



ENERGY INFRASTRUCTURE PLANNING:

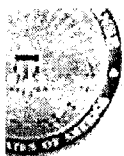
BRIEFING FOR DEPUTIES

18 OCTOBER 2002



Agenda

- Summary of Task
- Status of Planning
- Discussion of Key Issues
- Discussion of Declaratory Policy



Summary of Task

- Develop a comprehensive contingency plan for protecting, repairing and operating Iraqi energy infrastructure, to be used if US/allies must occupy.
- Address legal, policy and operational issues.
- DoD lead, with other agencies participating as required.
- OSD/CENTCOM division of labor.
 - JCS/CENTCOM: plans for protection and repair.
 - OSD: plans for maintaining continuity of operations.



Status of Planning

OSD: Reported 15 October 02.

CENTCOM:

Have identified key locations to protect, repair as necessary, including:

- Vital facilities at Rumaila oil field.
- Export terminal shipping berths.
- Major pump stations.
- Storage, metering and export terminals.

Developing full range of repair contingencies (heavy to no damage).

- US Army Corp of Engineers developing courses of action for sabotage and battle damage, including collateral damage done by coalition forces.
- Unlikely US forces moving through area will cause damage, but if Iraqis defend oil facilities, battle damage and collateral damage could be significant.
- Have identified energy-related strike areas posing risk of collateral damage.

CIA has assessed sabotage and its effects on production.

Fragmentary intelligence indicates Saddam has placed explosives on wells and other facilities.

- Saddam's motivation not known, but could include deterring military operations, creating unfavorable battlefield environment, denying revenues to post-Saddam regime, punishing neighbors environmentally.

Operational plans to be briefed in greater detail at later time.



Next Steps

Energy Infrastructure Planning Group (EIPG).

- Chaired by DoD.
- Participating agencies are detailing individuals to DoD.
 - CIA officer with oil industry experience.
 - DOE expert from Strategic Petroleum Reserve.
 - DOS Iraq expert.

EIPG has begun work-up of key policy issues, outlined in following slides, for Deputy and Principal decisions.

- Within 2 weeks after detailees on board, will present Deputies with decision options on first priority issues.
- Some of these issues are subsets of broader issues, must be decided in that context.

EIPG will:

- Address need for an up-to-date survey of Iraqi oil infrastructure.
- Ensure integration of policy decisions into planning process.
- Keep NSC staff advised daily.



***Key Policy Issues EIPG Will Bring To
Deputies/Principals With Decision Options***



A Guiding Principle

- *All policy issues are guided by the underlying principle that Iraqi petroleum resources belong to the people of Iraq, i.e., to the nation as a whole, not to any regional entity.*
- *Accordingly, policies should be set at a national level, for the benefit of all the Iraqi people, and proceeds must be allocated equitably among the regions.*



How to organize and manage?

DoD management lead required, assuming CENTCOM Commander will be initial post-conflict authority in an occupied Iraq and absence of any UNSCR providing otherwise.

During occupation, overall management responsibility could be vested in an interim "Iraqi Petroleum Trust" or similar entity, under authority of US military command, that would:

- Supervise and administer Iraqi petroleum industry, supported initially by US contractor team from private sector.
- Be a US or coalition entity, possibly with USG agencies represented on its board (as in OPIC).
- Be run by a qualified American as chief executive, reporting to SecDef through CENTCOM Commander.
- Be governed by USG policies coordinated inter-agency and approved by President.

These responsibilities could be transferred to a coalition civilian authority when such authority is formed and ready to assume control.

Assumption: Keep existing Iraqi organizations and personnel functioning to the extent possible, after purging the Saddam "machine" -- but plan for worst case that few Iraqi managers/workers available.

Should be transparent mechanism to enhance credibility and demonstrate fairness to Iraqi people and international community.

Issue: When/whether to include allied/coalition/third-country governments or Iraqi entities in the "Iraqi Petroleum Trust"? Whether to include non-US companies (e.g., Lukoil, others) in contractor support team?



How to use petroleum proceeds?

Use of oil proceeds consistent with current Oil-for-Food Program -- humanitarian needs of Iraqi people, urgent repairs to petroleum and other critical infrastructure -- may be relatively less controversial.

Other possible uses, likely to be more controversial:

- Recover US/allied costs of military campaign.
 - Costs of military operations inside Iraq?
 - Military operations outside Iraq?
 - Costs of occupation?
- Pay Iraqi foreign debt?
 - Or defer some or all?
 - Some debts are controversial, such as for arms bought from former USSR.
 - Policy on eventual "Paris Club" re-scheduling?

