

- Maximizing economic recovery of crude oil, natural gas, and natural gas liquids from Iraq's existing fields. Planning exploration, appraisal, and development to expand production by 2015 to between 5 and 6 million bpd of crude oil.

- Develop a long-range plan to replace Iraq's obsolete refineries with modern, high-yield facilities designed to meet Iraq's internal light oil requirements. The plan must also provide for the old refineries to continue running until new plants are available. The plan will eliminate high-cost refined products imports.
- Fully develop associated and non-associated natural gas sources. Construct systems to deliver natural gas to power plants in lieu of oil products. Create export LPG and domestic LPG businesses based on extracted gas liquids.

Senior Consultant's Office Staffing Status Through 31 August

The process of consultation on IRMO Consultant requirements with the prior Minister was not completed prior to his departure on 2 June. We have concluded that the 13 positions currently indicated will likely not be required. Therefore, we have merely been registering our current staff departure dates in discussions with the State Department. They are as follows:

		Available Through
Senior Consultant	J. Michael Stinson	<u>August</u>
Deputy Senior Consultant	Gary Vogler	July 18
Deputy Senior Consultant	(b)(6)	September
Consultant	Gary Holcomb*	August*
Engineer	(b)(6)	June**
Consultant	(b)(6)	July 15
Attorney	(b)(6)	August
Contract Administrator	(b)(6)	September
Detailee	(b)(6)	September

* Gary Holcomb is seeking permanent Embassy-based employment after TOA

** (b)(6) may return if required for more than a few weeks after July

*** (b)(6) USN is on active duty assigned to CPA/IRMO

**** (b)(6) USAF is detailed to CPA/IRMO Oil office

Biography, Mr. Thamir Abbas Ghadhban, Minister of Oil

Mr. Ghadhban has worked for the Iraqi Ministry of Oil since 1973. During the previous regime he was detained and demoted from his position within the Ministry for supporting democratic reforms. He earned his bachelors degree in geology from University College in London and his Masters Degree in Petroleum Reservoir Engineering from Imperial College at London University. During his long career with the Ministry Mr. Ghadhban held the positions of reservoir engineer, head of petroleum and reservoir engineering, Director General of studies and planning, Chief Geologist, and Chief Executive Officer. Mr. Ghadhban has authored and co-authored more than 50 studies and technical reports dealing with various aspects of the Iraqi oil fields and petroleum industry. He was born in 1945 in Babil, Iraq. He is married with two sons.



COALITION PROVISIONAL AUTHORITY
BAGHDAD

040301-08

6

~~Redd~~

Memorandum

February 29, 2004

DCO/A
C/A

FOR: THE ADMINISTRATOR
FROM: Mike Stinson, Senior Advisor
SUBJECT: Commissions from Crude Oil Sales

I am writing to alert you to a situation of concern to CPA Oil and perhaps to the CPA overall. As you are aware, a list of individuals and companies alleged to have been allotted crude oil volumes to sell for private gain was published several weeks ago. Requests for information or confirmation have come to CPA Oil from a variety of organizations in the aftermath of the list's publication. Those organizations include the State Department, OGA, and DIA. The ISG has already contacted SOMO directly for a summary or sampling of their records regarding this affair. We believed that it would be best to coordinate requests and responses through CPA Oil, if possible, to avoid duplication and minimize negative reactions from the MOO. Mr. Gary Holcomb of CPA Oil directed SOMO not to provide information to ISG or any other organization consistent with the decision to coordinate responses through CPA Oil. Coordination by CPA Oil would minimize the potential for the loss of records, something the MOO has experienced in the past, and hopefully preserve the good working relationship between CPA Oil and MOO existing at this critical time.

Mr. Holcomb volunteered to retrieve the information requested by the ISG and attempted to do so during a visit to the MOO on February 25th. He was informed by MOO staff that the Minister of Oil had placed the records off-limits. Subsequently the Minister personally informed Mr. Holcomb that the Governing Council requested that he retain the records until a committee was formed to review them. It is intended that the committee include an audit firm to ensure transparency. Mr. Holcomb's name will be included on the list according to the Minister also to ensure transparency from CPA Oil's side.

Mr. Holcomb relayed this information to the ISG on the afternoon of the 28th. ISG will work with us for the time being, but reserved the right to enter the MOO facilities and seize the relevant information if they deem it necessary to do so. ISG desires to have General Dayton meet with the Minister and have requested contact numbers for him. Mr. Holcomb has requested that ISG contact Ambassador Jones in advance of any visits to the MOO on this subject.

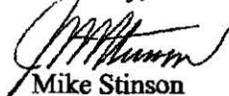
UNCLASSIFIED

-2-

CPA Oil should do its part to ensure that this allegation is investigated quickly and efficiently. We should support the Governing Council in their objective to seek, find and publicize the truth. We would hope that swift action by the Council will avoid the more coercive approach that might be necessary if the ISG concludes that insufficient action is being taken.

I provide this only for your information at this point, and both Gary and I are available to discuss this with you if you so desire.

Sincerely,



Mike Stinson
Senior Advisor
CPA Ministry of Oil

cc: Ambassador Jones
VAdm(R) Redd

~~SECRET~~

BAGHDAD 00579

Laserl:
ACTION: EXEC
INFO: COS IPC

DISSEMINATION: EXEC /1
CHARGE: PROG

31 MAY 2004

APPROVED: RJONES
DRAFTED: JPIECHOWSKI
CLEARED: JOSTER, TFITZGERALD

VZCZCBGI666
RR RUEHC RUEKJCS
DE RUEHGB #0579/01 1512037
ZNY SSSSS ZZH
R 302037Z MAY 04
FM CPA BAGHDAD
TO RUEHC/SECSTATE WASHDC 1121
RUEKJCS/SECDEF WASHINGTON DC
BT

~~SECRET~~ SECTION 01 OF 05 BAGHDAD 000579

E.O. 12958: DECL: 05/30/2014
TAGS: PREL, PGOV, MOPS, EAID, IZ
SUBJECT: CPA 1242: May 23, 2004 Meeting of the CPA
Executive Board, Baghdad, Iraq

1. ~~(S)~~ Summary. At the May 23 CPA Executive Board meeting, the Board discussed infrastructure security, including attacks on oil, railways and roads, and electricity; setting favorable conditions for the Iraq Interim Government (IIG); and it heard an update of the Strategic Plan. End Summary.

INFRASTRUCTURE SECURITY

Roads, Rails, Bridges, Convoys

2. ~~(S)~~ Deputy Administrator and Chief Operating Officer LTG Jeffrey Oster called upon COL Jim Slavin, Infrastructure Security Planner, Directorate of Infrastructure, to provide a powerpoint presentation on Infrastructure Security, noting that repeated attacks on truck convoys had caused a few countries to refuse to allow their citizens to enter Iraq as truck drivers because of security concerns. This had led the COO to compile an assessment of when and where the attacks were taking place. Oster also pointed out that MG Molan (AUS) had just been named to head C-9, Infrastructure Security. The key point, Oster stated, was that oil and electricity were the primary

~~SECRET~~

BAGHDAD 00579

targets of attacks. Slavin said the overall effectiveness of the attacks was increasing through the refinement of tactics. Linking efforts across MNF-I and CPA was the key to better protection, to include improving Operational Security (OPSEC). Over the past 30 - 45 days, the attacks had become more focused on critical sites - oil pipelines, roads and bridges were being targeted, particularly around main supply route (MSR) Tampa.

3. ~~(S)~~ Ambassador Jones commented that he had asked U.S. Marines in Falluja earlier in the day about the rate of convoy and infrastructure attacks. He said the Marines had realized that the attacks were occurring during the day, so they had shifted the convoys to nighttime runs with increased security to good effect. He expressed surprise at the high number of rail attacks, as reported on Slavin's chart. Oster replied that rail transport had been largely shut down - there just weren't that many trains, and they had been repeatedly hit. Slavin explained that the primary attack points were at Iskandariya and Mahmudiyah, just to the South of Baghdad. They took place every one to three days in that area. Between April 1 and May 16, there were 19 attacks on Iraqi rail lines, including 10 in that particular area. Jones asked whether any UAVs were monitoring the rail lines. LTG McColl, Deputy Commanding General, MNFI (UK), offered to find the answer to that question. Oster observed that local tribal shaykhs had been hired to protect the rail lines, but they were not doing their job. In fact, he suspected that some of them might have been complicit in the attacks, although he had no proof. While Slavin stated that the losses appeared to be motivated by pilferage when thieves could not get at convoys, Oster stressed that the strategic idea behind it was to isolate Baghdad through attacks on oil, rail and other supply lines. Jones suggested that a solution could be to put guards on trains.

Oil Attacks

4. ~~(S)~~ Slavin described the path of oil, which goes from refineries to pipelines for distribution. He said that Baghdad was an important destination for the internal market, and Mina al Basrah and Khaur al Amaya were the points where exported oil was loaded onto tankers. According to Slavin, the current problem was a lack of storage capacity as the attacks were focused on refineries and pipeline routes to Baghdad. Oster agreed that the problem was distribution, namely disruptions of the pipelines and convoys. He said that it was a significant issue; CPA had no more than a 1-day supply of fuel on-hand for its generators. Jones specified that there was not

much Turkish fuel arriving into Baghdad; most fuel was arriving from Jordan and Kuwait. Oster said that one improvement CPA had made was to reverse the flow of one pipeline to send oil south toward Baghdad. This was the work of Senior Advisor for Oil Michael Stinson and the Ministry of Oil.

5. (S) Stinson said that the most important line was the one that ran from Mosul to Bayji and then to Baghdad. He said that, in terms of convoys, the run south of Mosul was so dangerous that Turkish truck drivers refused to drive south of there. Consequently, supplies were backing up in the north. The 18-inch pipeline currently pumps about 20,000 barrels per day. He added that the pipeline could now ship benzene. Oster said that the reversed pipeline could initially only handle diesel, so a different pump was obtained to ship benzene, which was more volatile, so that if it were hit, the damage would be worse.

6. (S) Stinson said that the solutions to date had been a hodgepodge, consisting of reversing two pipelines and using trucks. If not for those efforts, he said, Baghdad would be completely isolated. He added that it was a miracle that Baghdad had electric power. The Daura refinery had been shut for two weeks.

7. (S) Oster said that CPA had been jerry-rigging the internal power supply system in the last 3 months to meet Iraq's needs. Jones said that the insurgents had apparently coordinated across oil, rail lines, roads and infrastructure, and had good intelligence. It seemed that somebody had a master plan, due to the sophistication of attacks. McColl said that the number of attacks had in fact, not increased. Jones said that CPA was up against a smart opponent. Attacks on infrastructure had evolved from stealing, when thieves would knock down a power line to strip the wires of their copper, to something strategic. McColl agreed, noting that Baghdad was "the center of gravity" and General Sanchez was focused on this very issue.

8. (S) Jones said that CPA's unpopularity was continuing to rise because it failed to deliver basic services. The average Iraqi didn't know about our efforts, only the poor results. CPA needed to focus on protection. Jones said that, with more resources, CPA could get a better handle on it. Oster said that even if one employed 500,000 troops, it would be impossible to completely protect fixed infrastructure. Protection was harder than it appeared, because the terrorists were, for example, hitting pipelines in marshy areas now that were much harder to repair. Previously, convoy security support had been less of a

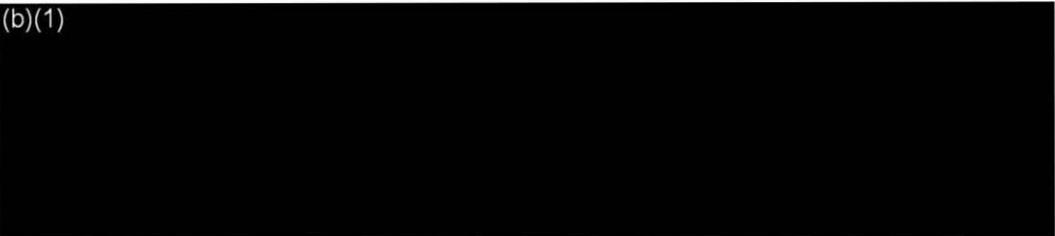
priority for CJTF-7/MNF-I than it was now.

9. ~~(S)~~ McColl said that, as CPA moved toward transition, the Coalition would remove troops from the streets and move them toward protecting the political process, major strategic routes and infrastructure. But he also conceded the difficulties due to the size of the country.

10. ~~(S)~~ Oster said that the crown jewels of the power sector were refineries and fuel plants. If one of them were destroyed, it would cost \$1 billion and take 3 years to rebuild. The security contractor ERINYS focused on those facilities. He reiterated that it was not hard to attack fixed infrastructure. The enemy had focused their attacks on remote areas, where it was very difficult to deploy repair crews. Jones said that assigning a 2-star general was a good start. Oster cautioned that it was difficult to take the current FRAGO to a commanding officer and beg for a convoy, what with the fight against Sadr. In the future, as Coalition Forces adjusted their priorities to protect infrastructure post-sovereignty, this situation would improve. Stinson said that the U.S. Navy was working to guard off-shore sites. He added that CPA dodged a bullet when the enemy missed hitting the offshore oil export facilities.

11. ~~(S)~~ Slavin turned to the importance of OPSEC. He said that the military was reviewing information available on NIPRNET and moving some of it over to CENTRIX. To illustrate the need for better security, he stated that Ministry of Oil employees would check the internal CPA intranet site for data and bother Stinson if certain information had not already been posted, some of which identified key, sensitive locations. He said that USAID posted all of its project information on the Internet. All of this was easily accessed information that the enemy could use to plan attacks.

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SETTING FAVORABLE CONDITIONS FOR THE IIG

13. (SBU) Jones said that the Executive Board should turn

its focus at this point from strategic objectives (the strategic plan) to tactical objectives. In other words, he asked how CPA could improve the environment for the IIG once Iraq became a sovereign nation. He suspected that there would be serious attacks against the government before and after transition. These attacks, while they probably would not be able to topple the government, at the least could destabilize it and force it to spend time and energy responding. It was important that CPA set favorable conditions for the government. Jones said that there had been many good ideas, but the current need was to focus on ensuring their implementation.

14. (SBU) For example, Jones said that the Administrator had mentioned in a speech in April that CPA would bring back former Army officers. Jones thought only six or seven officers had been rehired. He asked whether these officers could be used to stand up the New Iraqi Army. When he was in Al Kut, a city that had fallen to Sadr's militants in part because the police deserted their posts, Jones said he had met two impressive Iraqi Policemen working to build the local police force, both of whom were former military officers. The Ministry of Interior was unable to hire them until after Bremer's speech. He cited this as an example of a proposed solution that still had not been fully enacted. And in the case of maintaining order, it was important for MOI and ONSA to work together to get talented former military officials into other law enforcement agencies, such as the police, army, Iraqi Civil Defense Corps, and the Border guards. In the specific case of the last group, he said that the border forces in Wasit province were a joke; they sat in their hootch and drank tea all day.

15. (SBU) Jones said that another problem with a named solution was corruption. He asked about the status of the Commission on Public Integrity. He said that there needed to be follow-up and publicity. He also asked if CPA should pursue the case that resulted in the raid against Chalabi and the Iraqi National Congress.

16. (SBU) Jones proceeded down a list of priorities he had identified. With respect to de-Ba'athification, an important question was how many teachers had been rehired and whether independent review commissions had been set up across the nation to consider the rehiring of teachers, doctors and other professionals. For elections, he inquired about the status of the Independent Electoral Commission, and the electoral and political party laws. He asked how an investigation would be pursued for crimes committed in Falluja. An independent judge had been

assigned to the case, but the Chief of Police believed he was required to handle the investigation.

17. (SBU) Turning to fuel, Jones asked about adjusting the price structure. Stinson replied that it was CPA's call whether to reduce subsidies in the fuel sector. He said that there had been some backpedaling from some ministers. He thought that if CPA accepted the risks involved, it was advisable to proceed with raising prices as soon as possible. He said the Minister of Planning seemed lukewarm to the idea, and the Minister of Displacement and Migration supported maintaining subsidies. This had pressured Bahr al Uloom, the Minister of Oil. Stinson suggested that if it was a timely decision and wouldn't cause a riot, a gradual elimination could be the way.

18. (SBU) Jones said that he thought that CPA had already made a decision regarding subsidies. Stinson reiterated that it was still CPA's call. Jones stated that it was a good idea to do it before the new government came in; that way CPA could take the hit for it. Oster warned of corruption on the part of certain ministers who knew they were on the way out and were seeking to line their pockets. He described the situation as the rush to the supermarket before a storm. Referring to the Chalabi case, Jones said that his most vociferous defenders were his closest business partners.

19. (SBU) Jones asked the Board how these disparate issues should be addressed. He reviewed different options, including tiger teams, task forces, and reports. He reiterated his interest in following up on the Interior Ministry hiring Army officers and developments with the Falluja Brigade. McColl said that there was some progress with the brigade, but added that there was no way the new army or MOI could absorb the entire officer class. He joked that it seemed that there were 5,000 generals in Mosul alone. He said he would follow up on this issue. Jones called for more concentrated efforts with each issue, with this one, suggesting that maybe all that was needed was a matrix of, for example, the number of generals hired in the past week. He suggested that two weeks before transition, Bremer could give a "state of the nation" speech. In it, he could detail all the promises fulfilled.

20. (SBU) Jones also asked about the Local Governmental Authorities Order. He understood that CPA officials at the governorate level were recommending certain revisions. General Counsel Scott Castle said he had not yet received specific recommended changes yet from Governance, but revisions could easily be done. Jones replied that he had

spoken with people in the provinces who were saying that implementation of the order could be facilitated by some modifications.

21. (SBU) Castle said that Bremer had observed that the impending announcement of the IIG limited the opportunity for consulting with the IGC on CPA legislative initiatives. There were several outstanding orders, including a Financial Management Order (with an annex on public debt) being fielded by Chalabi's sub-committee. There would be limited opportunity to do coordination on finance matters after this Order. Also, he noted one important aspect of the LGO: it was the only order that CPA had promulgated where the consultation and coordination with the IGC did not result in the IGC's expressed concurrence with the order. For that reason, he said that any amendments to the order should be prepared in close cooperation with the affected ministries and local Iraqi officials.

22. (SBU) Continuing to stress the importance of setting up the IIG to succeed, Jones asked about the latest plans for the creation of the Supreme Court and who would serve on it -- would CPA appoint the members, or would that be reserved for the IIG? What about the implementation of the visa regime? He proposed that his list of priority issues serve as the Executive Board's agenda for the remaining five weeks, grouping the issues into legal, security, economic and other categories, and forming tiger teams to report to the Board. Castle proposed adding Financial Management and Non-governmental Organizations (NGOs) to the list. CPA's authority to disburse funds from the Development Fund for Iraq ends on June 30. The new UNSCR presumably will transfer that authority to the IIG, but CPA must develop a plan for liquidating all obligations that are properly incurred before June 30. Secondly, Castle said that Order 45, the NGO order, was being revised to balance the operational needs of legitimate NGO's with security requirements.

23. (SBU) Stinson suggested that employment should be added to the list. It was a big problem in Iraq. He said that the State-Owned Enterprises were obstacles if CPA was not allowed to prime the pump. He cited the example of an idle, heavy manufacturing plant near Doura. Meanwhile, CPA imported one million Chinese Liquefied Petroleum Gas cylinders. He said that the ministry had tried to engage companies on the local economy, but had not found any. Jones said he assigned his project to OPPA, which should come up with 4 or 5 areas, such as Security, Governance, Economy, and Legal. Kevin Kuklok, OPPA, said that his office would have a progress report at the next meeting.

Jones emphasized the goal was that at least we would know we had done everything we could. Oster suggested adding education as an issue as well. Jerry Thames, Senior Advisor for Communications, proposed adding communications between ministries and federal and local governments as a priority issue.

24. (SBU) Tom Crangle, Senior Advisor to the Ministry of Electricity said he knew of a transformer factory that needed capital. Jones said that he knew that Private Sector Development was active in those areas and had a micro-lending program.

25. (SBU) Oster said that SOE paid a lot of money to people so that they didn't work. There was no incentive to improve. It was a command economy, with money going to employees, but no investment and there was no energy to get the SOEs up and running. Even the managers didn't care. Jones said that this was the legacy of the former system.

STRATEGIC PLAN REVIEW

26. (U) Definition of Color Status. Green: Target expected to be reached on time and within standards. Amber: There is some risk to reaching the target on time or to the required standards; close monitoring is required. Red: There is severe risk to reaching the target on time or to the required standards; immediate adjustments are required. Black: No target assessment available.

27. (SBU) Kevin Kuklok, of the Office of Policy Planning and Analysis, gave an update on the strategic plan. He started with the reds, which he said all fell under "Essential Services," specifically, three under Communications. Jerry Thames, Acting Senior Advisor to the Ministry of Communications provided details. He said that there would be no systematic communications for the government after transition. The ministries would lose their MCI cell phone service and there was no substitute, due to IRAQNA's poor service quality. In short, said Thames, we've retrogressed. Thames said he had spoken with Minister Haider, who told him that it would be his last week as Minister and that he was not planning to return after leaving the country. This would mean that there would be no one else to sign procurements. Thames said he had told the minister he could not leave the country until he signed the procurements or the delegation of authority. The Minister said he would respond the following day (Note: Haider signed two procurement agreements before leaving Iraq. End Note.) His signature was necessary because the

money was from the Development Fund for Iraq, directed to infrastructure for Baghdad. Communications was a critical gap that needed to be filled to start up government and commerce.

28. (SBU) Castle noted that Bremer could sign an order delegating procurement authority to another official if the Minister refused to exercise that authority. Thames said that such an approval had been pursued previously. Thames said that Bremer had asked him the previous evening about communications for the Presidency. Jones suggested that Thames use Ambassador Bremer's interest in providing communications for the IIG as a vehicle to re-submit the request for Bremer to sign the procurements. Oster thought communications would be an ideal project for the new PM to tackle. Results could take 18 months. This was big for the new Prime Minister. Jones urged that CPA do its best to tee up the issue for the new government.

29. (SBU) Thames said that CPA was withdrawing MCI service to get the Iraqis off of U.S.-paid services, and to get them on IRAQNA service. After Transition of Authority (TOA), it was not appropriate for the USG to fund Iraqi government communications. Oster added that the State Department wanted to cut telephones off, because people had been passing them to their families. The only way to gain control over the telephones would be to cut service. Thames defended the State Department decision, saying that the situation was so bad that there were Iraqis setting up businesses where they actually sold long distance air time on the MCI phones. Oster said Minister Haider had been stalling for three months and had refused to let anyone take action. It was important to get the procurements signed, so that the plan could move forward.

30. (SBU) Kuklok stated that overall, the Strategic Plan was in good shape and that Governance had scrubbed their strategic plan.

