7/28/03 Scan/Email SI OIL Issues (Carroll to Bremer) OIL REM

To: Ambassador L. Paul Bremmer

From: Phil Carroll

Some Remaining Issues
Regarding the Ministry of Oil

There are four significant matters that require resolution before the Iraqi Ministry of Oil is ready to function effectively for the long term. These are:

1. Funding of ongoing operations and investment.
   Today the only funds available to the Ministry are the dinar proceeds from the sale of products within Iraq. This is insufficient to cover operational costs and allows for zero investment. This leaves the Ministry dependent on CPA review and approval for almost everything. This, frankly, is unnecessary, inefficient, and just slows things down.

2. Wage and salary programs are inadequate and are creating serious labor relation problems.
   Failure to recognize that the Ministry of Oil is the engine of the Iraq economy and the only Ministry able to generate real earnings for CPA and the country is causing real problems. Contrary to past practice, there is now little incentive pay for achieving results and the level of these pay is held to be inadequate. No private business in the world would tolerate these conditions.

3. The relationship of the Ministry to the new Governing Council is unclear.
   Recognizing the newness of the Council, this is not surprising, but nevertheless, it creates uncertainty in the minds of management and staff. It should be clarified as soon as possible, including Mr. Ghadhban's role in the future.

4. The Oil Advisory Board remains "alive", but inactive.
   Our prior discussion not with standing, the public press (and some in Washington) believe the Board is a good idea and should be formed. Coalition Governments also continue to express interest in being represented. For the last month, our stance has been that formation of an interim governing authority (the Council) came first and that naming the Board without its involvement was inappropriate. With the Council in place, we should resolve this question.

All of these issues are important and, I believe, interrelated. What follows is my recommendation for dealing with all of them in a comprehensive way that will result in better performance by the Ministry and integrate it in the right way with the Governing Council and CPA. It would also provide a form of governance of the Ministry that would

fit short term conditions and be an effective model for Iraq when a permanent government is in place. The steps would be as follows:

I. Until further notice, the CPA (and Governing Council) would allocate 8% of export revenues to the Ministry of Oil for general operating and maintenance purposes. This share of the revenues is very modest by any international standard (i.e. the UN takes 5% just for nothing.) It would not permit major expansive new capital expenditures, but would allow the management more latitude in determining where to put its resources and permit it to set the priorities for maintenance and upgrade of existing assets. It should also allow the Ministry to construct a new compensation system that is fair, competitive, and provides incentives for producing results.

II. Create a Board of Directors to oversee and control the actions of the Ministry. The Chairman of this Board would be chosen from among the Governing Council and would be its de-facto Oil Minister. The Chairman would be non-executive, i.e. not involved in day-to-day operations, but would be in close contact with the CEO, Mr. Ghadhban. The Board would hear management's recommendations on budgets, policies and other programs with in the limits of its available resources (the 8% plus domestic revenues). Requirements beyond this would be recommended by the Board to the Council/CPA for consideration and review. The makeup of the Board would be principally Iraqi, but with a small sprinkling, up to 3 international members (hopefully with oil field experience). The Iraqi members should not be all oil people, but should represent other Iraqi constituencies. The Broad would replace the Advisory Board.

I believe these recommendations would successfully deal with all of the four major issues and I strongly recommend their implementation. In addition, I believe these moves would put this most important Ministry and industry more publicly under Iraqi management and control, while keeping the Council/CPA in control of 87% of all export revenues (8% MOO + 5% UN).

I look forward to discussing these proposals with you.

Sincerely,

Signed and Submitted 7/28/03

Approved in August, verbally, subject to making it an Iraqi proposal (by Mr Thamir Ghadhban), support by the Minister of Oil and agreement by the Governing Council. 9/30/03