Current UNSC sanctions, if applicable to US-led occupation, would limit our authority to administer the oil industry (including importation of infrastructure, sale of petroleum products, use of proceeds).

- Lawyers now analyzing legal case for and against.



What to do about current sanctions against Iraq?

UN Sanctions:

- Include restrictions on oil sector import/exports, WMD-related restrictions, and a reparations regime for Kuwait and other governments affected by Iraqi invasion.
 - Now analyzing which UNSCRs should be revised or terminated in event of US-led temporary administration in Iraq.
 - Current UNSCRs require, for example, all oil export contracts to be approved by GOI and UN 661 (sanctions) Committee, and all imports to Iraq on a "Goods Review List" (dual-use technologies) to be approved by UN Committee -- sales proceeds go to UN escrow account.
 - Could prevent us from managing petroleum resources rationally.
 - As applied to US-occupied territory, strong argument sanctions inapplicable as their purpose would no longer be served.
 - UNSC action may nevertheless be desirable, to ensure international recognition of actions by temporary administration on oil sales, infrastructure development, oil exports, and imports of items on UN Goods Review List.
 - Be ready with draft UNSCR at proper moment.
- Must address how and whether to continue funding reparations to Kuwait, other governments (including USG) and other claimants -- payments now funded by oil sales through UN Oil-for-Food program and UN Compensation Commission. Some alternatives:
 - Fund reparations directly without channeling through UN.
 - A residual UN program just to administer reparations.
 - Encourage claimants to consider foregoing additional Gulf War reparations in light of Iraqi regime change.

US Domestic Law:

- Various restrictions on dealings with Iraq.
- Lawyers to analyze, advise which might need to be changed, and how.
 - By executive action?
 - By legislation?

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Develop Iraqi oil production capacity, or merely operate what already exists?

CIA estimate:

- Current production capacity about 3.1 million b/d, but producing only about 1.9 million b/d.
 - Some private-sector estimates say production capacity lower than this and and major infrastructure investment needed to realize it.
- Could reach current production capacity within a few weeks if shortage of sales contracts corrected.
- Could return to pre-Gulf War production capacity of about 3.5 million b/d by year-end 2003, assuming little damage to facilities.

Questions:

- Should we take immediate steps to increase production up to current capacity?
- Should we undertake to increase production capacity?

Considerations on increasing production capacity:

- Doing so during occupation presents legal issues now under study (e.g., impact, if any, of existing UNSCRs).
- Would tend to bring down world oil prices over time.
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- Would tend to increase revenues available to Iraq.
 - Would tend to raise living standards in Iraq.
 - Might be necessary to pay for both domestic needs and Iraqi foreign debt, depending on which debts were paid, and when.
 - Would it improve conditions for political stability, establishment of democratic institutions?
- Would require decisions on whether to have open competition for development rights, or to favor or disfavor investors and companies from some countries.
- Might exacerbate internal power struggles among Iraqi factions.



If develop production capacity, what to do about existing and new development contracts?

Iraq currently has development contracts with companies from (b)(1)

- Little or no work yet done under these contracts, reportedly because would violate UN sanctions.
- Question whether mere existence of contracts violates UN sanctions.
- Worth billions of dollars to develop reserves in billions of barrels, potential daily production in millions of barrels.

Need legal analysis of these contracts, then develop policy on whether to honor, modify, abrogate, or merely defer them for new Iraqi government to address. [Need more data on contracts.]

- Pro: Honoring could reduce prospect of negative UNSCRs on post-conflict US actions in Iraq.
- Con:
 - Honoring would penalize companies (e.g., US and UK) that played by the sanctions rules.
 - Honoring could strengthen some countries whose interests in the region may be inconsistent with ours.

Will need policy and legal review on whether to open up competition for new development contracts to investors/companies from all, or only some, countries.

- Excluding countries that did not support military campaign would weaken international acceptance of interim administration.
 - But prospect of exclusion could motivate some countries to be more cooperative now.
- Unrestricted competition could help establish free market principles in Iraqi economy.
- May be legal considerations for or against.

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Declaratory Policy

For now: [The United States routinely plans for all contingencies in connection with potential military actions that may or may not occur in the future. In the case of potential military action in Iraq, our contingency planning addresses the possibility that US and allied forces might be called upon to protect the Iraqi petroleum infrastructure from damage, and to maintain conditions that would permit the continuing operations of the Iraqi petroleum industry.]