31. (SBU) Kuklok also reviewed some of the metrics currently in use. He commented that they didn't always match the Strategic Plan.

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18 JUN 2004

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~~CONFIDENTIAL~~ SECTION 01 OF 03 BAGHDAD 000715

E.O. 12958: DECL: 06/16/09
TAGS: EPET, ENRG, ECON, PREL, PTER
SUBJECT: CPA 1365: AMBASSADOR BREMER'S MEETING WITH THE
MINISTER OF OIL

CLASSIFIED BY AMBASSADOR L. PAUL BREMER FOR REASONS 1.4 (B),
(D), (E) and (G).

1. (U) Summary. On June 15, 2004, CPA Administrator L. Paul Bremer met with the newly appointed Minister of Oil, H.E. Thamiir Abbas Ghadhban, in the Minister's office to discuss the near-term and longer-term outlook for Iraq's oil industry including key elements of infrastructure security, Ministry structure, oil and gas production forecasts, refined product production and imports, natural gas exploitation, and price liberalization. Others in attendance were DCM-designee Ambassador James Jeffrey; Dr. Ahmed Al-Brifkani, Advisor for Downstream; Abdul-Sahib S. Al-Qutub, Advisor for Upstream; Muatassim Akram, Advisor for Natural Gas; Abdullah Al-Amir, Advisor for Financial Relations; and J. Michael Stinson, CPA Senior Consultant to the Ministry of Oil. End Summary.

2. (U) Minister Ghadhban welcomed Ambassador Bremer and the other visitors to the Ministry of Oil. Ambassador Bremer expressed his congratulations to Minister Ghadhban and his great pleasure at the Minister's appointment. The Minister thanked Ambassador Bremer and stated that it was his intent to concentrate upon the top priorities of the Ministry, and he offered a recitation of priority and other items, including answers to questions from Ambassador Bremer, as noted in items 3 to 16 to follow.

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3. (S) The current number one priority is to restore the security of Iraq's oil infrastructure, facilities, and employees. He said that: (a) security is not the main business of the Ministry but it has to be dealt with as a foundation for all other things; (b) the private sector Erinys International Oil Security Force will need to be increased from the current complement of 14,000 to perhaps as high as 25,000; (c) he intends to appoint a Director General for Security to supervise the Erinys contract, direct the security budget, and eventually take over command of the guard force; and (d) he is conducting intensive meetings with local leaders and sheiks, including a group of 40 following our meeting, to enlist their support. Ambassador Bremer encouraged the Minister to maintain close relations with the Ministries of Defense and Interior as well as the leadership of the Coalition Forces. The Minister requested information as to the reason the Erinys guards cannot be armed with AK-47 automatic rifles in the Kirkuk region. Mike Stinson will investigate and report back.

4. (S) The Minister articulated two top priority domestic operating objectives. The first he spoke of is to ensure that the Iraqi people have the appropriate availability of fuels. He knows that Iraq's refineries need to be more reliable and more productive. The turnaround at the Baiji refinery was discussed as a case in point. The project is going very well and is ahead of schedule. It is essential that this refinery achieve its post-turnaround increased production targets. At Basrah, and indeed all processing facilities, a key to increased production is the access to spare parts and equipment inventories and the funds to acquire them on an emergency basis. A critical compressor at Basrah has been impaired for weeks, for example, and has reduced benzene output. The ability to repair or replace such facilities faster and better would increase refined products output. At the Daura refinery the key to increased production is the continuous availability of crude oil supplies through the pipelines serving the plant. If throughput can be maximized, Daura can deploy its processing efficiency to the maximum. Even though it is the oldest refinery, Daura is the most efficient. The Minister intends to maintain a highly effective refined products import capability through the State Oil Marketing Organization (SOMO) but intends to reduce imports through making Iraq's three major refineries and several minor refineries more efficient in processing crude oil into light refined products.

5. (S) The other top priority discussed by the Minister is to increase the production of crude oil and to ensure that exports to international markets are maximized. This will entail new field development projects, the drilling of new wells in older fields, and the workover of existing wells in older fields. It will also necessitate both the improvement

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and protection of the Mina al Basrah and Khawr al Amaya offshore oil loading terminals in the Arabian Gulf.

6. ~~(S)~~ The Minister also discussed several other relatively high priority objectives: (a) to provide the appropriate fuels to the Ministry of Electricity thermal and turbine electricity generating stations including natural gas, crude oil, diesel fuel, and heavy fuel oil; (b) to reduce and eventually eliminate smuggling operations through border closings, mandatory GPS devices on trucks, and the higher use of metering and SCADA systems; and (c) increasing the exploitation of natural gas currently being flared and the recovery of LPG's up to 3,000 to 4,000 tons per day. Longer-term the Ministry will be evaluating Gas-to-Liquids (GTL) technology, LNG technology, gas for fertilizers and chemicals, etc. to capitalize on the country's large natural gas reserves. It is possible that Iraq might join the ranks of exporters of natural gas by pipeline to neighboring countries, Lebanon, Cyprus, and, eventually, Europe.

7. ~~(S)~~ Ambassador Bremer asked the Minister about his plans to increase refined products prices in the Iraqi market. The Minister replied that they had a plan to gradually increase prices beginning soon. He plans to discuss it with the Prime Minister and the Cabinet.

8. ~~(S)~~ Ambassador Bremer asked the Minister about his plans to re-organize the Ministry. The Minister indicated he would be reinstating the Iraqi National Oil Company (INOC) soon. Based on a recent conversation the Prime Minister has indicated his concurrence with this plan. The reinstatement of INOC would create an organization to focus on the betterment of the Upstream petroleum businesses. This would allow the Minister to concentrate upon international relations, Iraqi national politics, attracting foreign investors, guiding the industry, and helping create effective strategic plans and budgets.

9. ~~(S)~~ Ambassador Bremer asked the Minister about future crude oil production expectations. The Minister said there are about 500 high-quality exploration leads in the country, and the country has not been thoroughly explored. He believes the forecast used in the IMF Debt Sustainability Analysis of 5.5 million barrels per day is quite achievable and 6 million barrels per day is well within possibilities. The Minister believes approximately 3.5 million barrels per day would come from direct INOC investment and control and 2 to 2.5 million barrels per day could come from foreign investment. When asked about a reasonable 2004 year-end production estimate, the Minister indicated he thought 2.8 million barrels per day could be achieved versus the earlier target of 3 million barrels per day. The reduction is due to the loss of six months work due to slow investment. In 2005 he estimated that around 250,000 barrels per day could be added to achieve a level of 3 million barrels per day at year end. Around a third of the added amount would come

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from southern fields and two-thirds from the north.

10. ~~(S)~~ The subject of the contracts signed by the former regime and those signed by Northern and Kurdish authorities was discussed. The Minister articulated the position that all sub-surface minerals are owned by all the Iraqi people and managed only through the Ministry of Oil. If a contract has not been properly sanctioned by the Ministry of Oil then it needs to be reviewed by the new Ministry authorities to ensure conformance with this policy. He expects to write a letter to the Prime Minister and the Cabinet regarding the Kurdish and Northern Authorities contracts and refer to the position in the Transitional Administrative Law (TAL) regarding this matter. The Minister received a delegation from Kurdistan two weeks ago and will send a delegation to that region in two weeks time.

11. ~~(S)~~ The Minister indicated that the larger companies would probably await a Production Sharing Agreement contract or similar legislation before they entered the country. Smaller companies, though, might enter the Iraqi oil business by developing smaller fields through service agreements or modified buy-back agreements not offering ownership of reserves or the ability to recognize reserves on corporate books. Otherwise major foreign investment would probably not occur until around 2006.

12. ~~(S)~~ Ambassador Bremer asked about the situation regarding the pipeline delivery of either crude oil or fuel oil to Iran in exchange for light oils from the Iranian's Abadan refinery. The Minister indicated Mr. Brifkani had led the evaluation team on this project. Mr. Brifkani said that he had sent a report to the Minister today on the economic and technical feasibility. He indicated that a crude oil for refined products transaction might also be done with Jordan's Aden refinery.

13. ~~(S)~~ Ambassador Bremer recommended that the Iraqi's open discussions with Saudi Arabia on the re-opening of the Iraqi Pipeline across Saudi Arabia (IPSA). Both the Minister and the Ambassador are well aware of the high sensitivity of this issue.

14. ~~(S)~~ Ambassador Bremer asked if the Minister was satisfied with the security arrangements for the offshore loading terminals being organized by the U.S. Navy and the U.S. Marine Corps. The Minister said that he was, but that the pipelines to the terminals are vulnerable onshore.

15. ~~(S)~~ The Minister made a strong statement about the need for financial flexibility and financial quickness. Ambassador Bremer said that the INOC would offer partial solutions as it would avail the Ministry of investment funds. He also indicated that Iraq and the Ministry of Oil would continue to need help in the intense political environment existing in and around Iraq. The Minister

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indicated that some of that help would need to come from an understanding of the need of the Ministry to distance itself somewhat from American and Coalition interests. Such an approach will probably necessitate a distancing from the Iraq Reconstruction Management Organization (IRMO) Consultants.

16. (U) Ambassadors Bremer and Jeffrey expressed delight at the relationship that had been developed to date and optimism for expanding and deepening relationships in the future. The Minister joined the Ambassadors in recognizing the great cooperation that has marked the relationship in the past several months and hopes for more in the future.

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APPROVED: LPBREMER
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20 JUN 2004

UNCLAS SECTION 01 OF 02 BAGHDAD 000731

SENSITIVE

EO 12958 DECL: N/A
TAGS: PREL, PGOV, ECON, EPET, EFIN, IZ
SUBJECT: CPA 1384: BRIEFING PRIME MINISTER ALLAWI ON THE
OIL INDUSTRY

1. (SBU) Summary: As part of a series of daily briefings, the Administrator and Mike Stinson, Senior Consultant to the Iraqi Ministry of Oil, briefed the Prime Minister on the state of the oil industry on June 18 in the PMS office. The conversation focused on decisions that the Prime Minister and the Cabinet can make to ensure the long-term health of the petroleum industry. Additionally, the Prime Minister was apprised of the serious loss of production and exports due to the damage saboteurs have done to the countrys pipeline infrastructure. The Prime Minister gained a clear understanding of the challenges he faces in protecting and modernizing this critical sector of Iraqis economy. End Summary.

2. (SBU)Mike Stinson gave an overview of the locations and extent of the damage to the pipeline infrastructure in the North Oil Co. and South Oil Co. operating areas, caused by saboteurs. Copies of photos of the damage in the Basrah area were provided to the Prime Minister along with high compliments for the crews repairing the pipelines. These crews are working 24 hours a day and 7 days a week to restore export capacity. The work is very difficult, and the statement was made that these crew members deserve our

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highest admiration.

3. (SBU) Stinson indicated that during the first few weeks of its term, the Iraqi Interim Government (IIG) could make decisions that would propel the nations oil and gas industry forward and benefit all of the Iraqi people over the long-term future. Among the more important decisions would be the following:

Statement of Basic Economic Policy

4. (SBU) The Prime Minister's Cabinet should establish a direction in which strong state organizations coexist with a strong private sector. The Prime Minister should support the Minister of Oils intent to restore the Iraqi National Oil Company (INOC) to its position of leadership for Iraqs exploration and production businesses. The organization of INOC early in the tenure of the IIG will strongly focus on the growth of Iraqs vital oil industry, attracting foreign investment, and providing the leadership necessary to restore the technical health of the energy sector. The Prime Minister asked Mr. Stinson if he had thoughts regarding candidates for the CEOs position at INOC. Mr. Stinson gave him the names of Mr. Jabbar, Director General of the South Oil Co.; Mr. Qutub, Advisor to the Minister for Exploration and Production; and Dr. Al-Saadi, Director General for Economics and Finance at the Ministry of Oil. The Prime Minister indicated he was considering Walid Khadurri, Editor of the Middle East Economic Survey, as a potential candidate. The Prime Minister said he would also ask Walid Khadurri to head up a proposed Oil Industry Advisory Council.

Security

5. (SBU) Stinson urged the Prime Minister to support the Minister of Oil in his program to expand and strengthen the ERINYS Oil Security Force from its present level of 14,000 guards to as many as 25,000. An increase in strength, capability, and coordination with other national security resources is necessary to maintain a strong and viable oil industry, the cornerstone of the economy for years to come.

Invest First

6. (SBU) The Prime Minister was encouraged to support a policy of investing first in strengthening the nations infrastructure, specifically in the energy industry. The following were recommended as laying the foundation of a strong future economy:

- Program the replacement of obsolete refineries with modern, efficient facilities.
- Accelerate the use of abundant, clean natural gas for industrial fuel or feedstock.
- Commit to 24 hours of reliable power to the nation by the end of 2006.
- Rehabilitate the nations pipelines, ports, depots, roads, and rail systems.

Strengthen the Nations Oil Production

7. (SBU) Stinson also said the IIG should ensure that investment flows toward the exploration and development of the nations oil fields to increase production and international market share. The policy should clearly state that there is a role for private Iraqi and foreign capital and ensure the very best technology is employed to maximize reserve recovery.

Eliminate Price Subsidies

8. (SBU) Finally, CPA urged that the IIG quickly establish government policies that will move the Iraqi economy away from subsidies on petroleum products and toward subsidy-free pricing by the end of 2006. The Prime Minister agreed that Iraq would benefit from a movement toward open-market et prices. Stinson said the Minister of Oil had structured a program of gradual price increases. He expressed the hope that the program could be implemented as soon as possible, preferably before 30 June. The initial move toward regional parity and subsequent moves toward true subsidy-free pricing would begin to eliminate serious smuggling operations that currently rob the Iraqi people of fuels and money. Ambassador Bremer stated that approximately \$2.5 billion was being spent on refined products imports and that these funds represented a direct drain on Iraqs national budget. He had indicated earlier that a substantial sum was being spent on food imports. These two subsidies alone constituted a large portion of the Gross National Product of Iraq. The Prime Minister agreed that this situation was not sustainable.

Establish a Public Utility Commission

9. (SBU) The Prime Minister was also urged to consider appointing a Public Utility Commission to regulate electricity, natural gas, and other utility prices where there is no readily available international market data of relevance.

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COALITION PROVISIONAL AUTHORITY
BAGHDAD

INFO MEMO

15 May 2004

FOR: THE ADMINISTRATOR
THROUGH: Deputy Administrator and Chief Operating Officer *[Signature]*
FROM: J. Michael Stinson, Sr. Advisor to the Ministry of Oil
SUBJECT: Crude Oil Production and Export Capabilities

This memo is in response to your request for information concerning Iraq's crude oil production and export capabilities, particularly in the near future. I've taken this opportunity to expand the commentary to include the intermediate and longer term prognosis crude oil production and exports. Crude oil supply to the refineries and refinery output are related issues and some comments are provided for this segment as well. I've divided the production information into two parts, the unconstrained capacity picture and the constraints that prevent full production from being brought to bear on exports and refinery feedstock.

Iraq's Unconstrained Production and Export Capacities

Iraq has unconstrained well and field capacities currently between 2.75 and 2.90 million barrels per day (bpd). The principal fields under the control of the South Oil Company are able to produce approximately 2.1 to 2.2 million bpd without downstream constraints. The principal fields under the control of the North Oil Company are able to produce between 650 and 700 thousand bpd without downstream constraints. The bulk of Iraq's total production capacity and virtually all of its near-term ability to increase daily production in response to market conditions or refinery requirements in an unconstrained world come from just a few fields: Kirkuk (North Oil Co.), North and South Rumaylah (South Oil Co.), Az Zubayr (South Oil Co.), and Majnoon (South Oil Co.).

Iraq's unconstrained production capacity will likely hold above the 2.5 million bpd level through the balance of 2004. However, a significant decline in productive capacity is inevitable unless major strategic projects such as the pressure maintenance system for North and South Rumaylah Fields are completed and the significant investments for which the Ministry of Oil and CPA Oil have requested funding within 2004 are accomplished.

Iraq's unconstrained nameplate capacity at its large refineries at Baiji, Doura, and Basrah total 490,000 bpd. An additional 110,000 bpd of crude oil is used by Iraq's small package refineries,

power plants using crude oil for fuel, and a barter transaction with Syria exchanging approximately 14,000 bpd for electricity. The maximum amount of gross production devoted to internal requirements currently totals 600,000 bpd. Therefore, the difference between unconstrained production capacity and maximum expected internal requirements is 2.15 to 2.30 million bpd suggesting that the resultant volume available for export sales without constraints should be able to exceed recent record levels of approximately 1.85 million bpd.

Constraints Limiting Iraq's Actual Production and Export Capacities

Constraints on Iraq's ability to produce crude oil, ship it to points of export, and ship it to domestic refineries and other crude oil consumers have been increasing in recent months. Boiled down to the essentials, **major constraints relate to security and investments.** I've further divided the commentary into four periods:

1. 15 May to 31 May

The period from now until the end of May is dominated by security related constraints and other uncertainties as follows:

- Kirkuk gross production is constrained throughout the period to a maximum of 450,000 bpd due to the replacement of the 40-inch pipeline between Kirkuk and Baiji/IT Pipeline and the Al-Fatah crossing of the Tigris River. We have experienced sabotage on the 40-inch and other pipeline segments between Kirkuk and Baiji as well as on the IT Pipeline itself. Furthermore, we have had several attacks on the oil field itself but none has yet affected crude oil productive capacity.
- North Oil Co./Kirkuk deliveries to the Baiji refinery will continue through most of the period because we have had to further delay the Baiji refinery turnaround because of the impacts on supply caused by the successful attacks on the crude oil pipelines feeding the Doura refinery. Between 15 May and 1 June, total exports via the IT Pipeline and Ceyhan will total 200,000 to 250,000 bpd.
- North Oil Co./Kirkuk deliveries to the Doura refinery and Qudas power station will be reduced modestly due to downtime on the K-2 12-inch crude system which was sabotaged during the first half of the month.
- South Oil Co. exports through the Mina al Basrah and Khawr al Amaya terminals have been impacted by the unsuccessful attacks on the terminals themselves and the recent successful attack on the 48-inch export line. We do not have a forecast of when repairs can be completed, but it will be more than a few days; until that time South Oil Co. exports are reduced by approximately 700,000 bpd to around 900,000 bpd. Unless further attacks occur, full production and exports should commence by end-May.
- South Oil Co. crude deliveries to the Doura refinery and the Mussayib power plant are zero because of the damage to the 18-inch pipeline from the Strategic Pipeline to Doura and Mussayib. The usual total to these two consumers, approximately 85,000 bpd, will be available to expand exports until the 18-inch pipeline is repaired and returned to service.

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Sir, Please note that there are two conflicting reports regarding the break in this pipeline. One says repairs can be done quickly. The other says there are big problems getting the line evacuated so repairs can begin. Mike Stinson thinks the latter is most likely but has had trouble communicating with South Oil Co. GRD will try to send one or two folks down there to sort this out.

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Production/Exports During the Period: Expected gross production will be around 1.5 to 1.6 million bpd. Expected exports will be substantially impaired to levels around 1.0 to 1.2 million bpd.

Security will be a major issue during this period. Ministry personnel in many cases are either not reporting to work because of threats or refusing to work on certain facilities because of the inherent danger. The insurgents have already done considerable damage to our physical plants and pipelines; they are not expected to cease any time soon.

2. 1 June to 30 June

The month of June will continue to be dominated by security issues and uncertainties, but if the incidents of sabotage abate, the production and export figures can rise to the levels seen during April due to the following:

- North Oil Co./Kirkuk deliveries to the Baiji refinery will be reduced by approximately 120,000 bpd during the turnaround lasting through the month and well into July. This amount, offset modestly by the presumed additional deliveries to the Doura refinery and Qudas power station will be available for export. Assuming all pipeline systems remain intact the exports through the IT Pipeline should reach approximately 310,000 bpd.
- South Oil Co. gross production and exports should be restored to full levels. Assuming full deliveries of crude oil to the Basrah and Doura refineries, small package plants served from the south, and power stations burning crude oil, the level of exports from the south should be between 1.6 and 1.7 million bpd.

Production/Exports During the Period: Expected gross production should return to April levels of 2.5 to 2.6 million bpd. Expected exports may reach record levels of 1.9 to 2.0 million bpd mostly due to reduced deliveries to domestic refineries.

Security will be the main issue during the period. Gross production and exports cannot increase much beyond the expected levels, but continued sabotage and threats or actions against Ministry and expatriate personnel could very well substantially reduce actual levels.

3. 1 July to 31 December

Production levels and exports for the second half of 2004 will be substantially impacted by both security issues and the level and pace of investments in the industry. Key projects or investments that will impact that latter half of the year are as follows:

- The completion, or lack of completion, of the Quarmet Ali water treatment plant and all the systems to inject massive amounts of water into the North and South Rumaylah Fields for pressure maintenance is a critical event during the second half of 2004. If the project is not completed and injection started around mid-year, then we are in agreement with Ministry of Oil experts who expect that South Oil Co. production will begin to decline

starting in July and be reduced by some 250,000 bpd by year-end. If the project is completed South Oil Co. production should be stabilized at roughly current levels.

- North Oil Co./Kirkuk gross production and exports will be materially impacted by the completion, or lack thereof, of the Al-Fatah crossing of the Tigris River and the completion of the 50 km. of new 40-inch pipeline to carry crude oil between Kirkuk and Baiji for refinery feedstock and delivery to the IT Pipeline. If these projects are successfully completed and not interdicted, then Kirkuk production can increase to its maximum current level of approximately 600,000 to 650,000 bpd.
- North and South Oil Co. production is experiencing increased water cut, or produced water. In order to sustain production, and certainly to facilitate any increases, investments need to be made to handle this "wet crude". These investments are not yet funded. It is vital that they be funded as soon as possible.
- North and South Oil Co. both have wells that require major workovers in order to maintain production. These investments are not yet funded; these are vital as well.

Production/Exports During the Period: Gross production may be under some downward pressure during July and August before the noted projects are completed. If the waterflood project is completed in the south and the pipeline projects are completed in the north, then gross production will have a tendency to increase by around 200,000 bpd as the full near-term production capacity at Kirkuk is realized. This could result in levels of production approaching 2.7 to 2.85 million bpd. Resultant expected exports would also rise to around 2.1 million bpd. Toward the end of the year production would tend to decrease substantially if the projects are not completed and/or funded. Security will continue to be a primary issue during the period.

4. 2005 and Beyond

Gross production in 2005 can reach 3.0 million bpd, but the completion of all the projects begun in 2003 and 2004 need to be effectively completed and new development wells need to be drilled during the latter half of 2004 and into 2005. These must be funded in the 2004 Ministry budget, and these funds are not yet approved. Without all these projects and the other projects being initiated by PMO, it will be very difficult to sustain current levels of production and a slump down to the region of 2.25 million bpd is not out of the question.