For later: [Iraqi energy resources belong to the legitimate government of Iraq, i.e., to the Iraqi people as a whole. The people of Iraq have suffered decades of war under an oppressive dictatorship leaving the country's economy and infrastructure in ruins. To begin addressing these problems, the United States will protect, repair and temporarily operate the Iraqi energy infrastructure, for the benefit of the Iraqi people and to ensure stability in the region. Energy revenues will be used to meet the immediate humanitarian needs of the Iraqi people and to begin the reconstruction of Iraq. For those nations that have incurred expenses associated with liberating and administering Iraq, those expenses may be offset by energy revenues after the urgent needs of the Iraqi people are met. To the extent appropriate under the circumstances, the United States intends to afford due respect to existing, legitimate ~~interests of other parties in regard to the Iraqi energy industry.]~~



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PLANNING FOR THE IRAQI PETROLEUM INFRASTRUCTURE:

Briefing for the Secretary of Defense

11 January 2003

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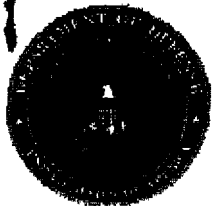
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Outline of Presentation

- *Guiding Principles*
- *Public Diplomacy*
- *Contingency Planning for Repair, Production and Sales*
- *Legal Considerations*
- *Organization and Management (Issue for Decision: Chairman/CEO Appointment, Reporting, Removal)*
- *Use of Petroleum Proceeds*
- *Funding Enhancement: Borrow Against Future Oil Revenues?*
- *Production Targets*
- *Existing and New Contracts*
- *Iraq-Syria Pipeline*

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Guiding Principles

Certain principles should guide any temporary US/coalition administration of Iraqi petroleum resources, including:

- *Iraq's oil resources are an asset that belongs to all the Iraqi people.*
- *Any temporary administration of Iraqi oil production and marketing:*
 - *Will seek to minimize disruptions and promote confidence and stability in world markets;*
 - *Should involve existing Iraqi personnel and organizations whenever possible to ease future transition;*
 - *Should work with the international community to build support for our policies;*
 - *Will respect Iraqi contracts previously approved by the United Nations (NB: Just service contracts, no development contracts);*
 - *Will be conducted transparently and accountably, in accordance with applicable legal norms and prudent industry practices, for the benefit of the Iraqi people;*
 - *Will prepare for the return of production and marketing responsibility to a stable Iraqi authority as soon as practicable.*
- *The initial goal should be to bring Iraqi petroleum production up to pre-hostility capacity of about 3.1 million barrels/day, consistent with sound business considerations.*
- *Any increase in production levels and capacity should serve the interest of maximizing revenues for the people of Iraq.*

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Public Diplomacy--Main Themes

- Iraqi petroleum resources are a national asset of all the Iraqi people, i.e., the nation as a whole, and not of any regional entity.
- We want to work with the Iraqis themselves and the international community in administering petroleum proceeds for the benefit of the Iraqi people.
- Interim administration decisions will be based on prudent, accountable, best practices to prepare for the return of the sector and its management to responsible Iraqi authorities.
- We will act, through our administration, so as not to prejudice Iraq's future decisions regarding:
 - Its oil development policies.
 - Its relations with international organizations.
 - The future ownership structure of the its oil industry.
- US/Coalition will fulfill its responsibility to the Iraqi people to create conditions of stability and well-being for the people of Iraq, but we will not administer oil assets on a long-term basis.
- Petroleum proceeds will be handled transparently and used for the benefit of the Iraqi people.
- We will respect the legitimate interests of all countries in the reconstruction period.
- We will respect Iraqi contracts previously approved by the United Nations.

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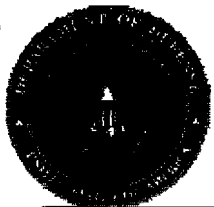
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Contingency Plans for Repair

- OUSD(P)/Energy Infrastructure Planning Group (“EIPG”) manages planning.
- EIPG guidance to the Army contractor:
 - Plan for full range of damage scenarios: Little or no damage, to major disabling damage by Iraqi forces to key choke points (e.g., gas and oil separation plants, marine terminals, pumping stations).
 - Fight over 1,000 well fires, if necessary.
 - Repair priorities:
 - First, restore current *production* of about 2.4 million barrels per day as soon as conditions permit.
 - Second, restore current *capacity* of about 3.1 million barrels per day.
- Plan (draft) calls for modular components for major facilities (e.g., gas-oil separators, pumping stations) wherever needed, to restore production ASAP.
- “Best case” = No infrastructure damage, just safety repairs needed.
 - 6 mos. to 2.4 million b/d, 9 mos. to 3.1 million b/d.
 - Cost: appro. \$0.8 Billion.
- “Worst case” = Major, disabling damage throughout infrastructure.
 - 20 mos. to 2.4, 30+ mos. to 3.1.
 - Cost: \$7 to \$8 Billion (oil only). Refineries and gas plants add **another** \$4-\$5 Billion.