The Role of Crude Oil Prices

If crude oil prices remain very strong, particularly if they remain in the vicinity of \$40 per barrel on the NYMEX/WTI basis then revenues per barrel will be around 12% to 15% higher in May than they were in April. Therefore, we have the potential of maintaining revenues at April levels even with modestly reduced exports. Iraq's pricing policies involve a delay in setting actual prices. Sales to the U.S. from the Ceyhan terminal, for example, are priced beginning 15 days after lifting to account for tanker transit times; sales to European destinations are priced using a 5 day average after date of lifting. Basrah crude is priced on a monthly contract. Therefore, prices

do not adjust for very short term movements in price, but will reflect benchmark world prices if they reach a plateau and stay there for a sustained period.

Refinery Supply and Operations

The security of our refining system has become very worrying, which, in turn, makes the prospects for outages and civil unrest even greater. The Doura refinery has literally been out of crude oil for several days this month following the sabotage of the 18-inch pipeline serving the refinery from the south and the two 12-inch pipelines serving the refinery from the north. The two 12-inch lines are back in service and filling Doura's tankage. However, attempts to repair the four breaks on the 18-inch lines have been prevented by violence. The Ministry pipeline crew originally sent to repair the lines were ambushed, beaten severely, and all their equipment stolen by a gang of some 30 or 40 individuals. T.D. Williamson crews sent to the scene have been mortared and hit (but not damaged) by an IED.

Obviously, the Iraqi's, with our assistance, absolutely must get the security situation in hand or none of our projections will have any validity.

Min. Oil

#18

(b)(6)

From: (b)(6)
Sent: Thursday, February 12, 2004 9:59 AM
To: (b)(6)
Subject: FW: Deputy Ministers

(b)(6) please pass this to George – I can't find him in the directory.

(b)(6)

Executive Assistant, CPA Administrator
 Head of CPA Executive Secretariat
 -----Original Message-----

From: McKee, Robert E. (SES)
Sent: Thursday, February 12, 2004 9:56 AM
To: (b)(6); Kellogg Jr, Joseph (SES-6); Jones, Richard (AMB); (b)(6)
Subject: Deputy Ministers

All—

The following is probably blindingly obvious to each of you, but perhaps the information can be useful to you, at least anecdotally.

The subject is the issue of the Governing Council appointing six Deputy Oil Ministers in the last day or two. As I said in the morning staff meeting yesterday, I have two or three major problems with this action.

- The people themselves are patently unqualified and are apparently being placed in the Ministry for religious, political or personal reasons, all such influence we are trying to eliminate within the oil industry.
- It is incomprehensible why Deputy Ministers have to be named at all because there is nothing for them to do. Also, there is no rationale to naming people to fill an organization before the organizational structure is decided.
- The same people who nursed the industry all through Saddam's years and who brought it back to life after the liberation, as well as many trained professionals, are all systematically being pushed to the sidelines. This is just another step in that process. It appears that people with no religious or geographic identification will have no place in the structure.

Besides these major problems, there are other pieces of information that are relevant.

- People in the ministry have only heard of three of the six. Only one of six worked in the oil industry before.
- One nominee (b)(6) worked as an economist for SOMO in the late '80s. He left in '91, never reached the level of supervisor and was considered "very poor" by people that knew him.
- Another, (b)(6) is a Kurd appointed earlier as an Advisor w/o portfolio to the Oil Ministry by GC Member Talibani. He has done nothing since that time.
- Sahib Qotub is currently the Upstream Advisor in the Ministry and has been appointed as the Senior Deputy Minister. He has been retired since the first Gulf War, when he ran Kuwait Petroleum Company for Saddam during the time Kuwait was occupied. He is considered weak.
- Although you have been consistent in saying that we in CPA cannot get involved in backing one person over another, the situation with Thamir Ghadban is unique in my mind. When there was no water, no lights, no police, no services, etc, it was Ghadban who stepped forward to achieve CPA's oil goals, unified the Oil Ministry and led them back to where they are now. Yesterday's action irritated and demotivated almost all of the current DGs, particularly on Thamir's behalf. They know that since he is being treated that way, their own efforts over the months have been minimized and that those efforts are not valued as much

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as cronyism and religious leanings. I do not have any basis to defend Ghadbhan's character pre-liberation, but if people like Qotub were as close to Saddam as he apparently was, what basis is the GC using to select or eliminate candidates?

- I would question how much of this GC, and how many of the ministers, will be in a permanent government. Why would we let what could be a temporary body put in place something that guarantees connectivity to them and which is patently not even necessary at the present time?

I appreciate that you don't like to have problems presented without recommendations. I don't pretend to know how to solve this one, but all else being equal, we should veto yesterday's nominations and insist that the Minister of Oil restructure his ministry prior to the right people (based on merit) being placed in the resulting organization.

Rob

2/13/2004

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COALITION PROVISIONAL AUTHORITY
BAGHDAD

ACTION MEMO

March 31, 2004

FOR: THE ADMINISTRATOR
FROM: Jeff Oster, Deputy Chief Operating Officer *JO* 3/31
SUBJECT: Discussion Paper for the April 1, 2004 Deputies Committee

- I recommend that we transmit the attached paper to the NSC for distribution at the Deputies Committee (DC) on April 1, 2004.
- Mike Stinson has produced the attached paper that highlights a number of policy issues regarding the validity of alleged Iraqi oil contracts.
- While the DC is scheduled to discuss only the Turkish oil contracts, I believe it is unwise to take an ad hoc, case-by-case approach to resolving the numerous claims to Iraq's subsurface wealth.

RECOMMENDATION: Transmit the attached paper to the NSC for the April 1st DC.

Approve: _____ Disapprove: _____ Approve with modification: _____

ATTACHMENTS: Paper - Iraq Petroleum Development Contracts

COORDINATION: J. Michael Stinson - CPA/MOO - **concur 31 March**

Prepared By: Mr. Mark Walker, COO, (b)(2) [REDACTED]

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IRAQI PETROLEUM DEVELOPMENT CONTRACTS

Corporations from several countries allege that they hold valid contracts to develop oil and gas reserves within the boundaries of Iraq. The alleged contracts fall into four broad categories:

1. Contracts executed or alleged to have been executed by the government of Iraq prior to the 1991 war to liberate Kuwait.
2. Contracts executed or alleged to have been executed by the government of Iraq during the period between 1991 and the fall of the previous government of Iraq on April 9, 2003.
3. Contracts executed by regional governments during the period between 1991 and the fall of the previous national government on April 9, 2003.
4. Contracts executed by regional governments during the period of ORHA and the Coalition Provisional Authority between April 9, 2003, and the assumption of sovereignty by the Iraqi Governing Council under the Transitional Administrative Law on July 1, 2004.

In addition to the corporations alleging to hold these contracts, the countries in which they are domiciled have also often lent support to their corporation in these matters. The potential size of the crude oil and natural gas reserves in Iraq do cause both corporations and governments to consider them to be strategic in nature. Therefore, there is a regular effort by the corporations and governments to push for the recognition of these contracts by the Iraqi government as it is brought into existence on July 1st.

Taking the four broad categories in sequence:

1. CPA-Oil does not know of any claims being made by corporations or countries concerning the validity of contracts executed by the Iraqi government prior to 1991. Most, if not all, of the work done by international companies involved the provision of services, equipment, and construction. International companies did a substantial amount of exploration drilling during the 1970's. However, it does not appear that the Iraqi government signed any contract for the development of crude oil and natural gas that survived into the term of the previous government.
2. In the period between 1991 and April 9, 2003, the Iraqis negotiated several agreements. At least two companies or consortia assert that their contracts executed during this period are valid. The ones we know something about are noted in Attachment 1. We have not had sight of the contracts themselves.
3. The most troublesome contracts may be those executed by Iraq's regional governments during the period between 1991 and the fall of the previous national government on April 9, 2003. The northern part of Iraq was administered by a Regional Administration recognized as having separate powers even during this period when a national government existed in Baghdad. The main contract signed during this period was:

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- A Production Sharing Agreement (PSA) between a private Turkish company, PetOil Petroleum and Petroleum Products International Exploration and Production Inc. (PETOIL), and the Sulaymaniyah Governorate. The agreement was approved by Jalal Talabany on behalf of the Northern Iraq Administration. The agreement establishes a PSA for oil exploration and development over a large area of Sulaymaniyah in northeastern Iraq. The agreement was signed 14 January 2003. Subsequently an American company registered in Texas, Prime Natural Resources, Inc., may have acquired a 50% interest in the contract.
4. Contracts executed by regional governments during the period of ORHA and the Coalition Provisional Authority between April 9, 2003, and the assumption of sovereignty by the Iraqi Governing Council under the Transitional Administrative Law on July 1, 2004, are less difficult. One such contract exists as far as CPA-Oil knows. It is as follows:
- A Production Sharing Agreement between the Kurdistan Regional Government and a private Turkish company, Genel Enerji A.S., signed January 20, 2004. The PSA area is fairly large and lies north of Kirkuk and is in the area of the existing Taqtaq Field. The agreement was signed by Dr. Barham Salih, Prime Minister of the Government of the Kurdistan Region.

CPA-Oil believes that all of these alleged contracts should be invalid and considers a public statement to that effect to be of high importance. The Minister of Oil has received a draft statement addressing the prior contracts (Attachment 2) and he agrees with all the main points. The Minister made a short public statement, reported in Reuters on March 26, 2004. He said, "The contracts with the previous regime, whether by foreign companies or governments, are subject to the Ministry's future policy. They should not think that they would automatically be renewed. The new oil policy will reconsider these contracts objectively." He has not yet spoken publicly about the regional agreements.

The signed regional agreements in Kurdistan and Sulaymaniyah may be the most difficult to deal with. We do not believe that any of the enabling documents establishing the respective regional authorities granted rights to the subsurface mineral resources. Those subsurface resources, and particularly oil and gas, are reserved to all the people of Iraq. Decisions respecting the development of those resources must be made by a national entity, the Ministry of Oil in the case of oil and gas. Therefore, these contracts are probably invalid. A legal opinion so stating the position may well be necessary, but the policy should be clear. Robert Maguire, CPA Legal, has helped us with legal insights.

It may well be that the Administrator should issue a position on behalf of CPA to clarify the situation prior to the transition.

J. Michael Stinson
Senior Advisor to the Iraqi Ministry of Oil
Coalition Provisional Authority - Baghdad
Email: (b)(2)

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Attachment 1

**KNOWN OR PROBABLE CONTRACTS NEGOTIATED BETWEEN THE PRIOR
GOVERNMENT AND INTERNATIONAL COMPANIES 1/1/91 to 4/9/03**

The following are the know or probable contracts negotiated between the former Iraqi government and international companies during the period between the Gulf War and Operation Iraqi Freedom:

1. The Chinese company, Oasis, signed a Production Sharing Contract (PSC) to develop Ahdab Field southeast of Baghdad and may have signed for two other fields. We believe these transactions were done in 1997. The Chinese consider at least the Ahdab contract to be valid.
2. The Indian state company, Oil and Natural Gas Corporation (ONGC), negotiated a deal to explore Block 8 in far southern Iraq west of Kuwait. We do not know if the contract was actually finalized. The transaction was apparently negotiated in 2000.
3. The Indonesian state company, Pertamina, negotiated a deal to explore Block 3 in southwestern Iraq. We do not know if the contract was actually finalized. The transaction was apparently negotiated in 2002.
4. The Russian private company, Lukoil, along with partners, Zarubezhneft and Mashinimport signed a transaction in 1997 to develop the giant West Qurna Field in southeastern Iraq. This contract was said to have been canceled by the former government. Lukoil alleges that the contract is valid.
5. The Russian company, Soyuzneftegaz, and the Chinese company, Sinochem, may have negotiated transactions on Rafidain Field in February 2003. We do not know if the contract was finalized.
6. The Russian company, Stroytransgaz negotiated a risk contract in early 2003 to explore Block 4 in western Iraq. We do not know if the contract was finalized.
7. The Vietnamese company, Petroleum Investment and Development Corp., a subsidiary of PetroVietnam negotiated a development contract in 2002 on the Amara Field north of Basrah. We do not know if the contract was finalized.
8. TotalFinaElf, the French major company, has been negotiating for some time to assist in the development of the giant Majnoon Field in southeastern Iraq. We do not know the status of the agreement, but TotalFinaElf visits the Ministry often.
9. CPA-Oil also believes there may have been negotiations and possibly contracts involving a South Korean Oil Company and the Malaysian state company, Petronas.

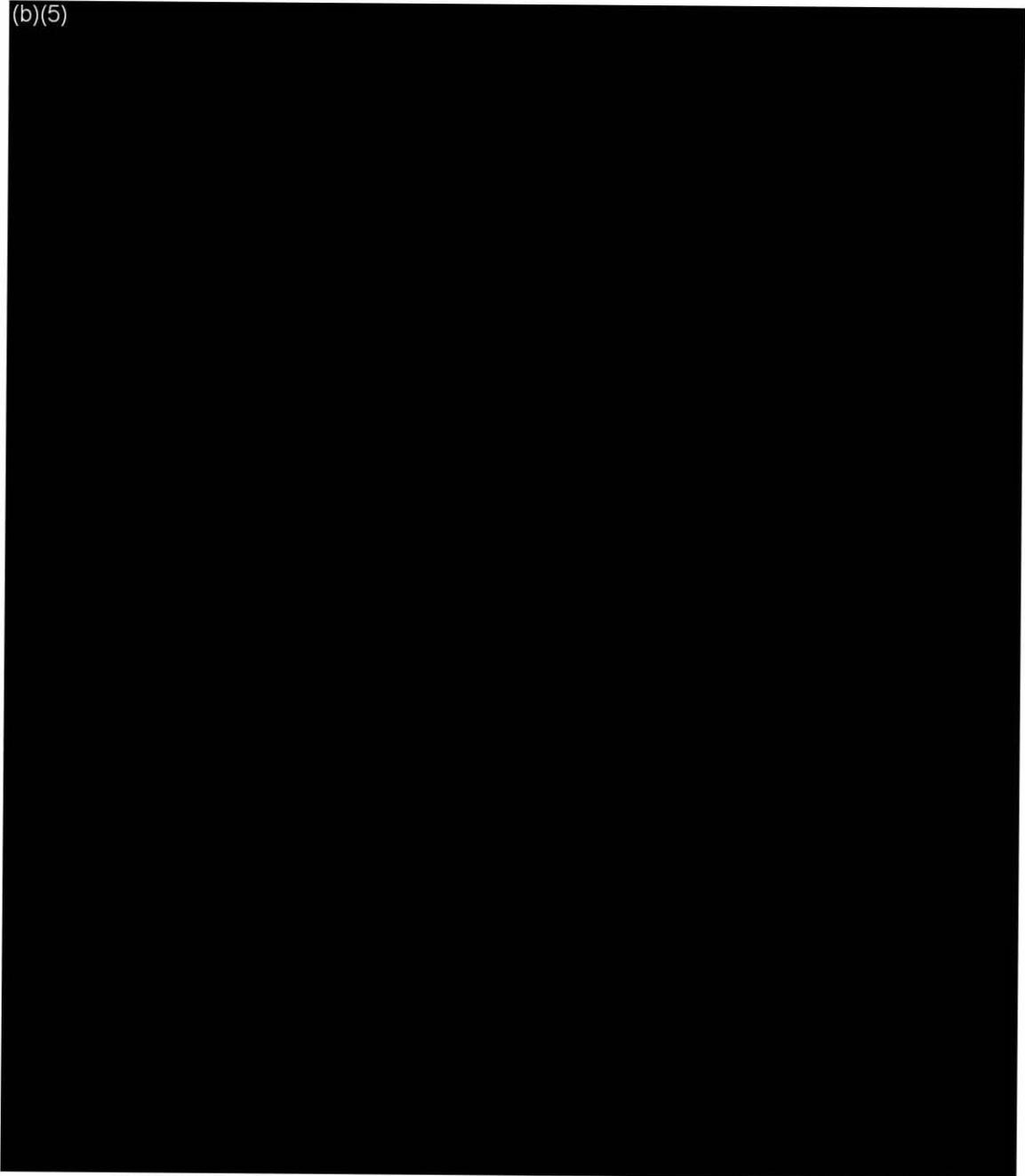
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Attachment 2

(b)(5)



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COALITION PROVISIONAL AUTHORITY
BAGHDAD

LPB HAS SEEN

ACTION MEMO

April 13, 2004

FOR: THE ADMINISTRATOR
FROM: Scott Redd, Deputy Administrator and Chief Operating Officer
SUBJECT: Discussion Paper for the April 15, 2004 Deputies Committee

Several oil contracts known as Production Sharing Agreements (PSA) were entered into by the previous regime during the period of United Nations' sanctions. Other PSAs were entered into by local authorities purporting to convey an interest in oil reserves belonging to the nation.

This subject is scheduled to be discussed at the Deputies Committee on Thursday, April 15, 2004. My staff has drafted a one-page discussion paper (Tab 1) and Mike Stinson, Senior Advisor to the Ministry of Oil has prepared the attached Info Memo (Tab 2). The documents:

- Provide relevant background information;
- Conclude that these PSA agreements are not legitimate;
- Provide a draft public announcement for the Iraqi Minister of Oil to release.

There is confusion over the USG position on these PSAs. It has been claimed that last year the USG decided to not take a public position on these cases and leave them for the new Iraqi government to resolve. We have been unable to confirm this. This discussion should help clarify the matter.

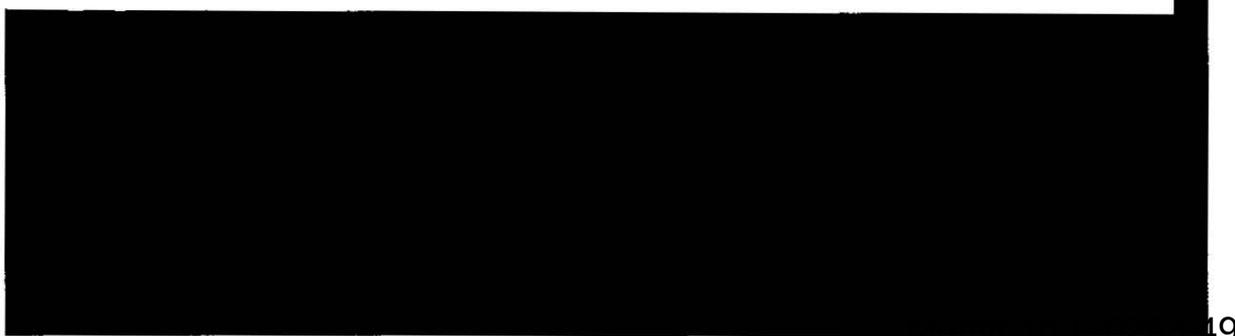
RECOMMENDATION: That the Administrator approve the transmission of the attached NSC discussion paper and Info Memo to the NSC for the April 15th Deputies Meeting.

Approve: WJK Disapprove: _____ Approve with modification: _____

ATTACHMENTS: (1) Draft NSC Discussion Paper
(2) Info Memo - Iraq Petroleum Development Contracts

COORDINATION: Amb Jones (Copy furnished)
MOF/George Wolfe (Copy furnished)
General Counsel/COL Pregent (o.k.)

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**Discussion Paper
Iraqi Oil and Gas Contracts**

- Several corporations entered into oil contracts known as Production Sharing Agreements (PSA) with the previous regime during the period of United Nations' sanctions. Other PSAs were entered into by local authorities purporting to convey an interest in oil reserves belonging to the nation.
- Interested corporations and their home governments continue to push for recognition of these contracts by Iraqi officials as the new Iraqi government is being formed.
- The Senior Advisor to the Iraqi MOO believes that all contracts issued since 1991 are invalid, but CPA has stopped short of issuing a legal determination on these contracts for several reasons:
 - **Litigation.** Nullification of the contracts would trigger costly and time-consuming litigation.
 - **Foreign Relations.** Iraqi and U.S. relations with home governments of interested companies must be weighed.
 - **MOO Realities.** The interim Minister may be unable/unwilling to withstand the intense pressure from effected parties if they are invalidated at this time.
 - **Non-Concurrence of Coalition Partner.** Britain does not support a blanket statement on the invalidation of all contracts; preferring a detailed case-by-case analysis. It is reported that an Australian firm may also have a contract in question.
- Some drilling and production has commenced. Even if the contracts are deemed valid, there is no evidence that payments are being deposited into the Development Fund for Iraq (DFI).
- In light of these legal and political considerations, the CPA MOO and the Office of General Counsel (OGC) recommend against a formal announcement that the contracts are invalid. Instead, it is recommended that the interim Minister make a public policy announcement with the following key elements:
 - The sovereign Government of Iraq retains exclusive competence over its natural resources.
 - Decisions regarding contracts will be made on the basis of Iraqi national laws.
 - Those companies which have attempted to circumvent Iraqi law in order to secure competitive advantages will be dealt with according to Iraqi law.
 - All payments must be made to the DFI.
- Under this proposal, the final disposition of these contracts would be deferred until the sovereign Iraqi government is in place.
- Additional information is provided in the attached CPA Information Memo.

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COALITION PROVISIONAL AUTHORITY
BAGHDAD

INFO MEMO

April 13, 2004

FOR: THE ADMINISTRATOR
FROM: Scott Redd, Deputy Administrator and Chief Operating Officer
SUBJECT: Iraq Petroleum Development Contracts

Corporations from several countries allege that they hold valid contracts to develop oil and gas reserves within the boundaries of Iraq. The contracts fall into three broad categories:

1. Contracts executed or alleged to have been executed by the national government of Iraq during the period between 1991 and the fall of the government of Iraq on April 9, 2003 (sovereign government, but with sanctions).
2. Contracts executed by local authorities during the period between 1991 and the fall of the previous national government on April 9, 2003
3. Contracts executed by local authorities during the tenure of ORHA and the Coalition Provisional Authority between April 9, 2003, and the expected assumption of governance responsibilities by the Iraqi Interim Government on July 1, 2004.

The potential size of the crude oil and natural gas reserves in Iraq led both corporations and governments to consider them strategic in nature. This has resulted in a consistent effort by the corporations and their home governments to push for recognition of these contracts by Iraqi officials as the new Iraqi government is being formed.

Taking the three broad categories in sequence:

1. Between 1991 and April 9, 2003, the Iraqi national government negotiated several agreements. At least two companies or consortia assert that their contracts executed during this period are valid. The ones we know something about are noted in Attachment 1.
2. The most troublesome contracts are those executed by Iraq's local authorities during the period between 1991 and the fall of the previous national government on April 9, 2003. The northern part of Iraq was administered by a regional administration with some autonomy even during this period when a national government existed in Baghdad. The main contract signed during this period was:
 - A Production Sharing Agreement (PSA) between a private Turkish company, PetOil Petroleum and Petroleum Products International Exploration and Production Inc. (PETOIL), and the Sulaymaniyah Governorate. The agreement was approved by Jalal Talabany on behalf of the Northern Iraq Administration.

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The agreement establishes a PSA for oil exploration and development over a large area of Sulaymaniyah in northeastern Iraq. The agreement was signed 14 January 2003. Subsequently an American company registered in Texas, Prime Natural Resources, Inc., acquired a 50% interest in the contract.

3. Contracts previously executed, and even now being negotiated, by local authorities during the current occupation period of ORHA and the Coalition Provisional Authority between April 9, 2003, and the assumption of governance responsibilities by the Iraqi Interim Government on July 1, 2004. One such contract that exists is:
 - A PSA between the Kurdistan Regional Government and a private Turkish company, Genel Enerji A.S., signed January 20, 2004. The PSA area is fairly large and lies north of Kirkuk and is in the area of the existing Taqtaq Field. The agreement was signed by Dr. Barham Salih, Prime Minister of the Government of the Kurdistan Region.

The senior advisor to the Ministry of Oil believes that all of the contracts referenced above are invalid. First, any contracts in Category 1 would have been executed during a period in which international sanctions were in effect, thus nullifying the validity of any relevant contracts. Second, since the local authorities did not have the right to manage or otherwise dispose of subsurface mineral resources, contracts executed by local authorities (Categories 2 and 3) are invalid. The TAL recognizes that the exclusive competence over these resources will be vested in the Iraqi Transitional Government because subsurface resources, and particularly oil and gas, are reserved to all the people of Iraq. Thus, decisions respecting the development of those resources may only be made by a national entity, not by a local authority.

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(2) Draft Policy Statement for the Iraqi Minister of Oil

COORDINATION: Amb Jones (Copy furnished)
MOF/George Wolfe (Copy furnished)
General Counsel/COL Pregent (o.k.)

Drafted: J. Michael Stinson, Senior Advisor to the Iraqi Ministry of Oil

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Attachment 1

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GOVERNMENT AND INTERNATIONAL COMPANIES 1/1/91 to 4/9/03**

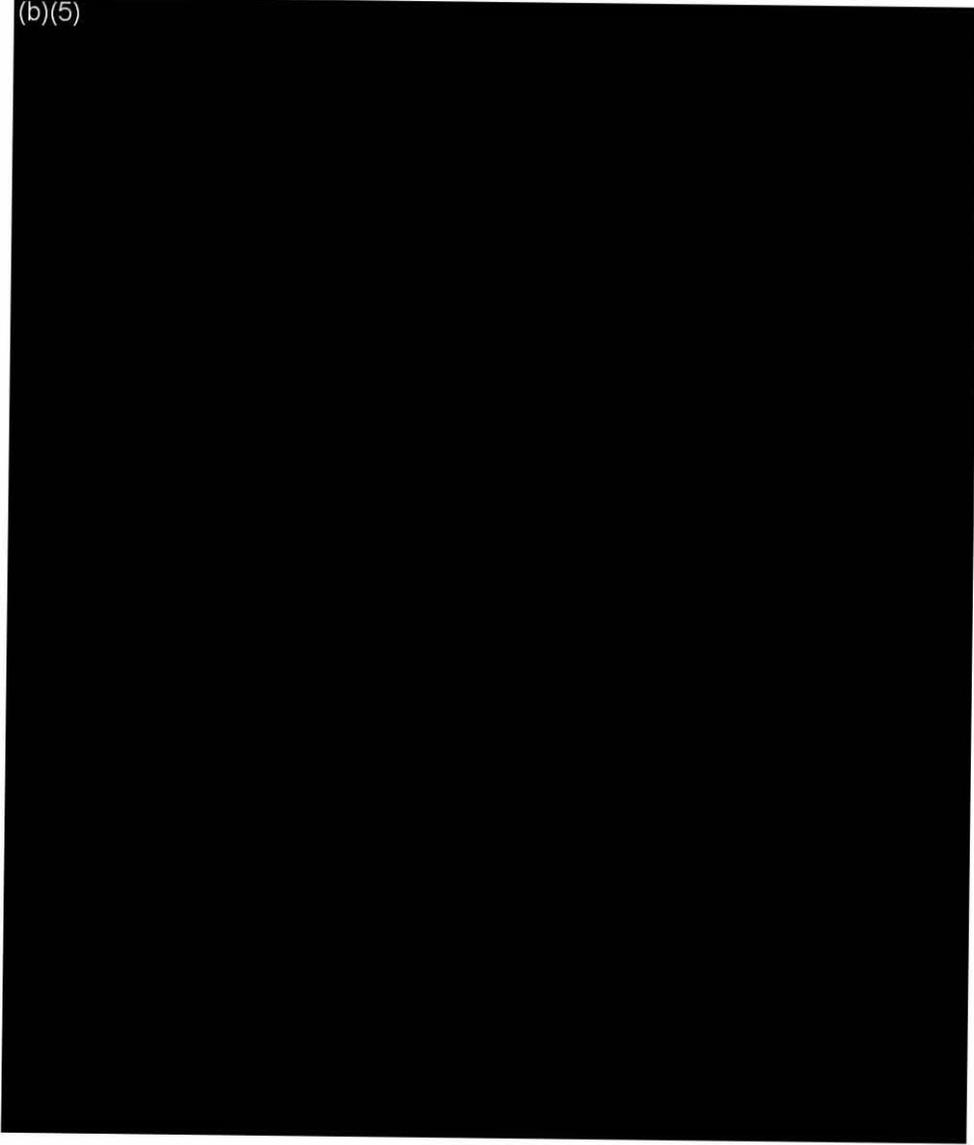
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1. The Chinese company, Oasis, signed a Production Sharing Contract (PSC) to develop Ahdab Field southeast of Baghdad and may have signed for two other fields. We believe these transactions were done in 1997. The Chinese consider at least the Ahdab contract to be valid.
2. The Indian state company, Oil and Natural Gas Corporation (ONGC), negotiated a deal to explore Block 8 in far southern Iraq west of Kuwait. The transaction was apparently negotiated in 2000. We believe the contract was ratified in 2001.
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4. The Russian private company, Lukoil, along with partners, Zarubezhneft and Mashinoimport signed a transaction in 1997 to develop the giant West Qurnah Field in southeastern Iraq. This contract was canceled by the former government. Lukoil alleges that the contract is still valid.
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7. TotalFinaElf, the French major company, has been negotiating for some time to assist in the development of the giant Majnoon Field in southeastern Iraq. We do not know the status of the agreement, but TotalFinaElf visits the Ministry often and have apparently not yet signed an agreement.
8. CPA-Oil also believes there may have been negotiations and possibly a contract involving a South Korean Oil Company, but negotiations continue.

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CPA
4/14/04

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file: Oil Sect

**Discussion Paper
Iraqi Oil and Gas Contracts**

- Several corporations entered into oil contracts known as Production Sharing Agreements (PSA) with the previous regime during the period of United Nations' sanctions. Other PSAs were entered into by local authorities purporting to convey an interest in oil reserves belonging to the nation.
- Interested corporations and their home governments continue to push for recognition of these contracts by Iraqi officials as the new Iraqi government is being formed.
- The Senior Advisor to the Iraqi MOO believes that all contracts issued since 1991 are invalid, but CPA has stopped short of issuing a legal determination on these contracts for several reasons:
 - **Litigation.** Nullification of the contracts would trigger costly and time-consuming litigation.
 - **Foreign Relations.** Iraqi and U.S. relations with home governments of interested companies must be weighed.
 - **MOO Realities.** The interim Minister may be unable/unwilling to withstand the intense pressure from effected parties if they are invalidated at this time.
 - **Non-Concurrence of Coalition Partner.** Britain does not support a blanket statement on the invalidation of all contracts; preferring a detailed case-by-case analysis. It is reported that an Australian firm may also have a contract in question.
- Some drilling and production has commenced. Even if the contracts are deemed valid, there is no evidence that payments are being deposited into the Development Fund for Iraq (DFI).
- In light of these legal and political considerations, the CPA MOO and the Office of General Counsel (OGC) recommend against a formal announcement that the contracts are invalid. Instead, it is recommended that the interim Minister make a public policy announcement with the following key elements:
 - The sovereign Government of Iraq retains exclusive competence over its natural resources.
 - Decisions regarding contracts will be made on the basis of Iraqi national laws.
 - Those companies which have attempted to circumvent Iraqi law in order to secure competitive advantages will be dealt with according to Iraqi law.
 - All payments must be made to the DFI.
- Under this proposal, the final disposition of these contracts would be deferred until the sovereign Iraqi government is in place.
- Additional information is provided in the attached CPA Information Memo.

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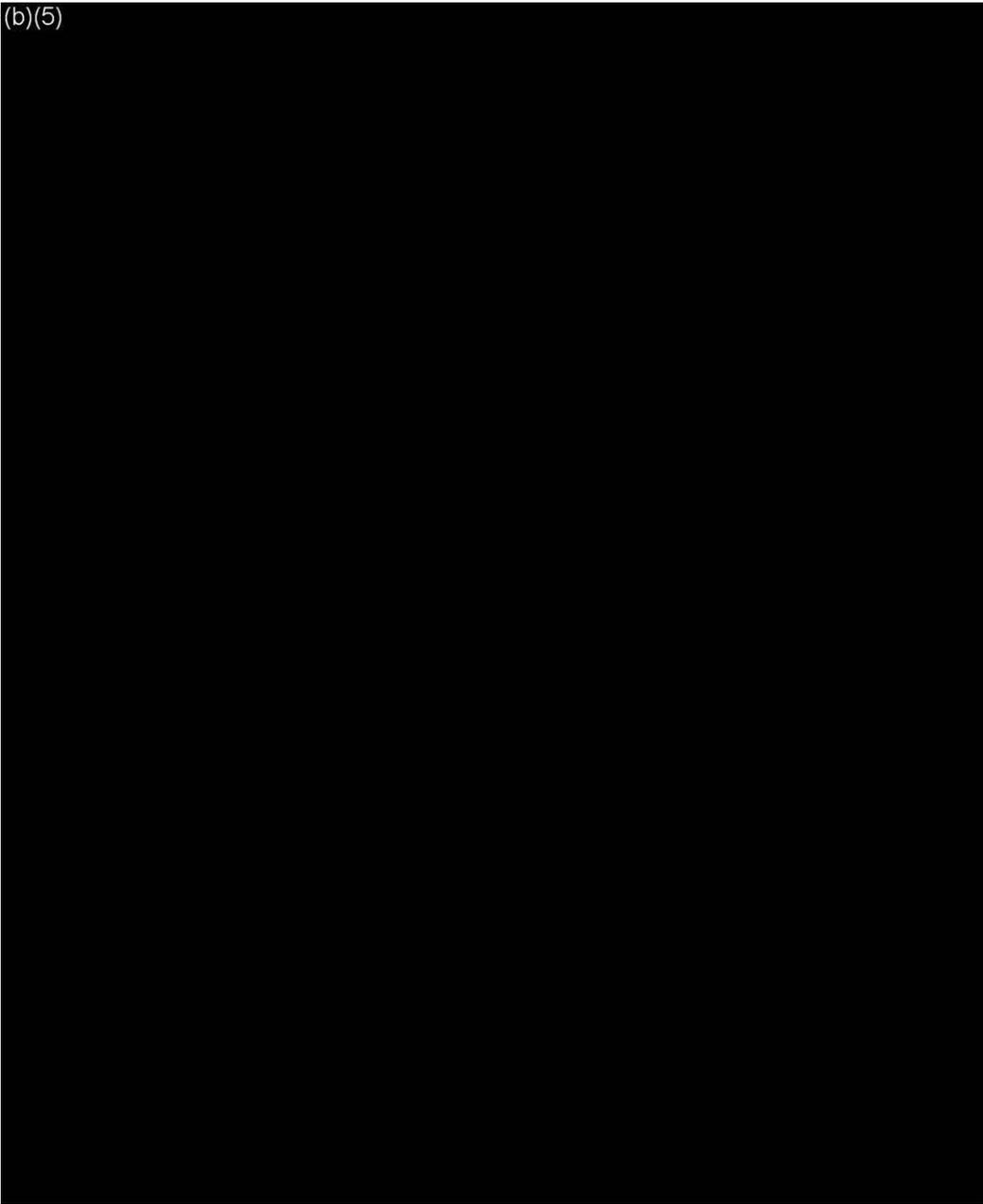
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(b)(5)



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(b)(6)

From: Stinson, Michael (AD00)
Sent: Sunday, May 02, 2004 9:23 PM
To: Oster, Jeffrey W. (O-9); Wolfe, George B. (SES)
Cc: (b)(6) Usher, Ed (O-7); Vogler, Gary; (b)(6) Stinson, Michael (AD00); (b)(6)
Subject: RE: Emergent DFI Budget Requirements - Package is available for pick up on my desk - (b)(6)

Jeff and George,

Just to clarify, it is our understanding that these funding requests now need to go first through the COO's office for screening, then to the Ministry of Planning, then (perhaps) to a PRC, and then to the PRB. Jeff, I assume we need to get your approval that this particular set of investments can go forward. If we need to meet we are anxious to do so. If you approve we'll try to get on the docket with the Planning people and tentatively on any PRC/PRB combination that is coming up. Basically that is what (b)(6) was told at the last PRB at which they declined to review this because it hadn't gone through the necessary hoops.

I've been told, and George can perhaps confirm, that the \$2 billion DFI infusion from which this \$600 million would come is being reviewed back in Washington. George can perhaps advise whether it is worth it to go through all the processes unless we know the money is actually there to be allocated.

Finally, I feel honor bound to put forward the position and interests of the Ministry of Oil. Our processes seem to have done considerable injury to the legitimate needs of the oil industry and are threatening to do more. Last year the Ministry of Oil identified \$1.2 billion for capital investments in projects critical to the sustainable health of production and refining. They made commitments regarding production rates in recognition of that investment. For reasons I can't explain this amount was first reduced by CPA (Admiral Oliver) to \$800 million and subsequently eliminated altogether (also Oliver). Obviously, this completely sidelined those projects and purchases planned by the Ministry. Despite strong impressions at the Ministry that the full \$800 million would be restored in the final 2004 budget, only \$200 million was recently released in a direct conversation between Amb. Bremer and Minister Al-Uloum. Of that \$200 million up to \$170 million may have to be spent on already committed expenditures not on the critical investment list from a year ago. That leaves only \$30 million to the Ministry for its projects. Gentlemen, the health of the oil industry is obviously in jeopardy, all we have to do is look at the terrible weaknesses in the refining and pipeline sectors. Believe me, the oil fields will be the next to come down. Oil fields need major investments every year or they start to falter. Ours have not had investment for several years, including 2003 and 2004 under the CPA. If we do not facilitate some investment then not only will the increases in production originally scheduled for year-end 2004 not take place, but we will probably see capacity slump to the level of 2.25 million to 2.3 million bpd. Isn't the potential loss of \$2 billion in future revenue worth fighting for and investing to avoid?

Very frankly, we have systematically and very significantly under-funded the oil industry which is the only leg under this country's economic stool. It may be that people view the huge import bills for imported products as "investment". It is not. In fact, the problems of managing that ponderous program has pulled management time away from the Ministry and the CPA that should have been spent on planning the further restoration of the business.

I am ready to do just about anything reasonable to secure this additional \$600 million because I believe it is the only right thing to do to attempt to shore up the industry's capacity. I don't know if the other Ministries have been over-funded, but I can darned sure tell you that the oil industry has definitely been under-funded.

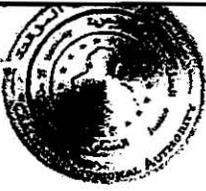
If there is a fight I can enter with the hope of winning this funding, let me know where and when it is.

Regards,

Mike

-----Original Message-----

5/3/2004



COALITION PROVISIONAL AUTHORITY

BAGHDAD

LPB HAS SEEN

16

INFO MEMO

April 29, 2004

FOR: THE ADMINISTRATOR
FROM: J. Michael Stinson, Senior Oil Advisor JKT
SUBJECT: Follow up to Oil Minister Meeting

Agree, make it better ASAP

The following information is a follow up to your meeting with the Oil Minister on Thursday, April 29.

- AK-47's for Eriny's guards
 - Eriny's was required to procure their AK-47's through the US government in a large consolidated buy. Over 9,000 AK-47's scheduled for delivery over the next 60 to 120 days.
 - Eriny's borrowed 500 AK-47's from MOI last week. MOI has agreed to provide additional 2,000 upon approval from Ambassador Bremer. This would ensure a weapon for each guard on duty.

- Security for pipeline repair crews
 - The emergency pipeline repair project with TD Williamson has a security element provided by SAS Security.
 - The scope and value on the SAS contract will be modified to include providing security for Ministry of Oil pipeline personnel as well as TDW. We will triple the size of existing contract.

- Security at the oil terminal in the Arab Gulf
 - Marines have been assigned to secure both terminals in the Gulf. They have 25 marines living on each terminal. They are rapidly hardening the site.
 - Eriny's has 8 guards on each terminal.
 - CPA Oil and the Navy in conjunction with CENTCOM will develop a plan to better protect the terminals with higher caliber weapons and other defensive measures. This plan with cost estimate will be completed by 15 May.

- Oil Ministry Communications
 - Plan developed in July 2003 to build the Oil Ministry communications network throughout the country at an estimated cost of \$50 million. Temporary communications consisting of satellite telephone systems provided at remote sites until permanent system implemented.

- Delays kept occurring to the implementation of the permanent communications package because of ~~low priority~~. Responsibility for the project was taken by the Ministry of Communications late in 2003, but was ~~recently returned to Oil~~ due to a lack of funding.
- Project is presently considered an unfunded requirement with a high priority.

COORDINATION: COO, LTG(R) Jeff Oster - ok

*What is being
done to get it up?*

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2

Muttitt 10-L-0263 61

040210-07
JK

-----Original Message-----
From: McKee, Robert E. (SES)
Sent: Tuesday, February 10, 2004 10:49 AM
To: (b)(6)
Cc: Kellogg Jr, Joseph (SES-6)
Subject: Gasoline Price Liberalization

(b)(6) —Per your question, recall that Amb Bremer and I met with the minister last week and discussed gasoline price liberalization, among a number of topics. The minister has appointed a committee to develop pricing recommendations. They have furnished him the report and he has taken it with him to the OPEC meeting in Algiers. He and I meet again on Sunday, 15 February, at which time he has promised me that he will give me their (the ministry's) recommendations. I presume that I would then discuss them with Gen Kellogg, Amb Jones and Amb Bremer before giving the minister the go-ahead. My feeling is that they will recommend something like an immediate increase for regular gasoline to 50 dinars (from 40) and for premium gasoline (from about 30) and then consider some kind of small but regular monthly or quarterly increase thereafter. If I'm hearing correctly, they might also make some recommendations on things like [redacted] but I haven't heard any specifics yet. Bottom-line, the minister will give his and his team's recommendations to me next Sunday, after which I'll show them to the Ambassadors and Generals for discussion.

Rob

Ministry of Oil

Interview with Joel Berwick, Rob McKee
conducted by OPPA, 2004 FEB 9

Strand	Category	Issue	Comments	Status
Readiness for Transition	Strategy	Strategy for implementing prioritized list of short-term (1 year) and long-term(2-5) years goals	Milestone chart outlines one year strategy in detail; Senior advisor anticipates continued growth along the projections for the five year period. The limiting factor to growth will be capital to finance. Oil is an existing operational ministry and will only be limited by its ability to adapt to free market conditions.	G
		Ownership of strategy down through the Ministry	There are some cultural limitations of adapting the free market process in the oil Ministry. However, in many aspects of the business; there is a seasoned and well-developed operational team.	A
	Structure	Ministry structure and staffing levels designed which support organizational goals	Transition to new generation of managers and operators is required; this will require ongoing training and management commitment. Organization Chart in place.	A
		Progress in making appointments at DG level and tiers below, including Inspector General	Well downstream and on target with Inspector General:Deputy Ministers appointed and in place	G
	Skills	Analysis of training/capacity needs completed	Transition to new generation of managers and operators is required; this will require ongoing training and management commitment. Organization Chart in place.	A
		Roll out in Ministry of consequent management training programmes down through senior and mid-level staff	Trained Iraqis are in place in at senior and mid levels; de Ba'athification had minimal impact in the Oil ministry.	G
	Systems	a. Principles of coordination and communication with governates clear b. Financial control and budgeting systems developed c. Existence of personnel policies d. Adequate security plans	The primary activities in the Governates for the Oil ministry are modernization of refineries, reducing imports and a nationwide gas distribution system.; Financial controls are in place; personnel policies are in place and the ultimate plan for Security is contractor based and adequate.	G
		a. Basic Connectivity (phones, email) in place for key regional Ministry staff b. Consistent capability to pay staff salaries, get money to governates and transparently execute competitive contracts c. Proportion/level of Ministry staff with agreed job descriptions d. Ministry payment of FPS staff in agreed numbers and locations	Connectivity in Oil ministry is minimal as in the rest of the country; however progress is expected as the Communications road map is executed. Payment of staff; job descriptions are previously noted and the ultimate contracting of all security for the ministry is in progress.	G
	Support	Outline areas where support will be needed by Ministry after 1 Jul or when minister stands down; identification of source of support	Support post CPA will be minimal. There will be significant oversight via the PMO projects throughout the ministry. There may be a short term requirement for trading expertise support as the New Iraq enters the world oil market.	G
		Level of agreement down through ministry	There are some cultural limitations of adapting the free market process in the oil Ministry. However, in many aspects of the business; there is a seasoned and well-developed operational team.	A

Mutitt 10-1-0263 63

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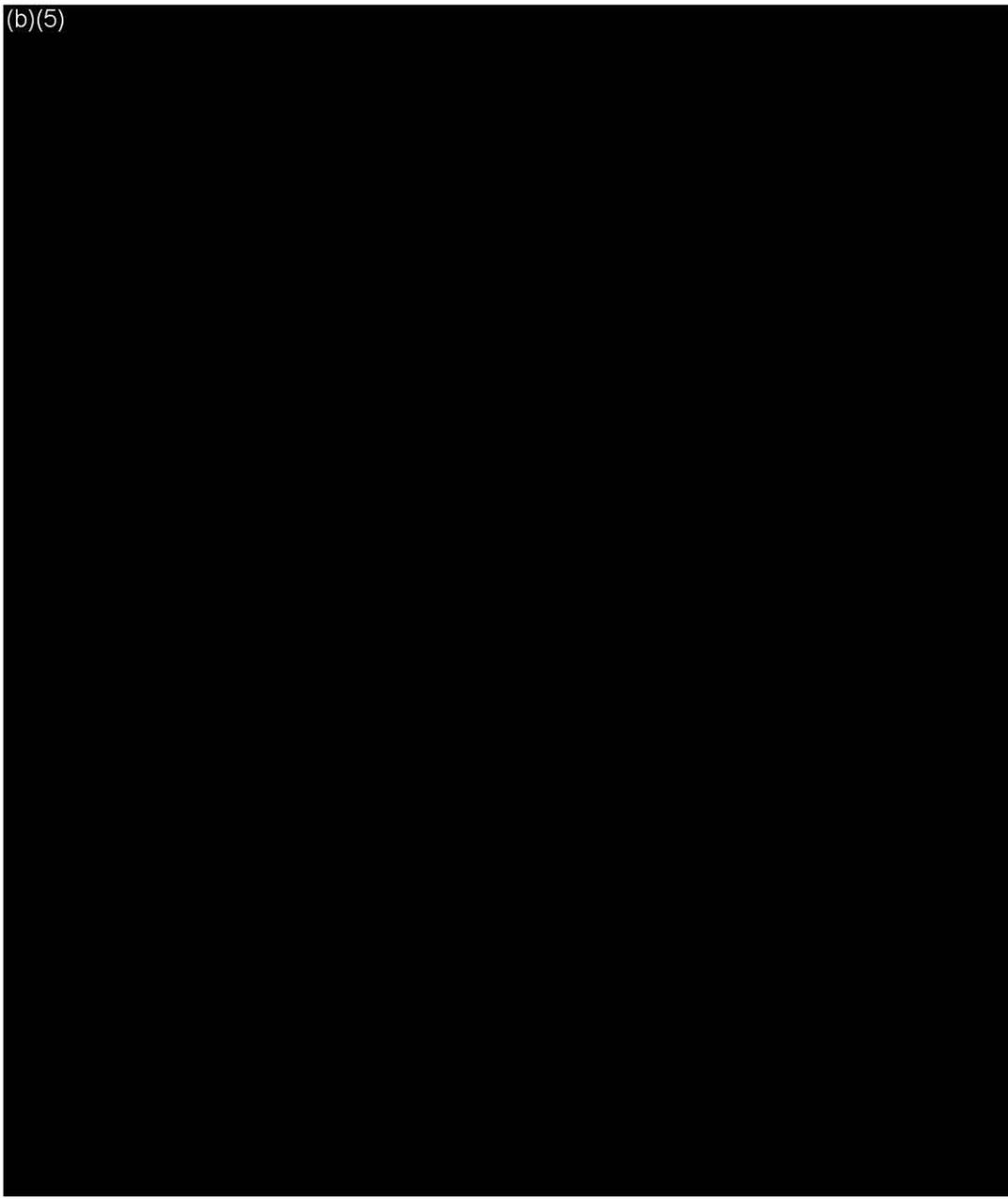
COORDINATION: Amb Jones (Copy furnished)
MOF/George Wolfe (Copy furnished)
General Counsel/COL Pregent (o.k.)