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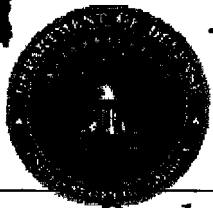
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Contingency Plans for Production and Sale

- ***Production priorities:***
 - First, crude oil.
 - Second, natural gas to support electrical grid.
 - Third, refined products (import during interim if necessary).
- **Build on “modular” approach.**
 - Pre-conflict: Profile all fields and facilities.
 - Post-conflict:
 - Rapidly assess production level achievable with whatever still works.
 - Assemble building-blocks of a functioning system with whatever still works.
 - Use all functioning production facilities to extent safe and cost effective.
- **Produce first where damage is least, to maximize early output.**
- ***Sales:***
 - New USG-created organization to manage Iraqi oil assets (acronym: “IOTA”) uses personnel from Iraq’s State Oil Marketing Organization (SOMO) to extent available and reliable -- supplement with other nationals as needed.
 - IOTA approves terms and conditions of sales, within policies set by higher authority.
 - “Good Title”: SOMO and Iraqi Central Bank currently co-sign all oil sales contracts.
 - Standard terms include warranty of title.
 - Suggests need to maintain existence and operations of Iraqi Central Bank and SOMO.
 - Would continue to warrant good title to buyers.
 - Would help reassure markets, reduce likelihood of later disputes about validity of sales.

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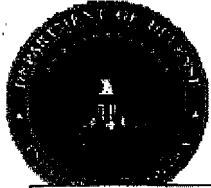
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Organization and Management

- Deputies agreed to recommend establishing an organization dedicated solely to managing Iraqi petroleum industry.
 - Corporate organizational model (“Iraqi Oil Temporary Administration” -- “IOTA”) drawing on current Iraqi Oil Ministry structure.
- To “internationalize,” appoint:
 - Chairman
 - American.
 - Current or former statesman.
 - Chief Executive Officer.
 - British or other international.
 - Former chairman or CEO of oil company.
 - Vice Presidents for each functional sector within current Ministry.
 - Preferably Iraqis.
 - Board of Advisors.
 - Advisory only, non-binding on management.
 - Half composed of Iraqis, the rest could be international figures.

Issues for Decision: Appointment, Reporting, Removal of Chairman, CEO.

- Candidates vetted by PCC will go to Deputies/Principals for consideration (see Back Up Slide).
- Chairman, CEO will recommend to USG the candidates for Board of Advisors.
- **Recommend:** SecDef appoints and removes Chairman, CEO (with White House coordination).
- **Recommend:** Chairman reports to top civil administrator; CEO reports to Chairman.
- **Recommend:** Chairman hires/fires anyone below CEO, in consultation with top civil administrator.

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Petroleum Proceeds: Possible Uses and Availability

- Figures below exclude high end range of humanitarian needs and unaddressed Gulf War claims. When possible, (average) annual numbers are provided.
- Humanitarian aid, military campaign and occupation costs -- about 1 year; others vary from about 2 to 10 years or more.
- **Bottom Line:** Demands on petroleum revenue will likely exceed available funds for foreseeable future.

RANGE OF POTENTIAL FINANCIAL DEMANDS (in \$ billions)		
	<u>Low</u>	<u>High</u>
Humanitarian Aid (minimum) -- Humanitarian Planning Group	16	16
Reconstruction of War-Damaged Eco. (annual avg) -- CIA	3	4
Restore prewar oil production capacity (initial) -- CIA/Industry	1	8
Expand oil capacity to 3.6 million b/d (additional) -- CIA/Industry	3	5
Expand oil capacity to 5-8 million b/d (annual avg) -- CIA/Industry	1	4
Foreign Debt Payment (annual) -- CIA	7	15
Gulf War Claims (annual) -- CIA/State	5	7
Costs of Occupation (annual) -- CBO	48	48
Costs of Military Campaign (total) -- CBO/House Budget Comm., Dem staff	30	60
TOTAL DEMAND	114	167
TOTAL ANNUAL PETROLEUM PRODUCTION REVENUE*	16	25
BALANCE	-98	-142

* Based on 2.4 million b/d of oil production and an \$18-28/bbl average price

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Funding Enhancement: Borrow Against Future Oil Revenues?

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- Major issues:
 - Recent Iraqi oil revenues may not support major loans (i.e., billions of dollars) without new development contracts in place to back them up.
 - Who would borrower be during temporary administration? Iraqi Central Bank? Would it still exist and function?
 - New lender(s) likely to demand subordination of pre-existing debt and third-party guarantors (other governments?).
 - Likely to require rescheduling Iraq's existing foreign debt (about \$82 billion at end 2002 assuming 6% interest rate).
 - Iraq also owes \$27 billion in unpaid claims awarded by UN Compensation Commission for Gulf War damages.