Drafted: J. Michael Stinson, Senior Advisor to the Iraqi Ministry of Oil

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14 May 14, 2004

To: DCM James Jeffrey

From: J. Michael Stinson, Sr. Advisor to the Iraqi Ministry of Oil

Re: Iraqi Oil Industry – Summary Brief

CPA Office: Office of the Senior Advisor to the Iraqi Ministry of Oil. We are the primary contact in the Coalition Provisional Authority for the Ministry of Oil and its 13 primary State Oil Enterprises (SOE's). The SOE's are the operating entities that produce, transport, and market Iraq's approximately 2.5 million barrels per day of crude oil, refine approximately 600,000 barrels per day of crude oil into refined products, and distribute refined products to the nation. CPA's Oil office is deeply involved in virtually every aspect of these operations, advises on the future structure of the industry, directs a massive program of product imports to augment refinery production, assists with financing required projects, and advises on major national policies related to the oil industry. CPA's Oil office has an important relationship with the CPA Electricity office in that most of the incremental power that will be produced in Iraq will come from thermal plants using a hydrocarbon as fuel. Our primary point of contact in the Ministry of Oil is Dr. Ibrahim Bahr Al-Uloum, the Minister of Oil.

W/R

Major Accomplishments: The major accomplishment of the CPA Oil office is the restoration of Iraq's oil production and exports to international markets to pre-war levels. The oil industry constitutes more than 95% of the Iraqi gross national product. Therefore, the maintenance and increase of oil production and export is of the most vital importance to the economic health of the nation. Furthermore, CPA's Oil office has directed a massive import program for refined products, made major modifications to the nations products pipeline systems to aid logistics, provided for large increases in ship-borne refined products to enter the southern ports systems, found ways and means to increase refinery output, and advised as to the future structure of the oil business so that the Iraqi industry can return to a position of regional and world leadership.

Key Issues: (1) security is number one; the insurgents are hurting us badly and threatening the lives of Iraqi's and expatriates alike; (2) investment funds have not flowed to the industry in anywhere near sufficient quantities; the industry is likely to falter if this is not corrected in a matter of months; (3) the Minister of Oil is not a strong leader and needs to be replaced with someone who is; (4) we need to proceed with a program of price liberalization aimed at removing all subsidies within two to three years at the very longest; (5) we need to proceed with re-activating the Iraqi National Oil Company and restructuring the Ministry of Oil for the modern era.

Near-term Goals: (1) secure at least \$600 million in budget funds for the Ministry; (2) move on price liberalization (CPA is now holding back due to security concerns); (3) announce the re-activation of INOC and name a CEO for the company; (4) agree the

restructuring of the Ministry of Oil and perhaps announce same; (5) find ways to eliminate insurgency; (6) leave behind an exceptionally well thought-out plan to replace all three major refineries in Iraq with modern new facilities capable of meeting the refined product needs of the nation without \$2.5 billion in products imports; (7) leave behind an exceptionally well thought-out plan to restore and expand the country's natural gas system to fuel electric power generation and industrial plants.

Longer-Term Goals/Activities: (1) flesh out INOC and Ministry organizational structures; (2) assist in creating a strong, responsive and comprehensive petroleum law that can be adopted by the newly elected government in 2005; (3) create a petroleum licensing policy and conditions that will be attractive to strong foreign investors; (4) design a regulatory system to ensure that the petroleum resources of the nation are maximized over the long term; (5) develop long-term policies respecting production rate targets, export targets, membership in OPEC, degree of state ownership versus private investment, privatization of non-strategic businesses such as petroleum distribution and marketing; (6) create an environment attractive to young people including educational and training programs outside of Iraq.

J. Michael Stinson

(b)(6)

From: Stinson, Michael (SES)
Sent: Sunday, March 28, 2004 9:55 PM
To: (b)(6)
Cc: (b)(6) Vogler, Gary; (b)(6)
(b)(6)

Subject: RE: Khawr al Amaya Marine Terminal

(b)(6)

I haven't heard anything at all about this in recent weeks and believe the idea of a trip to the terminal is dead. The Conference in Basrah may still take place; the Minister remains keen to do it. However, (b)(6) Shield security people are advising against doing the conference 18-19 April because of the security issues in the area. We'll have a decision from the Ministry around 6 April. With the UN being in here during this period I'd say participation by Amb. Bremer is problematic at best if the conference does take place.

Mike

-----Original Message-----

From: (b)(6)
Sent: Saturday, March 27, 2004 7:02 PM
To: Stinson, Michael (SES)
Cc: (b)(6) Vogler, Gary; (b)(6)
(b)(6)
Subject: RE: Khawr al Amaya Marine Terminal

Mike,

I know this seems like a ways a way but I am sure that it will sneak up on us faster than we think. Are still planning for the 18th?

Do we have another update on the offshore facility? Do we know if there is some naval vessel that could take us out there that we could do the event from if the platforms can't support helos?

Do you know what the event scenario might entail?

Being all the way down in Basra we might combine this trip with a stop at the Sweetwater project, a USAID project that we want to do. So we will have to figure how to squeeze both in.

(b)(6)

-----Original Message-----

From: Stinson, Michael (SES)
Sent: Tuesday, March 02, 2004 6:08 PM
To: Tappan, Robert A. (SES-4); (b)(6)
Cc: (b)(6) Vogler, Gary; Stinson, Michael (SES)
Subject: Khawr al Amaya Marine Terminal

Rob. (b)(6)

Iraq's Khawr al Amaya offshore marine terminal resumed operations late last week after many years of inoperability following extensive damage during the Iraq-Iran war. The offshore facilities were used to ship a few cargos approximately one year ago but these operations were in a mode that could not be sustained and involved conditions that no normal international marine operator could accept. Therefore, the recent resumption effectively ends a period of inactivity of almost twenty years. The Khawr Al Amaya terminal, like the neighboring Al Basrah terminal, is composed of steel structural platforms supporting loading facilities and mooring dolphins allowing large tankers up to VLCC class vessels to load. The Khawr Al Amaya and Al Basrah terminals are 18 miles and 30 miles, respectively, offshore from Al Faw at the mouth of the Shatt al Arab. Al Faw is the site of manifold, pumping and storage facilities and the start of the undersea pipelines sending crude oil to the terminals. The resumption of operations at both terminals, but particularly the Khawr Al Amaya terminal, is a tribute to the dedication and skill of the Ministry of Oil and its South Oil Company personnel. They were responsible for getting the terminal back in a condition where international marine operators can use them for

3/28/2004

lifting Iraqi oil. The incremental new capacity for loading will help facilitate the ability of Iraq's oil industry to achieve the 3.0 million barrel per day target for the end of 2004. It is, therefore, a strategic step in the re-birth of a great industry.

Ambassador Bremer is aware of the strategic importance of the commencement of operations at Khawr Al Amaya. The Ambassador called this morning to inquire as to the feasibility of holding an inauguration ceremony in concert with the Minister at the offshore terminal within the coming week to two weeks. Such a ceremony would offer an opportunity to compliment the Ministry and underscore to the media the progress in restoring the capacity of the oil industry. The idea has great merit, and we have looked into the practicality of such an event.

One key finding is that the offshore facilities at both Khawr Al Amaya and Al Basrah terminals cannot support helicopter operations. The facilities are operational but not fully restored, and the Iraqis are using boats for all movements between shore and terminal. Funds are earmarked for further investment in these facilities, but the work won't be done for several months. As a consequence, any ceremony offshore before the 1st July transition would have to be conducted on a coalition naval vessel standing off the terminal platforms themselves. A ceremony onshore could be held at the Basrah facilities of the Ministry's South Oil Co.

As to the timing of any such event, South Oil Company Director General Jabbar A. Al-Leaby is devoting much of his effort to the Iraqi Oil Conference scheduled for 18-19 April in Basrah. He has suggested that an inauguration scheduled to coincide with that timing would be the best for his organization. We would, of course, still likely have to hold the ceremony at a location other than the platforms themselves.

Please consider the above and let me know the Ambassador's reaction. As I have said, CPA Oil very much likes the concept because it would allow Ambassador Bremer to directly recognize some great work by the Ministry. At this critical time in guiding their decisions respecting post-transition organizations this gesture would help us succeed in gaining acceptance of the right structure and philosophies of operation.

Regards,

Mike

3/28/2004

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COALITION PROVISIONAL AUTHORITY
BAGHDAD

ACTION MEMO

April 23, 2004

FOR: Ed Theriot, Senior Environmental Advisor
FROM: J. Michael Stinson, Senior Oil Advisor
SUBJECT: Land for the Daura Refinery Employees

The employees at the Daura Refinery are being granted small parcels of land to recognize their contribution for years of service to the Oil Ministry. The performance of this refinery has been very good since last year and the country of Iraq is very dependent on the products coming from their operations. Many of the employees defended this refinery against attacks by looters in April of 2003.

The land is located adjacent to the refinery just on the Tigris River and is considered excellent property. The refinery is over 50 year old and many of the units need replaced. A new refinery is being planned for the central region of Iraq and will be located southwest of Baghdad by about 30 miles. Once that refinery is built, the Daura Refinery will be shut down. We expect that the new refinery will be completed in about six years.

I request your support for communicating to the Environmental Minister that this project is very important to the employees of the Daura Refinery and should be accomplished. If it is not accomplished, we fear that labor problems will erupt and harm the efficiency of this key economic entity.


J. Michael Stinson
Senior Oil Advisor

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040414-18

COALITION PROVISIONAL AUTHORITY
BAGHDAD

LPB HAS SEEN

INFORMATION MEMO

April 14, 2004

FOR: THE ADMINISTRATOR
FROM: Mike Stinson, Sr. Advisor - Oil
SUBJECT: MEETING WITH MINISTER OF OIL - 15 APRIL

At our meeting with Dr. Ibrahim Bahr Al-Uloum tomorrow at 8:30 a.m. I expect four subjects concerning the oil industry will be on the agenda, and I anticipate one additional subject to be raised concerning the uncertain state of security in the country:

1. The proposal for a multi-step price liberalization policy and program.

The Minister has written a policy and program that begins with significant percentage, but small absolute, increases in the prices of all products within the coming few days. By mid-year next year the prices would be increased to approximate parity with neighboring countries. Between now and then there would be one or two additional increases depending upon the reactions of the public and demand for product. After mid-year 2005, the Ministry commits to extending the program and planning the complete removal of government subsidies within a relatively short period of years. See Attachment I for details.

2. The first draft of a proposal to reorganize the Ministry of Oil and its major industrial arms, including a new Iraqi National Oil Company.

The Ministry has developed a reorganization document that incorporates many of the concepts the CPA-Oil advisors have advocated including Boards of Directors separating the operational organizations of the Ministry from the policy and political aspects. We have a few things to discuss about the structure, but the direction is good. See Attachment II for details.

3. Deputy Ministers.

The Minister has noted two Deputy Ministers on his organization chart. Neither is in charge of any of the Ministerial sections. The only individual that he has verbally indicated would be a choice for Deputy Minister is Mr. Qutb, who is actually acting as a de-facto number two in the Ministry. He also has Muatassim Akrim in the Ministry as a Sr. Advisor Without Portfolio. Mr. Akrim is a Kurd and in reality apparently is GC Member Talibani's man and hopes (perhaps expects) to be a Deputy Minister. We still want Mr. Thamir Al-Ghadhban to play a key role in the Ministry.

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4. The release of the \$200 million capital and operating expense fund item for the Ministry of Oil.

The Minister may raise this long-standing issue since he is making some progress on key policies and plans.

5. The national security issue.

The Minister is deeply concerned about the confrontation between the Coalition military forces and certain areas of the country. His deepest concern is for the areas of Najaf and Karbala around the holy places. He will probably compare and contrast the approaches taken in Fallujah, for example, and those he sees as key for the Najaf and Karbala areas.

The Minister and I have two meetings cancelled during the past week, one for sickness and one for unexplained reasons. Therefore, the documents referenced above are not in good shape in the English versions. Furthermore, we have had no opportunities to discuss Deputy Ministers and/or the CEO of the national oil company since almost two weeks ago.

Sincerely,



J. Michael Stinson

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MUTTITT 10-L-0263 72

McKee, Robert E. (SES)

From: McKee, Robert E. (SES)
Sent: Wednesday, January 28, 2004 11:31 AM
To: Bremer, Paul
Cc: Kallogg Jr, Joseph (SES-6); Lecroy, (b)(6) McKee, Robert E. (SES)
Subject: Meeting with Minister of Oil--29 January-

Jerry—As we discussed in passing a couple of days ago, I recommend you use the general theme of "transition" as the basis for our discussion with Ibrahim on Saturday 31 January at 1100. This will allow all of the most current issues to be raised. One possible way to proceed is as follows:

1. After the hellos are done, spend a little time reviewing what happened at the UN, current administration thinking, progress on the supplemental funding, etc. Enquire about his trip to Dayos.
2. Compliment him on the Ministry's performance and leadership through the Baghdad benzene shortages in December. Thank him for being responsive to your request to name a candidate for his IG position. Thank him for continuing to work with Rob's office on all of the challenges the oil sector has.
3. Introduce "transition" planning as very important over the coming days and weeks.
4. Indicate it's important enough that you expect certain things to get done quickly and certain standards to be set. If not, there will be certain implications (whatever you're prepared to tell him here).
5. "Transition" is problematical in the oil sector unless the following specific things are accomplished.
 - a. Ibrahim must state his intentions for the kind of ministry he will run, and do it quickly. (I attach a short speech I wrote for him that would accomplish this) It is imperative that his employees, the GC, Iraqi people in general, and the world at large know Iraq's intentions soon. Offer to help him with the GC.
 - b. He must expedite the detailed work on a Code of Conduct for the ministry and oil industry—contracting, procurement, HSE, budgeting, financial controls, ethics, etc. You know that work has begun here but it must have the highest priority.
 - c. He must restructure the Ministry and establish an efficiently managed national oil company that operates the sector. (If I can ride with you to the Ministry, I'll share with you my ideas during the trip for this restructuring, which I have also discussed with him.) Since he's totally incommunicado now, it will be almost impossible to get him to present you with some of his own ideas for restructuring during the meeting, as you requested. In the end, his problem is that his organizational ideas are based on accommodating personalities, not on creating a structure that is best suited to carrying out his strategy.
 - d. SOMO must be audited (auditors are being contracted now by CPA) and they must be prepared to take over the importing of all fuels by this summer, as well as carrying on with the important task of selling Iraqi oil that is exported.
 - e. The Eriny's guard force must be placed within the ministry by this summer and the ministry must be prepared to manage their efforts in an efficient way through 2004 at least.
6. 5a, 5b and 5c must be accomplished within the next month or so. I (Amb Bremer) am prepared to release some capital money to you (Minister of Oil) from the DFI account if you do these things. Otherwise, I cannot (this is the response to his recent letter to you requesting that his capital budget be released immediately). Be advised that he is extremely "exercised" about this issue. He almost refuses to believe his budget has always been zero, and that somehow we have made it zero to punish them. Of course, since it is zero, I have been trying to tell him that you would make available some money to him if he made considerable progress on the whole restructuring/petroleum regime issue. It's important, in my mind at least, that you emphasize this message and that we stay the course.
7. Corruption is a major concern of yours. Entities at all levels of Iraqi society, including within the Oil

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Ministry, have to basically decide that lawlessness will not be tolerated and will in fact be punished. You know that corruption exists in the ministry and you are concerned that not enough is being done to root it out. You would like him to use his new IG to begin to get at this problem.

8. You would like to begin the process of price liberalization and the formation of an oil trust. What does he think of these and how should we proceed?
9. One concern that I (Rob) would like you to voice, if you agree, is that you have heard concerns expressed that the career technocrats at the Ministry are slowly but surely being pushed aside. You don't want all of the expertise and experience, particularly those that saw the industry through it's bad days and through the beginning of the reconstruction effort, to be sacrificed.
10. To summarize, you want him to actively get involved in "transition" planning and accomplishing some of the important tasks outlined above, with a great sense of urgency. ~~Rob and I work together every day to help get the oil industry back to its pre-war levels and that Rob does not act unilaterally.~~ (It is important to say something like this, because he's beginning to get the idea that he can simply go directly to you on some issues. You should actually remind him to work with you through the oil office on all matters.)
11. Bottom-line, we have much to do in the coming months and a lot of progress needs to be made soon. You and the ministry have done well, but much more remains. This is one of the two or three most important institutions in the country and you need to lead the way.

I would be glad to discuss any of this with you prior to the meeting. Thanks.

Rob

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1/28/2004

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COALITION PROVISIONAL AUTHORITY
BAGHDAD

040328-17

26

bw

INFO MEMO

28 March 2004

FOR: THE ADMINISTRATOR
FROM: Rodney Bent
SUBJECT: Oil Revenue Report- As of 26 March 2004

Oil revenue report as requested.

Revenue against Estimates

Weekly		Year to date	
Revenue Received	OMB estimate	Revenue Received	OMB estimate
\$420,710,932.42	\$258,720,000.00	\$3,488,305,027.14	\$3,318,700,000.00

Memorandum items:

War reparations to date: \$174,415,251.36
OMB forecast for 2004: \$14,154,350,000.00

(a) Updated forecast as per the 2004 Budget

Notes:

- The "Revenue Received" columns represent gross oil revenues received. 5% of these are removed (Kuwaiti war reparations) before the amounts are transferred into the Development Fund for Iraq (DFI).
- There may be revisions to the amount received to date in subsequent weekly reports - payments into the DFI are revised following close of business on Friday in New York, and CPA receives updated figures Monday afternoon (Baghdad time).
- OMB's monthly estimates are pro-rated to obtain weekly-estimates.

Rodney Bent
Office of Management and Budget

Copies to:

Mr Kamil Al-Gailani, Minister of Finance
Mr Mike Stinson, Ministry of Oil
Col. Don Davis, CPA Comptroller

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ATTACHMENTS:

Cumulative Oil Revenue
Cumulative Oil Production
Daily Oil Production
Net Oil Revenue

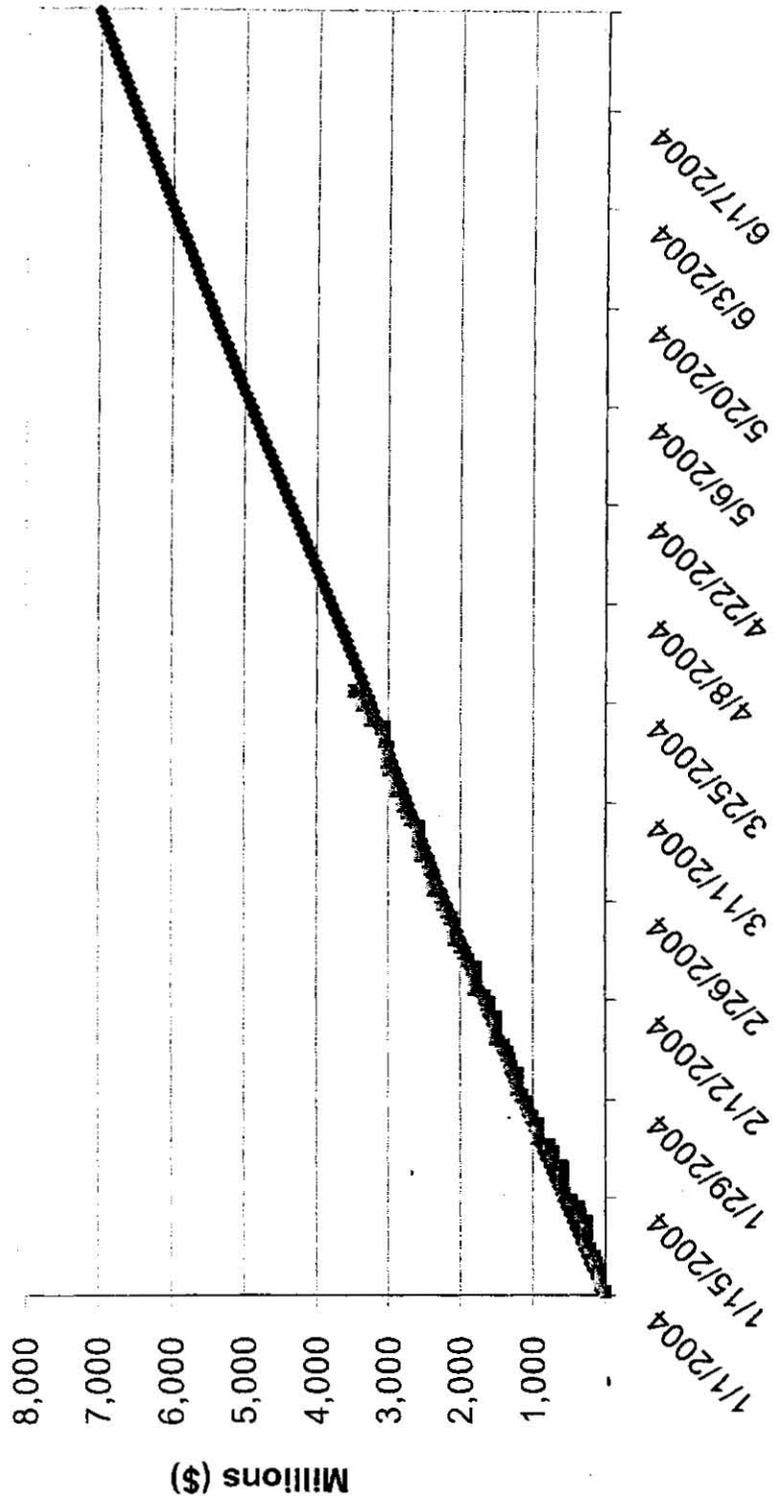
COORDINATION:

Ministry of Oil
Comptroller's Office

SENSITIVE

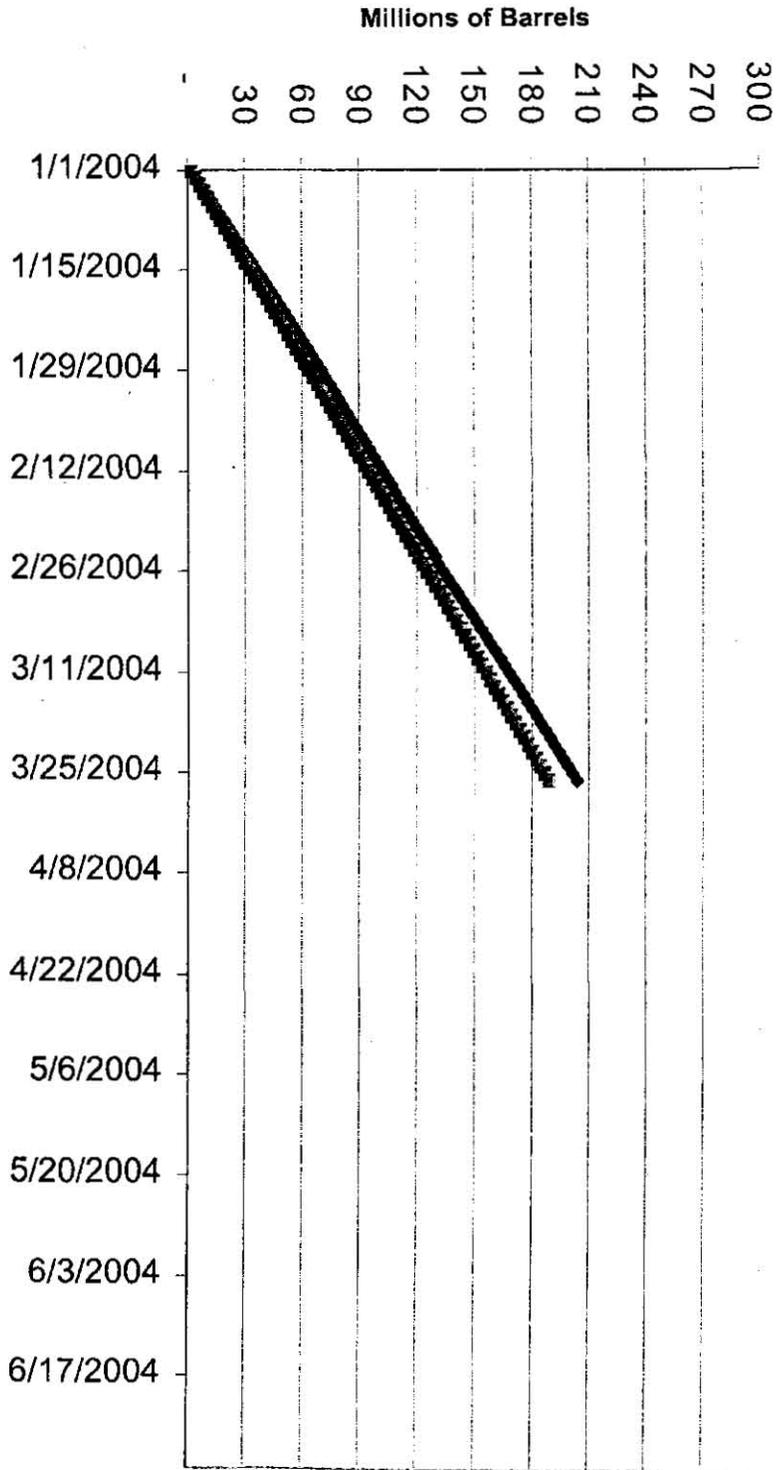
Cumulative Oil Revenue - 2004

—◆— OMB Forecast —■— Actuals



SENSITIVE

Cumulative Oil Production - 2004

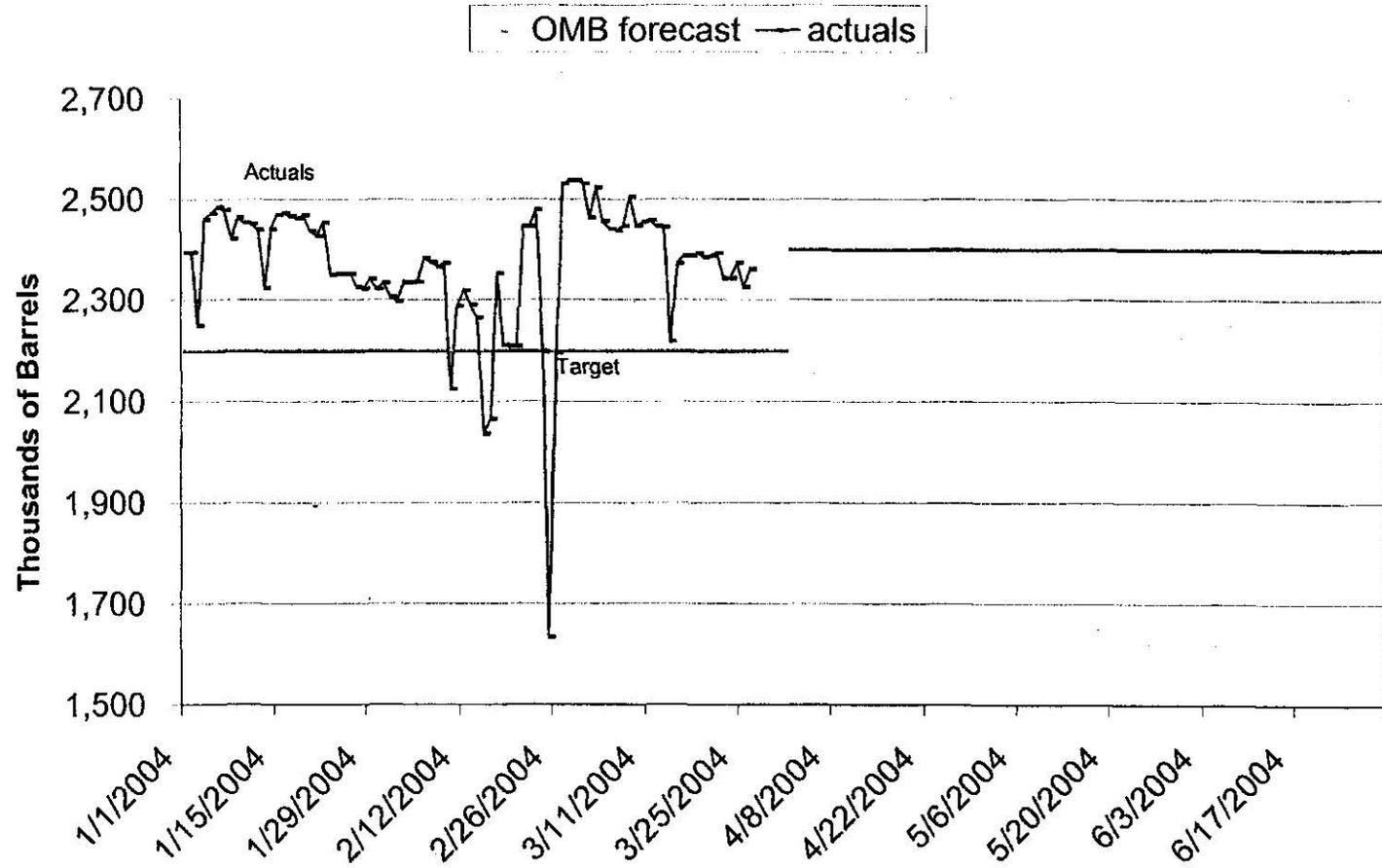


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SENSITIVE

Daily Oil Production - 2004

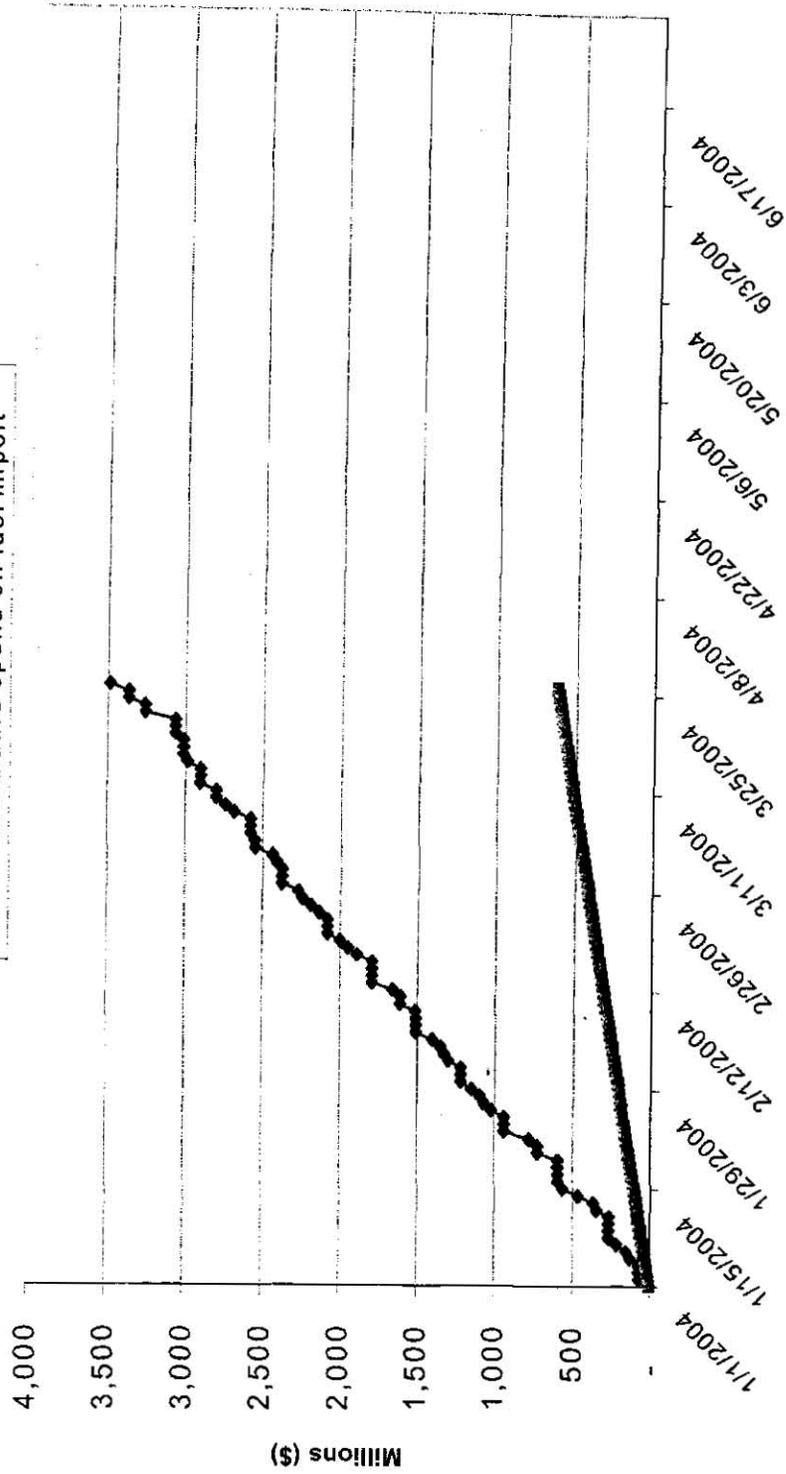


SENSITIVE

SENSITIVE

Net Oil Revenue - 2004

- ◆ Cumulative daily oil revenue
- Cumulative spend on fuel import



SENSITIVE

Fuel Inventories

CPA Oil

March 21, 2004

Building Inventories

Restrain Consumption

- Control Smuggling
- Curb Demand
- Limit Blackmarket

- Price increase
- Border control
- Accountability

Increase Supply

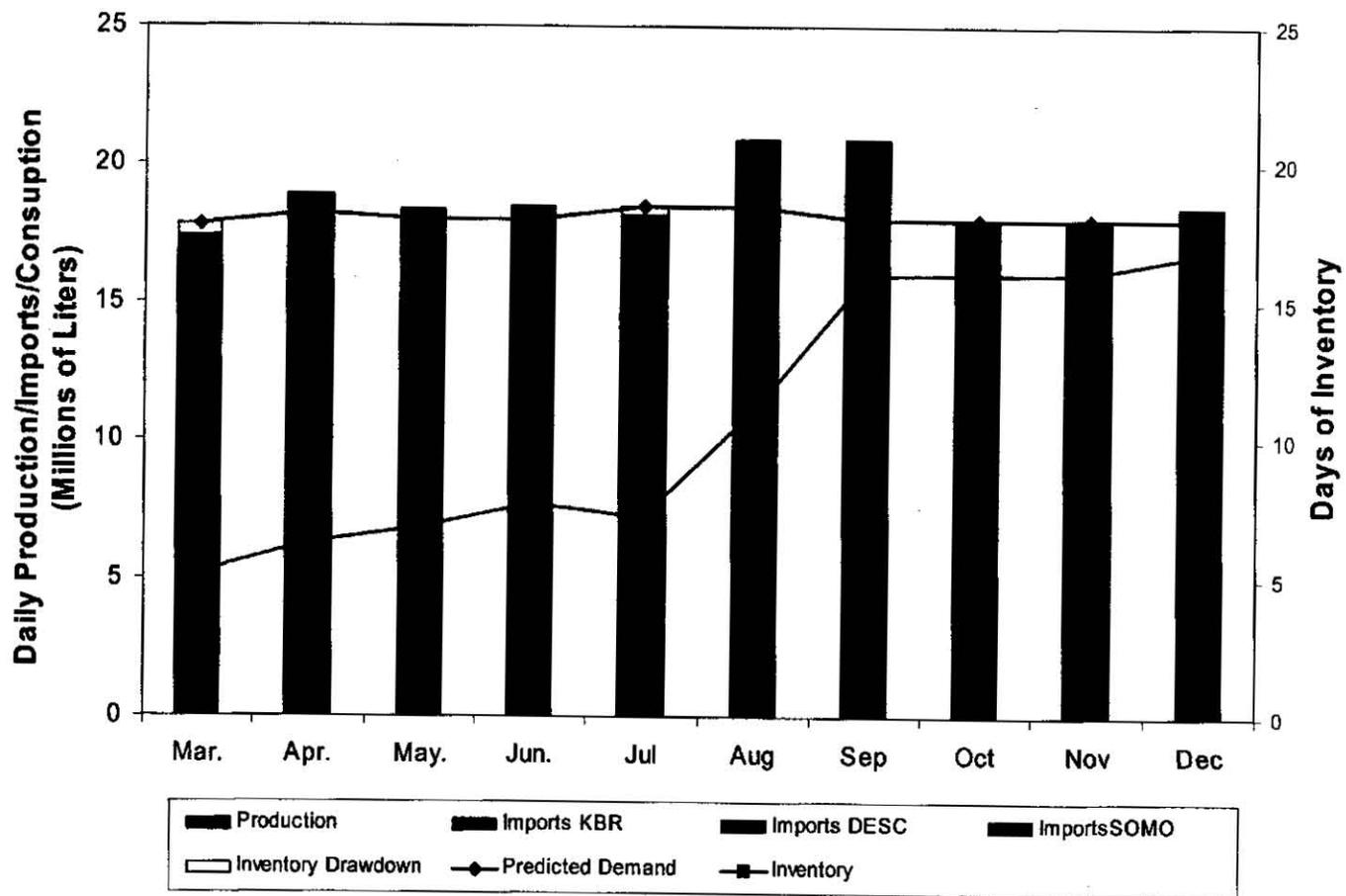
- Imports
- Domestic Production

- SOMO Upgrade
- Distribution facilities
 - Restoration & Improvements
- Refinery Maintenance

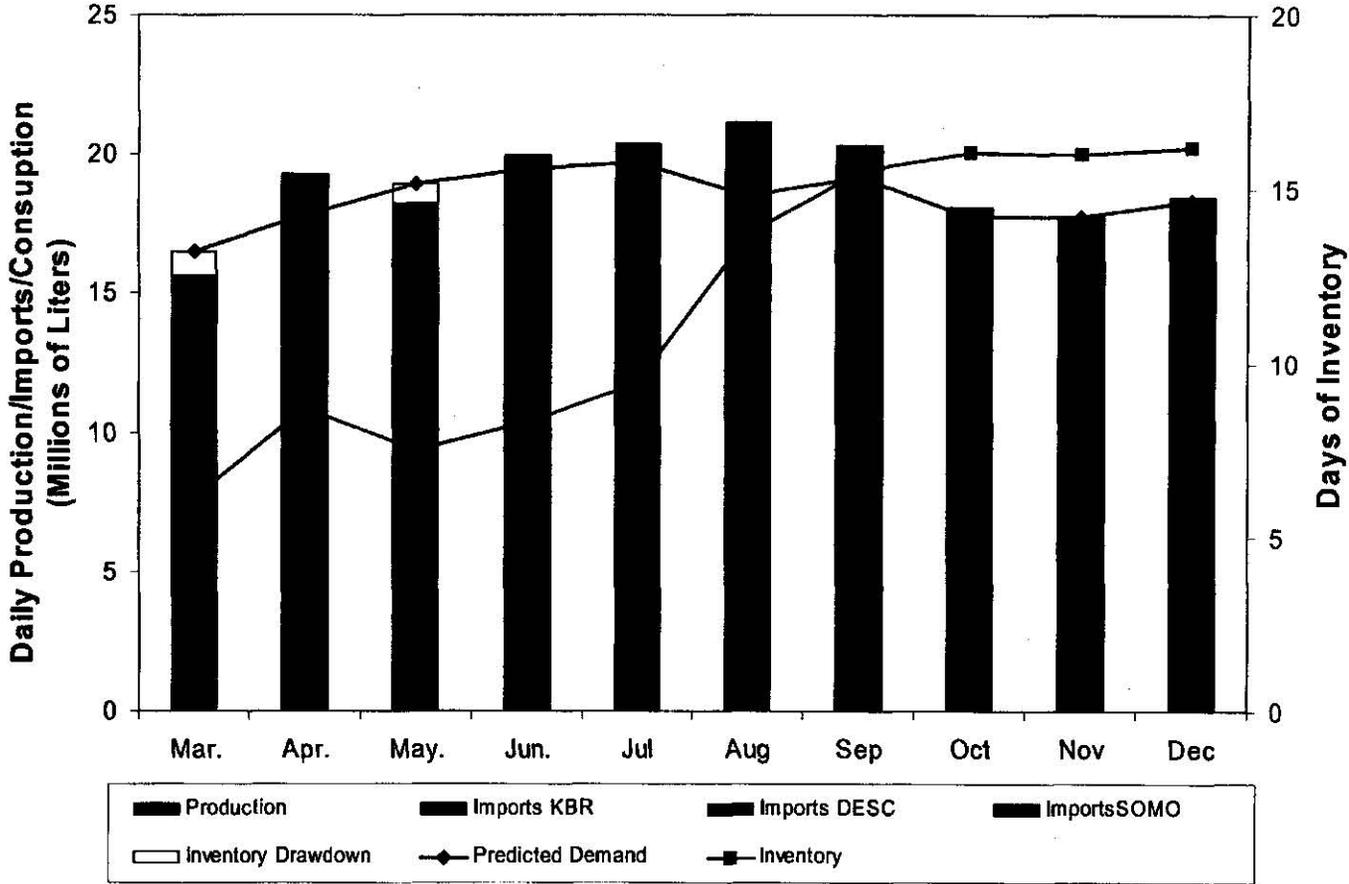
Key Considerations

- Refinery Maintenance
 - Baiji retooling, Daura reformer
- Security
 - Pipeline sabotage
 - Military escort of fuel convoys
- Import Availability
- Transition
 - SOMO import performance
 - MoF support of imports - SOMO Funding
 - Retaining DESC
 - 15 May Decision – extend beyond 30 June