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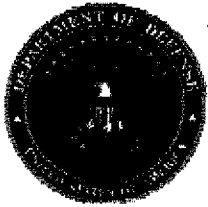
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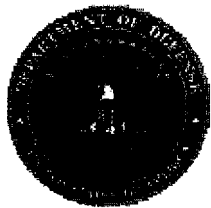
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Iraqi Production Goals: Initial Objective

Bring production up to prewar capacity level of about 3.1 million barrels/day (b/d).

We have contingency plans to do this (see Slides 5 and 6).

- Current actual *production*: 2.4 million b/d.
 - Annual revenue with \$18-28/barrel average price range: \$16-25 B.
- Current production *capacity*: 3.1 million b/d (CIA).
 - Some in private sector say sustainable capacity closer to 2.8 million barrels/day (b/d), with significant rehabilitation needed to reach 3.1.
 - Investment needed to sustain: \$1-8 B over 6-20 months, depending on damage level (based on CIA and industry estimate).
- Iraq a member of OPEC but has not been in quota system since Gulf War.



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Iraqi Production: Mid-Term Objective

Enable Iraq to regain its historical capacity.

- 3.6 million b/d.
 - Likely to require high repair, maintenance and upgrade of existing fields, possible development of new fields.
 - Reachable about one year after obtaining 3.1 million b/d.
 - Cost: additional \$3-5 billion over 3.1 million b/d level (industry estimate).



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Iraqi Production: Long-Term Objective

Allow Iraq to achieve economically reasonable increase in capacity.

- Would exceed 5 million b/d.
 - Requires development of new fields.
 - About 5 million b/d reachable within 3-5 years with investments of around \$30 B (CIA and industry estimate).

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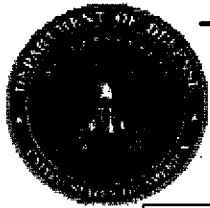
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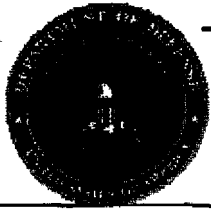
Increasing Iraqi Production: Considerations

Advantages

- Speeds Iraqi rehabilitation and stability.
- Supported by many in Iraqi opposition.
- Puts long-term downward pressure on price.
- Helps consumers.
- Diversifies/increases global oil supply and spare production capacity in long-term, if no price war.
 - Strengthens global economic security.
 - Only 3.7 million b/d of global spare capacity (CIA), or 5% of demand.
 - Saudis have 2/3 of global spare capacity.

Disadvantages

- Politically controversial, especially if new fields are developed.
- Might trigger a price war, which would likely decrease Iraqi oil revenues and could drive out higher-cost producers, thus reducing diversity of supply.
- Some would argue that new Iraqi government should decide.



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Contract Policy

- **Existing deals: IOTA should observe contracts previously approved by UN. Query whether should observe those made in hopes sanctions eventually would be lifted?**
 - Four “fee-for-service” maintenance contracts (three Russian companies, one Turkish) currently approved by UN under OFF. (See Back Up Slide).
 - Iraq has signed about four capacity expansion contracts (Chinese CNPC, Petro Vietnam, Tunisian ETAP, maybe Syrian Oil Co.), which await lifting of UN sanctions.
 - French Total Fina Elf initialed but reportedly not yet signed.
 - Iraq recently abrogated Russia’s Lukoil contract.
 - Over 60 foreign companies pursued various stages of oil negotiations since sanctions were imposed.
 - Iraqi opposition opposed to honoring deals made by Saddam unless clearly in Iraqi interests.
 - Better to defer these for new Iraqi government to decide.
 - US and British companies were not allowed to do this.
- **New deals: As a rule, should be based only on economic return, open competition, and sound business practices.**
 - IOTA will likely need to contract with foreign companies -- whether to expand production capacity or to maintain existing capacity.
 - Repairs from war damage, safety upgrades, normal operations and maintenance.
 - Should be governed by sound business decisions unless compelling reasons otherwise.
 - **Generally let IOTA management run it like a business.**

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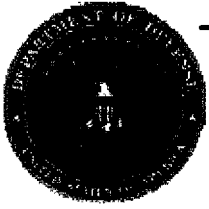
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Next Steps

- Brief DC next week, PC soon thereafter.
- Promptly appoint management of IOTA.
- Proposal early next week that you appoint Army as Executive Agent.
- Proposal to you next week for pre-positioning assessment teams, fire-fighting and other critical equipment.
- Within 2 weeks present final draft of detailed continuity-of-oil operations plans for your review.