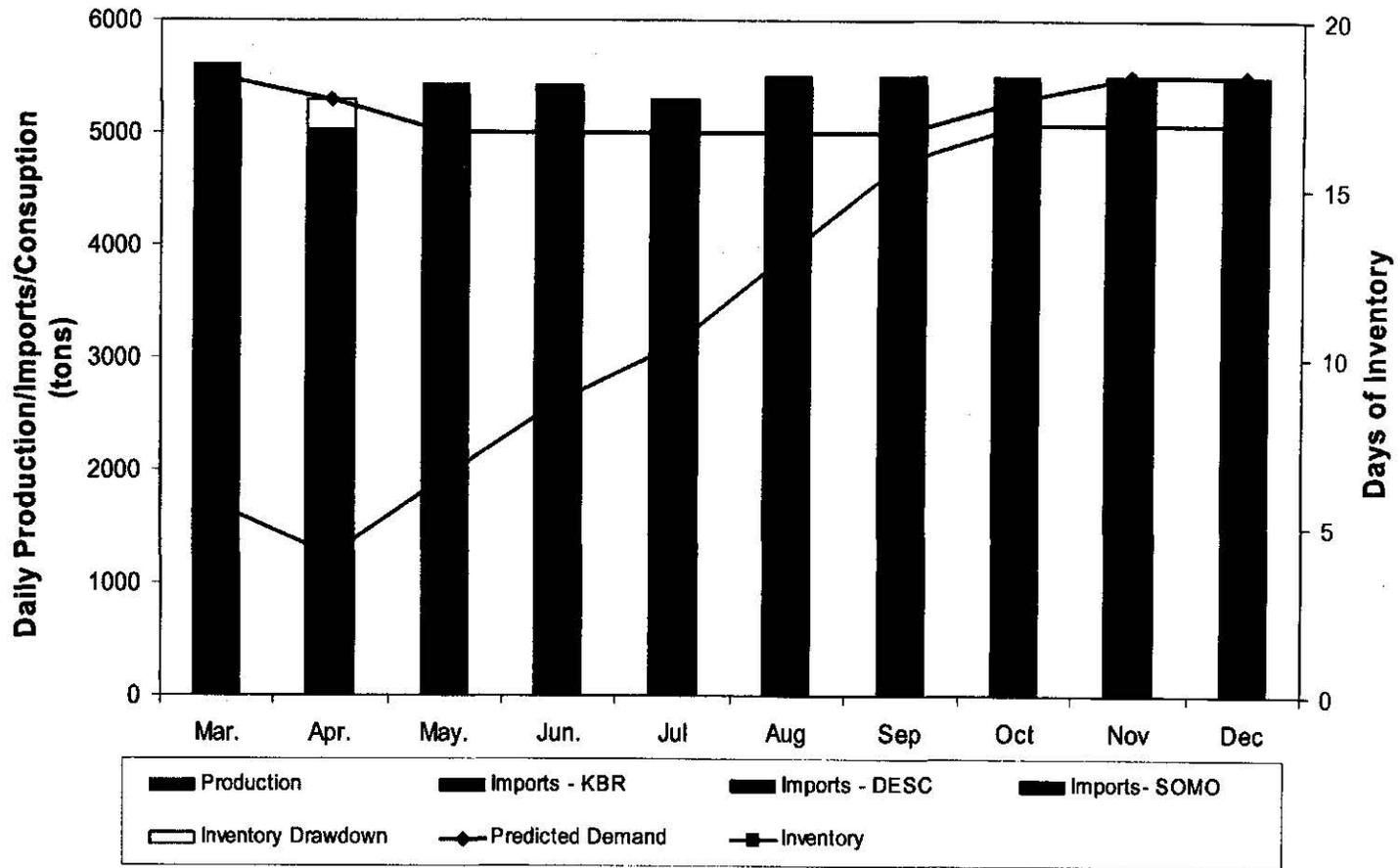
Benzene Inventories



Diesel Inventories

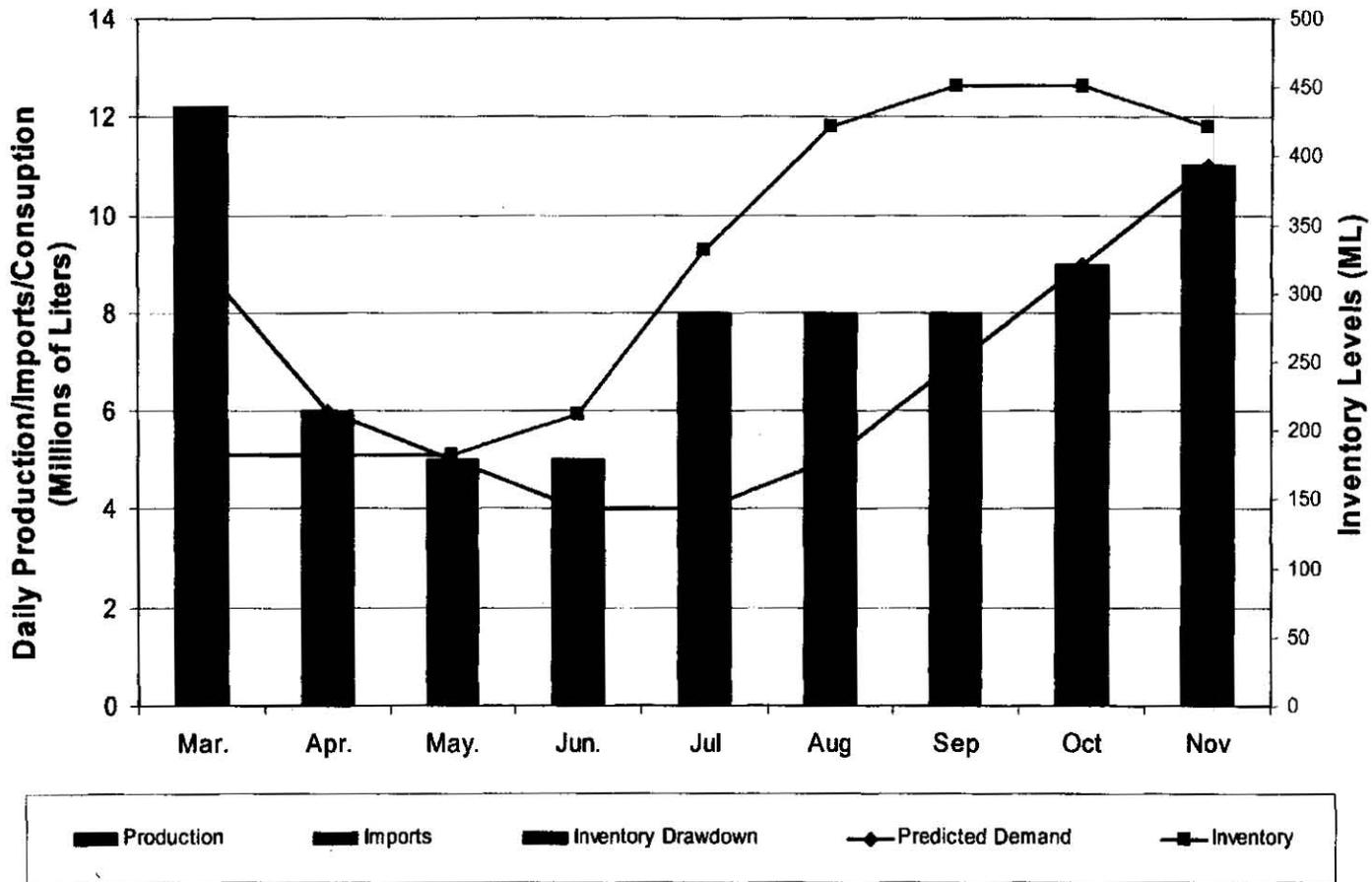


LPG Inventories



Kerosene Inventories

Goal: 500 Million Liters by December 1



Recommendations

- Price increase for Benzene & Diesel
- Retain DESC post-transition
 - DESC - Iraqi Gov't Int'l Agreement
 - Provides a customer
 - Legally allows DESC to import
 - Maximize Supplemental Funds July-Sept
- Additional SAF funds when needed



COALITION PROVISIONAL AUTHORITY
BAGHDAD

3/31
fbs ✓
Barby
Mark

INFO MEMO

March 30, 2004

FOR: THE ADMINISTRATOR
FROM: J. Michael Stinson, Senior Advisor to the Ministry of Oil
SUBJECT: PETROLEUM DEVELOPMENT CONTRACTS EXECUTED PRIOR TO JULY 1, 2004

Corporations from several countries allege that they hold valid contracts to develop oil and gas reserves within the boundaries of Iraq. The alleged contracts fall into four broad categories:

1. Contracts executed or alleged to have been executed by the government of Iraq prior to the 1991 war to liberate Kuwait.
2. Contracts executed or alleged to have been executed by the government of Iraq during the period between 1991 and the fall of the previous government of Iraq on April 9, 2003.
3. Contracts executed by regional governments during the period between 1991 and the fall of the previous national government on April 9, 2003.
4. Contracts executed by regional governments during the period of ORHA and the Coalition Provisional Authority between April 9, 2003, and the assumption of sovereignty by the Iraqi Governing Council under the Transitional Administrative Law on July 1, 2004.

In addition to the corporations alleging to hold these contracts, the countries in which they are domiciled have also often lent support to their corporation in these matters. The potential size of the crude oil and natural gas reserves in Iraq do cause both corporations and governments to consider them to be strategic in nature. Therefore, there is a regular effort by the corporations and governments to push for the recognition of these contracts by the Iraqi government as it is brought into existence on July 1st.

Taking the four broad categories in sequence:

1. CPA-Oil does not know of any claims being made by corporations or countries concerning the validity of contracts executed by the Iraqi government prior to 1991. Most, if not all, of the work done by international companies involved the provision of services, equipment, and construction. International companies did a substantial amount

of exploration drilling during the 1970's. However, it does not appear that the Iraqi government signed any contract for the development of crude oil and natural gas that survived into the term of the previous government.

2. In the period between 1991 and April 9, 2003, the Iraqis negotiated several agreements. At least two companies or consortia assert that their contracts executed during this period are valid. The ones we know something about are noted in Attachment 1. We have not had sight of the contracts themselves.
3. The most troublesome contracts may be those executed by Iraq's regional governments during the period between 1991 and the fall of the previous national government on April 9, 2003. The northern part of Iraq was administered by a Regional Administration recognized as having separate powers even during this period when a national government existed in Baghdad. The main contract signed during this period was:
 - A Production Sharing Agreement (PSA) between a private Turkish company, PetOil Petroleum and Petroleum Products International Exploration and Production Inc. (PETOIL), and the Sulaymaniyah Governorate. The agreement was approved by Jalal Talabany on behalf of the Northern Iraq Administration. The agreement establishes a PSA for oil exploration and development over a large area of Sulaymaniyah in northeastern Iraq. The agreement was signed 14 January 2003. Subsequently an American company registered in Texas, Prime Natural Resources, Inc., may have acquired a 50% interest in the contract.
4. Contracts executed by regional governments during the period of ORHA and the Coalition Provisional Authority between April 9, 2003, and the assumption of sovereignty by the Iraqi Governing Council under the Transitional Administrative Law on July 1, 2004, are less difficult. One such contract exists as far as CPA-Oil knows. It is as follows:
 - A Production Sharing Agreement between the Kurdistan Regional Government and a private Turkish company, Genel Enerji A.S., signed January 20, 2004. The PSA area is fairly large and lies north of Kirkuk and is in the area of the existing Taqtaq Field. The agreement was signed by Dr. Barham Salih, Prime Minister of the Government of the Kurdistan Region.

CPA-Oil believes that all of these alleged contracts should be invalid and considers a public statement to that effect to be of high importance. The Minister of Oil has received a draft statement addressing the prior contracts (Attachment 2) and he agrees with all the main points. The Minister made a short public statement, reported in Reuters on March 26, 2004. He said, "The contracts with the previous regime, whether by foreign companies or governments, are subject to the Ministry's future policy. They should not think that they would automatically be renewed. The new oil policy will reconsider these contracts objectively." He has not yet spoken publicly about the regional agreements.

The signed regional agreements in Kurdistan and Sulaymaniyah may be the most difficult to deal with. We do not believe that any of the enabling documents establishing the respective regional authorities granted rights to the subsurface mineral resources. Those subsurface resources, and

particularly oil and gas, are reserved to all the people of Iraq. Decisions respecting the development of those resources must be made by a national entity, the Ministry of Oil in the case of oil and gas. Therefore, these contracts are probably invalid. A legal opinion so stating the position may well be necessary, but the policy should be clear. Robert Maguire, CPA Legal, has helped us with legal insights.

It may well be that the Administrator should issue a position on behalf of CPA to clarify the situation prior to the transition.

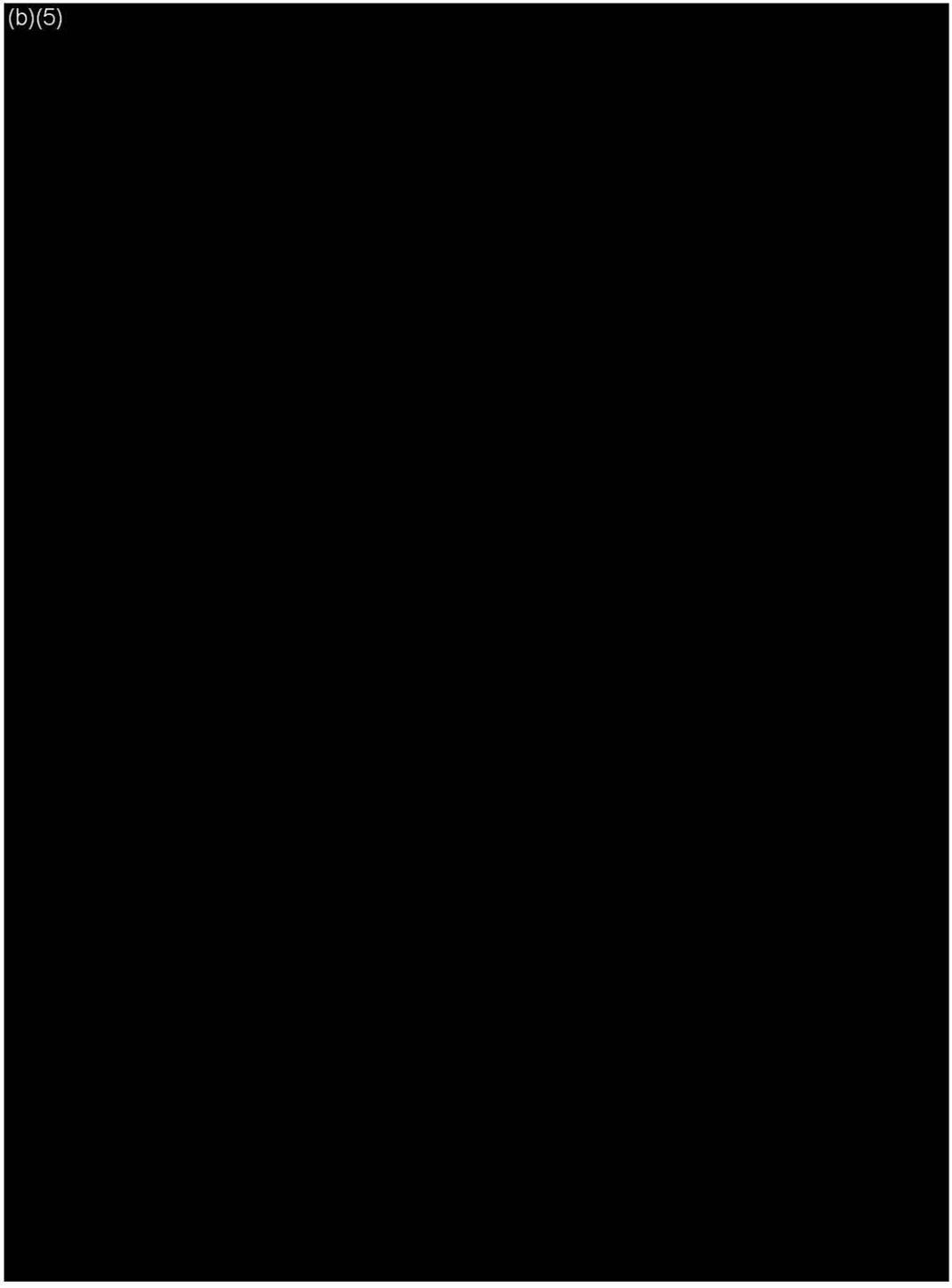
J. Michael Stinson
Senior Advisor – Ministry of Oil

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MUTTITT 10-L-0263 91

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COALITION PROVISIONAL AUTHORITY
BAGHDAD

LPB HMD 021

INFO MEMO

*Make 2 drawings
w/ notes today
March 11, 2004
w/ Rodney
lets
sl2*

FOR: THE ADMINISTRATOR
FROM: J. Michael Stinson
SUBJECT: **Petroleum Product Price Liberalization**

Efforts continue to craft a program of petroleum product price liberalization that can be agreed between the Minister of Oil and the Minister of Finance. Neither Minister has developed his own written proposal but both have worked the issues. Each Minister has verbally outlined steps toward liberalization but they have reached no joint conclusion. Rodney Bent and I are of one mind on the subject. We put our basic concepts to the Ministers in a joint meeting on March 8th. The Ministers accept the need for liberalization and agree aspects of a program to do so, but disagree on main features. The Minister of Oil has asked for a specific suggestion at our last meeting earlier this week, and that is being written for his consideration. The basic positions follow:

Minister of Oil's Concept

The Minister has favored increases in premium grade benzene from 20 D/L to 75 D/L, regular grade from 20 D/L to 30 D/L, and diesel from 10 D/L to 15 D/L all on 1 May. Diesel is priced regionally in Iraq, and we assume, but do not know, that he will favor raising all diesel prices by 50%. He strongly favors leaving LPG and kerosene at current prices because these fuels are used predominately by the poorer segments of the population. Future increases would be scheduled to finally achieve prices at parity with Kuwait. His suggested pace of subsequent changes in price tend to reach parity with Kuwait after the winter season of 2005.

Minister of Finance's Concept

The Minister has favored a single large increase as soon as possible, probably effective 1 April. He, too, would confine the increases to benzene and diesel. He did not articulate a concept of significantly different prices for premium and regular benzene. The Minister's concept of Kuwait parity prices are slightly in question and need to be finally confirmed. The Minister has is motivated by this action as a source of revenue to enhance civil service pensions.

Process for Approval

The Ministers are inclined to seek GC approval. If agreement cannot be reached on a single proposal they both seem willing to advance two competing proposals to the GC for a decision.

As a hold Rodney, I will decide,

The Senior Advisors have strenuously resisted this approach and have continued to insist that the two Ministers should make the decision.

Senior Advisors' Position

Rodney and I want a one-step process designed to significantly elevate product prices toward international open market prices with a first step achieving parity with Kuwaiti pricing. This approach includes the following:

1. Advancing current official prices for two grades of benzene and diesel fuel to consumer prices expressed in Dinar per liter equivalent to prices of comparable products in Kuwait. We need to confirm the rough relationships between the consumer price and the price ex-refinery providing the proper margin for terminal to retail sites and a dealer margin on sales. Those equivalencies indicate prices in Iraq as follows (at 1 U.S. dollar = 1400 ID):

<u>Product and Grade</u>	<u>Consumer Price</u>	<u>Transport and Dealer Margin</u>	<u>Official Price</u>
Regular benzene	175 D/liter	25 D/liter	150 D/liter
Premium benzene	290 D/liter	40 D/liter	250 D/liter
Diesel	140 D/liter	15 D/liter	125 D/liter

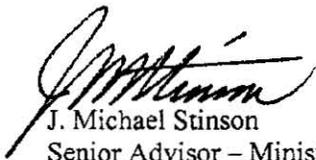
2. The prices should be made effective as early as is practical but no later than 1 May 2004.
3. Kerosene and LPG prices to be held at current official prices until public and market reactions can be judged. Kerosene volumes should be closely monitored to gage level of volume loss to diesel pool. A recommendation for increasing the price of kerosene should be made by 1 September 2004 based on the reactions of the market, general economic conditions, employment gains among lower paid population and other factors. LPG prices per container should likewise be evaluated after the winter heating season of 2004/2005.
4. The Ministries of Oil and Finance must conduct an effective campaign of public information beginning immediately. It is necessary to educate the population on the need to take these steps. This is essential to minimizing public outrage.
6. The Ministry of Oil must commit to a program of investments in public and private service stations to provide more outlets in convenient locations to ease the difficulty of refueling. The Ministry should commit to programs of reinvestment in refineries and distribution systems to ensure that the higher prices yield adequate supplies of quality fuels throughout the nation.
7. The Ministry of Finance should commit to allocations of moneys derived from higher prices to programs improving public services and transportation.
8. For the longer term the Ministry of Oil should plan to advance prices toward parity

with Jordan as soon as can be justified and plan to advance to full open market pricing at the earliest possible time to fully remove subsidies.

The primary concern of the Minister of Oil is for the poorer segments of the Iraqi population. Rodney and I believe that continuing subsidies, paradoxically, harm this segment of the nation. Maintaining very low prices for benzene and diesel in fact subsidizes those who can pay closer to full market price, those with relatively high incomes. Heavily subsidized prices do nothing for those not having the resources to purchase automobiles, private or neighborhood power generators, or owner operators of road trucks. Raising prices would provide additional revenue to the government which, in turn, could use the funds to invest in public transportation and other means to assist the poorer segments of society.

In short, properly managed prices can provide advantages to the more disadvantaged members of society while dampening product demand. Reduced demand automatically reduces high-priced imports at the margin. Increased prices also reduce the incentive to smuggle fuels out of the country and reduces the incentives for citizens of neighboring countries to purchase fuel from Iraq. Both will tend to improve inventories and reduce imports. Finally, the ability of Iraq to meet IMF and other world standards will be benefited by the removal of state subsidies.

Rodney and I will be proposing this program to the Ministers of Oil and Finance as soon as we can meet with them. We will be pushing for quick, affirmative decisions. I do expect modifications and will inform you as they are proposed.



J. Michael Stinson
Senior Advisor - Ministry of Oil

Cc:

Vice Admiral (Ret) Scott Redd
Rodney Bent (cleared)
Olin Wethington
Michael Adler
Gary Vogler

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MUTTITT 10-L-0263 95

L.P.B. HAS SEEN

L. Paul Bremer

0405728

From: Stinson, Michael (AD00)
Sent: Sunday, May 16, 2004 9:38 PM
To: L. Paul Bremer
Cc: Oster, Jeffrey W. (O-9); Usher, Ed (O-7); (b)(6) Ellery, James (O-7); Du Bose, Emmett Jr (O-6); (b)(6) Seay, Stephen (O-7); Stinson, Michael (AD00)
Subject: Pipeline Repair in the New Environment

Ambassador:

Your questions in the following e-mail note are certainly timely. We are presently dealing with a real world situation with T.D. Williamson that indicates what we are now doing to compensate for the material additions to risk that we have been experiencing in recent weeks. However, adequate security is a matter of individual perspective and T.D. Williamson may yet not agree that we have provided proper security. That said, the following extensive plan is intended to cover a week-long repair effort:

- 1st Armored Division is providing a body of troops (probably a platoon) to go to the first of four sites selected, sweep the area, and establish a perimeter. They will have heavy weapons.
- Steel Dragon will escort the TDW equipment and people (except for the Iraqi sub-contractors) to the secured site accompanied by the enhanced PSD's. TDW personnel will be in hard cars in the convoy.
- Iraqi sub-contractors prefer to go to the sites unescorted so they are not so closely associated with the U.S. military and civilian parties. They apparently will do so in this case.
- Once the convoy reaches the first site the 1st AD team will push the perimeter out somewhat farther with the PSD's taken positions nearer the repair site and crew.
- 1st AD will make an assessment of the size of the unit to be at the site throughout the repair operation after all people and equipment are in place. One might conceive that two squads might remain, with radio contact with 1st AD assets in case they are needed for quick response.
- People will be deployed to the valve on the 18-inch pipeline at the Strategic Pipeline off-take point to ensure that no one pressures up the 18-inch while the crew is working.
- Once the first site is nearing completion the same process will take place for the second site followed by the third and the fourth, if necessary, until the job is finished.

The above is one of the most intensive applications of both military and private assets in cooperation with one another that we have seen. The willingness of the 1st AD to see the strategic nature of the repairs and provide such long-term support is deeply appreciated. The experts in the security and military fields both feel that these measures will keep the people, equipment and site safe during the repair sequence. We are considering other measures for this repair sequence, but our most pressing concern is the protection of the pipeline after it returns to service.

Additional steps that might be considered now or in the future:

- Have the AirScan aircraft fly the line route at least twice after dark during the days of the repair sequence to detect movements of potential insurgents. Continue to fly the pipeline regularly during operations after the repair. We should consider flying the pipeline during daylight hours if AirScan's permit can be modified to allow daylight flights or if alternative options such as Seeker aircraft become available.
- Mr. Thamir Ghadhban recommends that we return the tribal arrangement in the region to a full ground surveillance contract rather than the static site contract that now exists. We are aware that this runs counter to the objective of reducing tribal arrangements, but at least in this case it would appear to be prudent to do so. Tribal members may well be made employees of the Erinys team.
- Build a pipeline road along the pipeline route in order to facilitate mobile patrols. The pipeline now largely goes

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through an agricultural area without much road access.

- Continue IO campaigns to build public awareness of the damage to Iraqi national values caused by attacks on oil infrastructure. The real key to security will have to come from the Iraqi peoples' willingness to do their part to stop sabotage.
- Evaluate technology to detect line breaks instantly and couple this detection with rapid notification of the CF in the area to prevent multiple attacks and enhance the possibility of capturing the perpetrators.

Regards,

Mike

-----Original Message-----

From: L. Paul Bremer
Sent: Sunday, May 16, 2004 7:01 AM
To: Stinson, Michael (AD00); Oster, Jeffrey W. (O-9)
Cc: Usher, Ed (O-7); (b)(6) Ellery, James (O-7)
Subject: RE: 16 May Daily Oil Report

**I understand that it has gotten difficult. Is there anything more that can be done? Do we have adequate security for the sites before and during repairs? Have we got what we need from private security and CJTF?
LPB**

-----Original Message-----

From: Stinson, Michael (AD00)
Sent: Sunday, May 16, 2004 12:03 AM
To: Oster, Jeffrey W. (O-9); L. Paul Bremer
Cc: Usher, Ed (O-7); (b)(6) Ellery, James (O-7)
Subject: RE: 16 May Daily Oil Report

The Baiji further delay is a direct result of the Doura refinery outages and the resultant impact on stocks. Baiji has, almost miraculously, kept producing reasonably well despite its many mechanical issues. Keeping it going for another few days before the turnaround starts will allow us to possibly get Doura up to full production prior to taking Baiji down. This will ease any inventory shocks if we can pull it off. Furthermore, the delay gives us more time to get a large crane fully into place. The crane has been unable to make the journey to Baiji because of blown bridges and high security concerns by the military for the one alternative route able to take the weight of the components.

Pipeline repair time has been most heavily impacted by two factors: (1) the amount of time spent on providing all the comprehensive security measures now necessary to do the initial reconnaissance and assessment, moving the equipment and personnel to and from the site, and securing the site during work; this has expanded by perhaps an order of magnitude during the past six weeks and (2) the difficulties of getting volatile and dangerous materials cleaned away so that crews can do hot work; these last works of sabotage seem to have been designed to produce the highest degree of difficulty in this area. As Jeff says, people are doing their best under difficult and very dangerous circumstances. But the game has changed, Ambassador, and we must accept that reality and deal with it.

Regards,

Mike

-----Original Message-----

From: Oster, Jeffrey W. (O-9)
Sent: Saturday, May 15, 2004 10:44 PM
To: L. Paul Bremer
Cc: Stinson, Michael (AD00); Usher, Ed (O-7); (b)(6) Ellery, James (O-7)

Subject: RE: 16 May Daily Oil Report

Sir,

I agree that it is a very discouraging report, yet it reflects the reality of the current situation despite Herculean efforts by our folks and the Iraqis. I forwarded you a lengthy report tonight which spells out in detail the current situation, the actions underway, and the short and long term prognosis for both refining and export.

The big unknown is the security. In my opinion, we are under what appears to be a systematic, knowledge-based series of attacks aimed at both refining and export capacity. Recently those attacks have been reinforced by threats, intimidation, and personal attacks of Iraqi oil employees, and Iraqi, GRD, and contractor repair crews.

We are awaiting the results of the MNF-I infrastructure security review. At the same time, we are focusing the Erinys security effort on the areas of greatest vulnerability, and the AirScan flight missions are directed at oil security.

v/r, Jeff

-----Original Message-----

From: L. Paul Bremer

Sent: Saturday, May 15, 2004 10:00 PM

To: Oster, Jeffrey W. (O-9)

Subject: FW: 16 May Daily Oil Report

Jeff

This is a very discouraging report. What can you tell me about it? Why the two week slippage on Baiji? Why so long to repair pipelines, especially the southern one? It is costing us millions every day.

LPB

-----Original Message-----

From: (b)(6)

Sent: Saturday, May 15, 2004 8:18 PM

To: L. Paul Bremer

Cc: (b)(2), (b)(6)

(b)(2), (b)(6)

(b)(2), (b)(6)

Michael (AD00); (b)(2), (b)(6)

Stinson,

Oster, Jeffrey W. (O-9);

(b)(2), (b)(6)

Subject: 16 May Daily Oil Report

<< File: Daily Report - 16 May.doc >>

V/R

(b)(2), (b)(6)



COALITION PROVISIONAL AUTHORITY
BAGHDAD

March 11, 2004

MEMORANDUM FOR Vice Admiral (Ret) Scott Redd

SUBJECT: Post-Transition Personnel Requirements – Ministry of Oil

The following outlines my thoughts on the broad outlines of personnel requirements to advise the Minister of Petroleum, main organizations under Deputy Ministers, and/or its corporate subsidiaries post – 1 July. The individuals I would envision are equivalent to current CPA – Oil advisors. Personnel from PMO and its contractors, DESC, the Corps of Engineers, GRD Shield, and others who work with the Ministry will also remain post-transition. These personnel are not included in this assessment.

• **Ministry Requirements**

Senior Advisor equivalent - The Minister will need, and probably will value, the advise of a senior, experienced individual to help guide him during the immediate post-transition months. This individual would also assist in connecting the Minister to highly capable management consultants, e.g. Mackenzie & Co., for high-level organizational and managerial advise.

Number: 1

Deputy Senior Advisor equivalent - As the Deputy Ministers are brought into the Ministry additional advisory capacity to assist both the Minister and the Deputies will probably be valued. Both the Senior and Deputy Advisors will probably also have to act as liaisons to PMO and other organizations working on U.S. funded projects.

Number: 1

Ministerial Section Advisors - I envision some of the Deputy Ministers will lead sections that may be almost completely new to them, involve new people and processes, and constitute major opportunities to improve the Iraqi petroleum industry and national economy. Categories of importance, each having one or more potential advisors are:

Advisor – Policy and Strategic Planning	Number:	1
Advisor – Foreign Investment Licensing	Number:	1
Advisor – Finance and Economic Anaysis	Number:	1
Advisor – Project Development Control	Number:	1
Advisor – Petroleum Law	Number:	1

Corporate Commercial and Technical Advisors - The structure of the overall Ministry of Oil currently envisions an Iraq National Oil Company, an Iraq Refining Company, the State Oil Marketing Organization, and potentially other corporations working under the Ministry structure. The main components of these companies form the backbone of the Iraq economy. There are managerial and technical advisory positions that may be very valuable in getting them fitted for full international stature:

Advisor – Exploration Technology	Number:	1
Advisor – Upstream Operations	Number:	1
Advisor – Crude Oil and Products Trading	Number:	1
Advisor – Refining Technology	Number:	2
Advisor – Information Management/IT/IS	Number:	1

Administrative Support - Common secretarial, administrative, and services support to assist the above advisors. This, of course, assumes that the people will be domiciled in the same locale.

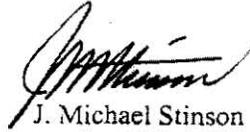
Number: 2

TOTAL 13

Frankly, I believe the above may slightly overstate the willingness of the Ministry and companies to accept outside advisors. I do believe that the advisory segments do represent strong needs. I believe our present skill sets will not be entirely appropriate for these new requirements. Industry candidates will probably be preferred. I expect the requirements to continue on through the balance of the year.

You should note that no provision is made to continue the assembly of production, refining, export, and supply/demand data that has been so valuable to us this past year. Provision for data collection will have to be centered elsewhere.

Consulting companies, engineering, and other technical companies will probably replace government funded advisors within a few months after the transition begins.



J. Michael Stinson
Senior Advisor
CPA, Ministry of Oil

cc:
LTG(Ret) Oster
Gary Vogler



COALITION PROVISIONAL AUTHORITY
BAGHDAD

has seen
- cc to Gen. Oshrokh

MEMORANDUM FOR: **VADM(Ret) John Scott Redd**
FROM: **J. Michael Stinson – Sr. Advisor to the Ministry of Oil**
DATE: **16 April 2004**
SUBJECT: **POST-TRANSITION STAFFING**

Attached are copies of the departure/replacement estimates for the individuals currently assigned to CPA – Ministry of Oil advisory staff. You will note that two of the individuals are citizens of Coalition partner countries, Mr. Morgan of the U.K. and Mr. Sucko of the Czech Republic. They will definitely not be attached to the U.S. Embassy. Based on my limited understanding they will not be a part of the IRMO organization that will be replacing CPA in many of its functions.

I want to be clear that the attached does not constitute a plan at all. It is merely a forecast of whether or not members of our current staff will likely be in-country after 1 July. I have submitted two alternate real plans to the Minister of Oil, but he has not responded. In a perfect world we would provide more technical and commercial advisors post-transition and fewer managerial advisors. This was reflected in the thirteen hypothetical positions. I would say with the State Department's emphasis on attaining significantly reduced numbers of people here in Baghdad makes a number of four to six people more likely.

The changes in GRD (formerly RIO) coupled with the departure of CPA-Oil people like (b)(6) (b)(6) are going to eventually cause CPA-Oil to cease collecting the daily production, import and stock reports. If this data is considered valuable by the State Department we will need to organize an alternative data collection/dissemination organization to pick up this work.


J. Michael Stinson

Cc: (b)(6)

Attachments: Ministry Advisors spread sheet
Departure Plan for CPA-Ministry of Oil Personnel
CPA Staff Evaluation

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Ministry	Current Personnel						Required Personnel				
	Senior Consultants	Technical Advisors	US Fill	Coalition Fill	CPA Military	Total	Senior Consultants	Technical Advisors	US Fill	Coalition Fill	UNK
INTERIOR	1	116	117	-	-	117	1	26	22	5	-
OIL	1	27	11	-	17	28	1	12	13	-	-
ELECTRICITY	1	36	32	4	1	37	1	8	9	-	-
JUSTICE	1	38	35	3	1	39	0	5	5	-	-
DEFENCE	1	47	22	4	22	48	1	19	3	17	-
TRADE	1	18	17	2	-	19	1	5	5	1	-
FINANCE	1	28	20	-	1	29	1	10	10	1	1
TRANSPORTATION	1	38	35	1	3	39	1	15	16	-	-
AGRICULTURE	1	6	3	4	-	7	1	2	1	2	-
COMMUNICATIONS	1	45	46	-	-	46	1	17	18	-	-
CENTRAL BANK	1	48	40	9	-	49	1	12	13	-	-
MUNIC. & PUBLIC WORKS	1	9	6	2	2	10	0	4	2	2	-
WATER RESOURCES	1	5	3	1	2	6	1	2	3	-	-
LABOR AND SOCIAL AFFAIRS	1	20	17	4	-	21	1	3	4	-	-
HEALTH	1	22	21	2	-	23	0	0	-	-	-
HOUSING	1	8	5	4	-	9	1	5	6	-	-
EDUCATION	1	9	9	1	-	10	0	0	-	-	-
HIGHER EDUCATION	1	10	8	2	1	11	0	1	1	-	-
DISPLACEMENT & MIGRATION	1	2	2	-	1	3	1	2	2	-	1
HUMAN RIGHTS	1	18	9	4	6	19	1	1	-	2	-
CULTURE	1	10	5	4	2	11	0	4	1	3	-
ENVIRONMENT	1	-	1	-	-	1	1	2	3	-	-
FOREIGN AFFAIRS	1	15	15	1	-	16	0	3	2	1	-
INDUSTRY & MINERALS	1	5	6	-	-	6	1	4	3	2	-
PLANNING & DEV. COOP.	1	13	5	9	-	14	1	7	5	3	-
SCIENCE AND TECH.	1	9	9	-	1	10	0	4	4	-	-
YOUTH AND SPORTS	1	8	8	1	-	9	1	4	1	4	-
SEC. MARKETS INSTITUTIONS	0	-	-	-	-	-	1	2	3	-	-
TOTAL	27	610	515	62	60	637	20	179	155	43	1

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INFO MEMO

1 May 2004

FOR: THE ADMINISTRATOR

COO

FROM: J. Michael Stinson, Senior Advisor to the Iraqi Ministry of Oil *JK*

SUBJECT: REUTERS ARTICLE ON FINANCING IRAQ'S OIL INDUSTRY

I refer to the attached copy of the Reuters article by Khaled Yacoub Oweis entitled "Financing problems deal another blow to Iraq oil" and your note penned thereto.

The specific proposal to which Mr. Oweis refers was made shortly before I arrived here in February by a group consisting of CiticGroup and OPIC. In summary, they proposed to advance a substantial sum of money to the Ministry of Oil to fund oil industry projects. The funding would be paid for by committing a volume of crude oil to the group from the commitment date up to, I believe, January 2007. In other-words the Ministry would mortgage a substantial amount of crude oil in return for a substantial amount of up-front capital. The implied interest rate, I believe was around LIBOR plus a little less than 6% or a total rate of around 10%.

The U.S. Ex-Im Bank is apparently anxious to make a similar proposal and we believe Deutsche Bank has proposed a facility of this sort, too. We have advised the Ministry to invest some management time in understanding these structures and evaluating their long-term benefit but not to consummate a deal at this time. The main reasons for this advice are:

- Until sovereignty is transferred we believe it will be important to avoid transactions that might be interpreted by the press as "selling off Iraq's oil" by Coalition members.
- We believe these financing devices may ultimately play a role in funding the further development of the oil industry, but they are premature today. The capacity of the Ministry of Oil to manage the large number of projects currently envisioned is questionable. It would be unwise to increase the load in our opinion.
- The efficiency of project execution has been dramatically reduced because of the security environment. Spending another large increment of funds does not make economic sense until security can be improved and efficiency substantially increased.

Frankly, I think a large amount of additional funding beyond our current forecasted requirements and the additional funds already being sought might be largely wasted. After PMO winds down, the security problems abate, the elections are completed, and the new Ministry organization is

*mtp - 2 concern energy.
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5/2*

completed , it might be timely to undertake such a facility. I would be thinking 2006 or 2007 rather than 2004 or 2005.

The Ministries of Oil, Finance, and Planning should invest considerable time doing a rigorous job of economic and financial modeling for various financial structures in preparation for making a decision later. They should particularly take into account the potential for attracting foreign capital when an appropriate legal framework is established. If Iraq plays its cards well they will be able to use an array of financing vehicles, foreign capital infusions, and net cash from its own operations to finance its oil industry.

Mr. Oweis' allegations about the state of the oil infrastructure are largely true. However, he misses the points that the Ministry of Oil now has a capital budget, the RIO capital projects will be finished in 2004, and the PMO capital work on oil projects will be ongoing for 18 months to two years. Iraq's oil industry will require substantial investment to be sure, but the situation is by no means as bleak as the article suggests.

ATTACHMENTS: Subject Reuters article

COORDINATION: Jeffrey Oster, COO

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LPB HAS SEEN

Mike S.
What is this
about?
4/5/11

Financing problems deal another blow to Iraq oil

Publication: Reuters

Date: 04/30/2004

Author: Khaled Yacoub Oweis

BAGHDAD, Iraq (Reuters) - Iraq has lost the only short-term option to finance oil projects by scrapping a \$1.4 billion borrowing plan, raising more doubt about its ability to sustain output, industry insiders said Friday.

The occupied country has quietly rejected the debt offer from a U.S.-led banking consortium, which involved mortgaging oil exports, as consensus is lacking on how to invite foreign companies and political instability discourages investment.

"It was a good borrowing plan, based on technical needs and lacking the political interference we usually experience in Iraq," a well-connected Western oil executive told Reuters.

"They basically had no other option. Foreign investors will not come and invest in oil field development until there is an energy law they could rely on," he added.

Iraq needs to finance dozens of projects designed to help double production to five million barrels per day in the next five years. The plans include setting up a national oil company to run the sector as a new government works out how to invite foreign investment without compromising national ownership.

Iraq's oil revenue is under U.S. control and will remain so until a "representative" government is in place as stipulated by a U.N. resolution last year. Most of the oil revenue in the 2004 budget was spent on paying government salaries so far.

The oil sector has been facing production problems since the 1990 crippling economic embargo. Postwar looting and sabotage compounded the problem.

Private engineers say problems abound, including more wells becoming unusable from lack of maintenance and power to inject water. Crude oil pumping capacity is also weak.

The postwar oil ministry has unveiled a number of projects, including pipelines and new wells, but none has been implemented due to the absence of financing.

The tenders helped convince international companies to set up operations in Iraq. They now say lack of project funding and worsening security is making Iraq unattractive.

"Our frustration is growing. Oil officials are telling us to wait for a new government to see how these projects will be financed," said one oil services executive.

"The decision we have to make now is whether to pull out from Iraq, after opening here and waiting for a year for nothing," he added.

It remains unclear why the borrowing plan was scrapped after it won support from key politicians, including Ahmad Chalabi, who heads the Governing Council's finance committee

Although the consortium included a U.S. government agency, U.S. oil officials in Baghdad opposed the deal, saying it was too costly.

The plan's supporters said nationalist sentiment against selling state assets and lack of direct U.S. funding left Iraq with little choice except borrowing.

Council member Naseer al-Chaderji said the ministry had not put the borrowing plan to the full council and he was not aware of plans to do so.

The ministry's funding is separate from U.S. oil projects in Iraq. Most of the \$2 billion the United States spent so far was for repairing oil infrastructure and importing oil products -- contracts that mostly went to Texas-based Halliburton.

REUTERS Reut08:40 04-30-04



COALITION PROVISIONAL AUTHORITY
BAGHDAD

INFO MEMO

12 March 2004

FOR: THE ADMINISTRATOR
FROM: J. Michael Stinson, Senior Advisor to the Ministry of Oil
SUBJECT: **TURKISH NON-PAPER – REVIEW AND ASSESSMENT OF CONCERN**

The Turkish Prime Minister passed a non-paper to the National Security Council on 28 January 2004. It referred to an agreement between a private Turkish company, PetOil Petroleum and Petroleum Products International Exploration and Production Inc. (PETOIL), and the Sulaymaniyah Governorate. The agreement was approved by Jalal Talabany on behalf of the Northern Iraq Administration. The agreement establishes a Production Sharing Agreement (PSA) for oil exploration and development over a large area of Sulaymaniyah in northeastern Iraq. The agreement was signed 14 January 2003. Subsequently an American company registered in Texas, Prime Natural Resources, Inc., may have acquired a 50% interest in the contract. The Turkish PM apparently requested direction on the status of contracts of this type and direction as to whom the company or companies could contact.

CPA Oil had no specific knowledge of contracts executed by the Governorate or the Northern Iraq Administration. We asked for a copy if one were available, and Scott Norwood was able to secure what appears to be a complete document from Washington. In turn, Col. Mike Kelly requested a review of the document to assess if there are items of concern to the Administrator.

Review of the Document

The PSA is complete and executed by the parties. It is a fairly conventional document of this type. I have made no attempt to assess the relative benefits to the contractor, the Governorate, or the Northern Iraq Administration compared to transactions of this sort in the international petroleum industry. There are key questions regarding ownership rights to subsurface petroleum that are not sufficiently answered in the document. I recommend that CPA formally request a legal opinion if CPA has not hitherto already done so to seek answers to these key questions:

1. Under the documents creating these special administrations for Northern Iraq and/or the Kurdish areas of Iraq have these administrations been granted the ownership to subsurface minerals in preference to the entire nation of Iraq?
2. Were these governmental bodies granted the right to license the development of petroleum resources in their jurisdictional area?

The subject PSA contract's Preamble cites a "Final Statement" dated 17 September 1998. This document was apparently executed between the State Department, on the one hand, and the Patriotic Union of Kurdistan and the Kurdistan Democratic Party on the other. It is stated that the Final Statement determines the administration of Northern Iraq and its governmental rights. Furthermore, it is stated that the Governorate is the current holder of the oil and gas usage right in the agreement's defined area. It would appear that the State Department is best suited to comment on the exact meaning of these statements. These issues must be clarified in order to determine whether this contract and any other contracts in special administrative regions have a status materially different from those alleged to have been executed by the former government of all Iraq. In the latter case it is generally thought that the former contracts most likely are not binding on any future government of Iraq.

Items of Concern for the Administrator

I do believe that this contract, others that may have been executed in the same region, and those we have known about that were negotiated by the former government of all Iraq raise very substantial issues that should be of concern to the Administrator. The major items are:

1. CPA Oil believes that subsurface petroleum resources in the entire country should be owned by, and reserved to, all the Iraqi people. The Ministry of Oil should be able to license firms to explore for and develop the mineral wealth of the country on behalf of all the people. If the "Final Statement" referenced in this contract grants this ownership to a specified sub-part of Iraq, then the overarching objective of reserving this ownership to all the people begins to be eroded and frustrated. The implications of recognizing any of the exploration and production agreements within the boundaries of the entire nation of Iraq reached prior to the establishment of the Coalition Provisional Authority would run contrary to the desired approach. This is an absolutely fundamental issue that should be of great interest to the Administrator.
2. Even if subsurface petroleum resources are owned per the above, it will take an iron will on the part of the Minister of Oil to resist the pressure to re-license former licensees or PSA holders after a new petroleum licensing regime is designed. On the basis of simple equity for participants in the Coalition, they should not be disadvantaged simply because others were able to negotiate transactions with the prior government of Iraq or special administrations from the post-Desert Storm era. I recommend making the playing field as level as possible with no player having a built-in advantage. This, too, should be of interest to the Administrator.

J. Michael Stinson
Senior Advisor – Ministry of Oil

Cc:
COO's office: Scott Redd, Jeff Oster, Bob Wolfe, (b)(6)
Scott Norwood
Gary Vogler
(b)(6)

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