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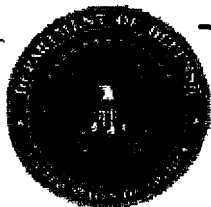
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Back Up

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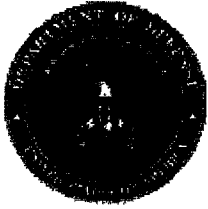
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Prep Task: Pre-position Contractor Equipment and Personnel, Sustain Planning

Costs of Prep Task

<u>Item</u>	<u>\$ Millions</u>
Firefighting (4 sets) & Well Testing Equipment	23.3
Planning Sustainment/Advance Party	3.3
Assessment Teams (Hire, Train & Move)	4.1
Firefighting Teams Movement	0.4
Firefighting & Oil Spill LNO's with CENTCOM	0.6
Engineering of long lead items (GOSP's & pipeline pumps)	2.0
Freight/Insurance	<u>3.8</u>
Total	37.5

- Pre-position firefighting and well testing equipment.
- Rapid damage assessment from maritime and river oil spills and remediation plan development.
- Rapid deployment of facility assessment teams.
- Rapid deployment of wellhead assessment equipment.
- Sustain ongoing planning effort.
- Pre-position personnel and equipment to support rapid deployment.

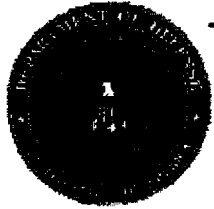
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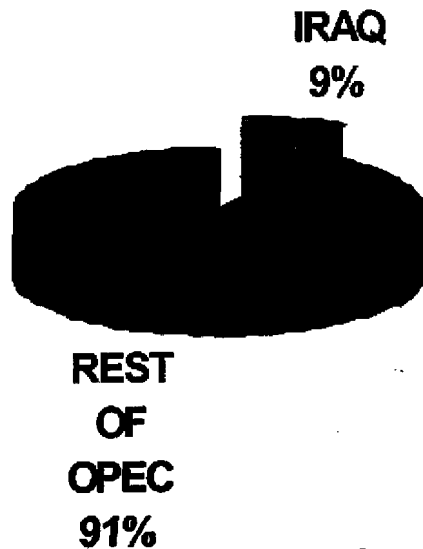
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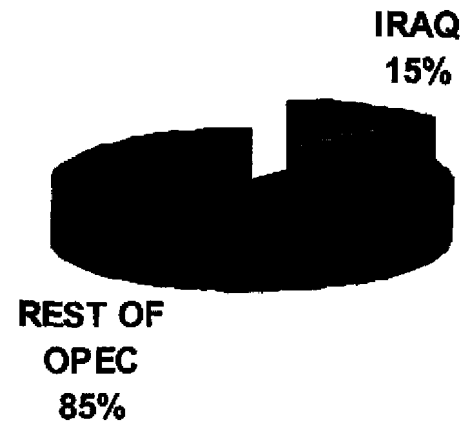
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Iraq's Share of OPEC Production

**IRAQ'S SHARE OF OPEC
PRODUCTION 2002**



**IRAQ'S SHARE OF OPEC
PRODUCTION 1990**



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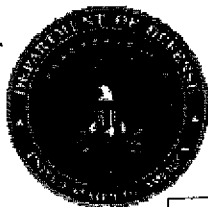
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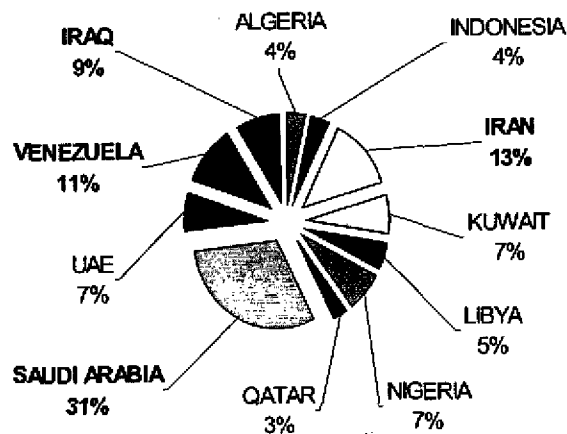
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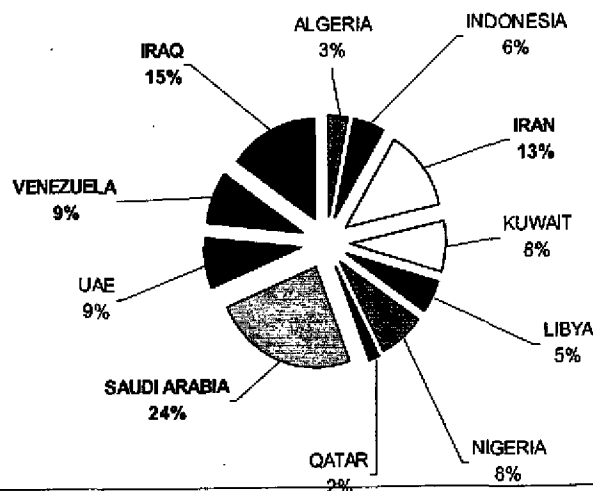
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OPEC Production

OPEC PRODUCTION OCT. 2002



OPEC PRODUCTION JULY 1990



OPEC PRODUCTION 2002 vs 1990 (thousands barrels/day)

(Excludes Equador and Gabon, which are no longer members)

	Output Oct. '02	Output Jul '90	02/'90 Diff
Algeria	1,000	760	240
Indonesia	1,100	1,280	(180)
Iran	3,600	3,000	600
Kuwait	2,000	1,900	100
Libya	1,400	1,250	150
Nigeria	2,000	1,750	250
Qatar	700	370	330
Saudi Arabia	8,500	5,610	2,890
UAE	2,000	1,950	50
Venezuela	3,100	1,950	1,150
OPEC-10 Total	25,400	19,820	
Iraq	2,400	3,500	(1,100)
OPEC Total	27,800	23,320	4,980

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Awarded Contracts

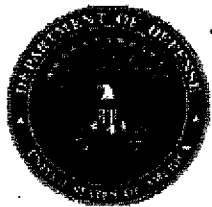
Country/ Company	Oilfield(s) (potential production)	Type of Contract	Status	Details	Voidable
Russia					
Lukoil Consortium	West Qurna Phase 2 (600,000 b/d)	Production Sharing	Signed in 1997; Unilaterally cancelled by Iraq on 02 Dec.	Consortium includes Lukoil (majority holder), Mashinimport, and Zarubezhneft	Voided
Tatneft	Bay Hassan (90,000 b/d)	Service Contract	Approved by UN	Service contract to drill wells; employees on the ground as of October 2002	Difficult
	Saddam (300,000 b/d)	Service Contract	Approved by UN	Service contract to drill wells; employees on the ground as of October 2002	Difficult
	South of Basrah	Service Contract	Unclear if submitted to UN	Service contract to drill 15 wells signed; could be referring to Az Zubayr or possibly West Qurna	Unclear
Zarubezhneft	Karkuk - Khurmala Dome (120,000 b/d)	Service Contract	Unclear if submitted to UN	Service contract to drill 45 wells signed	Unclear
Zangas	West Qurna Phase 1 (300,000 b/d)	Service Contract	Approved by UN	Service contract for water injection	Difficult
China					
China National Petroleum Corp. (CNPC)	Andab (90,000 b/d)	Production Sharing	Signed in 1998; No indication of work in progress	NFI	Unclear

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Awarded Contracts (cont.)

Syria					
Syrian Petroleum Company	Noor (50,000 b/d)	Development Contract	Unclear, Conflicting reports in late 2001	Initial contract cancelled by Iraq, according to Sept. 2001 Humint reports; new contract drafted, set to be notarized, according to Sep./Dec. 2001 Humint reports	Unclear
Tunisia					
ETAP (Entreprise Tunisienne Activite Petroleum)	Kif (40,000 b/d)	Development Contract	Contract signed, according to Iraqi media	NFI	Unclear
Turkey					
TPAO	Karkuk - Khumala Dome (120,000 b/d)	Service Contract	Approved by UN	Service contract to drill 22 wells	Difficult
Vietnam					
PetroVietnam	Amara (80,000 b/d)	Development Contract	Contract signed, according to Iraqi media	NFI	Unclear
France					
Total Fina Elf	Nahr Umr (440,000 b/d)	Development Contract	Contract reportedly initiated but not signed	Reports: Terms not competitive, TEF would get unusually high rate of return	Unclear

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***CONTINGENCY PLANNING FOR REPAIR
PRODUCTION AND SALES --
IRAQI PETROLEUM INFRASTRUCTURE
STATUS***

December 18, 2002

12/18/02 18:42

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Repair, Production and Sale Plans -- Overview

LOGCAP contractor to Army Materiel Command tasked 8 Nov 02 to prepare Contingency Support Plan (CSP).

- “LOGCAP” = Logistics Civil Augmentation Program.
- LOGCAP contractor = Brown & Root Services.

DOUSD(P)/Energy Infrastructure Planning Group (EIPG) supervises contractor.

EIPG received draft CSP 11 Dec 02, now refining with further guidance to contractor.

Final plan ready for SecDef review/approval early-mid Jan 03

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Planning Guidance

EIPG instructions to contractor -- be prepared to:

Handle full range of repair scenarios, from minor to extensive

Restore current production *level* of about 2.4 million barrels per day (BPD) as first priority.

Restore current production *capacity* of about 3.1 million BPD as next priority.

Produce at 3.1 million BPD or other levels if so directed.

Supply marketing and sales force if so directed.

Maintain operations until directed to hand over to others.

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Key Features of Repair Plans

Full range of damage scenarios: Little or no damage to major, disabling damage inflicted by Iraqi forces on key choke points (e.g., Gas and Oil Refinement Plants (GOSPs), marine terminals, pumping stations).

Deal with over 1000 well fires if necessary.

Use modular components for major facilities (e.g., GOSPs, pumping stations) to restore production as soon as possible.

"Best case" = No infrastructure damage, just safety repairs needed.

6 mos. to 2.4 million BPD, 9 mos. to 3.1 million BPD.
Cost: approx. \$800,000,000

"Worst case" = Major, disabling damage throughout infrastructure.

20 mos. to 2.4, 30+ mos. to 3.1.
Cost: \$7 to \$8 billion. Refineries and gas plants add \$4-\$5 billion more

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Key Features of Production Plans

Production restoration priorities:

- First, crude oil.
- Second, natural gas to support electrical grid.
- Third, refined products (import during interim if necessary).

Use “modular” building-block approach:

Pre-conflict: Profile all fields and facilities.

Post-conflict:

- Rapidly assess production level achievable with whatever still works.
- Assemble building-blocks of a functioning system with whatever still works.
- Use all functioning production facilities to extent feasible.

Produce first where damage is least, to maximize early output.

Use Iraqi production personnel to extent available and reliable -- supplement with American and other nationals as needed.

Follow policies set by governing authority.

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Keys Features of Sales Plans

assumes US/coalition Iraqi oil temporary administration ("IOTA") will manage, per marketing and sales policies set by governing authority.

IOTA uses personnel from Iraq's State Oil Marketing Organization, SOMO, to the extent available and reliable.

Contractor supplements with American or other nationals as needed.

Alternatively or additionally, IOTA hires qualified personnel, uses reputable brokers and trading companies.

IOTA sets terms and conditions of sale, within policies set by higher authority.

market Iraqi petroleum efficiently as soon, and at as high a price, as possible.

transparent and accountable -- IOTA must prohibit all corrupt practices and monitor closely.

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Issue: How Do We Execute These Plans?

we need: Organizational structure for executing contingency plans immediately directed.

cle: New program, with no “owner” and no funding.

Ahead: Designate Army as Executive Agent, responsible for:
budgeting, with USD(Comptroller) assistance.

Program requirements.

Program Management (Army to stand up Program Office ASAP).

Conform all program activity to USG policies on Iraq, in coordination with USD(P)
acquisition and contracting.

Coordinate acquisition strategy with USD(AT&L).

Negotiate standby contract, with developer of plan, that can be signed when needed

- Prepare sole source justification.

Plan for competition at most reasonable opportunity. Possibilities include:

- Compete initial execution (requires resolution of security concerns *and* adequate time).
- Compete follow-on contract, to be awarded for subsequent stages of execution.

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Issue: Should We Pre-position Personnel and Equipment?

ions:

Pre-position critical equipment (fire-fighting, other) in high readiness close to theater?
Pre-hire, train assessment teams poised for immediate entry to survey damage/begin repairs.

Would facilitate quick and smooth execution of plan.

Would facilitate immediate fire-fighting efforts (oil well fires), reduce criticism we were
already despite lessons from Kuwait.

Would likely to shorten by 30+ days time needed to begin damage assessments and repairs.

Would cost up to \$?????, but no funding programmed or budgeted.

May be misconstrued as decision to commence military campaign.

Pre-positioning people starts expense of unknown duration, compromises government's
ability to compete later.

Pre-positioning some equipment not productive to extent operations depend on other, local
and time equipment not yet available.

Ahead:

Do not pre-position people.

For now, do not pre-position equipment but determine whether pre-positioning fire-fighting
other ***immediately useable*** equipment is feasible and cost-effective (on-going).

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***CONTINGENCY PLANNING FOR
PRODUCTION AND SALES***

STATUS

December 12, 2002

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Production and Sale Plans -- Overview

n & Root Services (BRS) under contract with Army Materiel Co
vide Contingency Support Plan (CSP).

Work overseen by OUSD(P)/Energy Infrastructure Planning Group (EIPG)
final product subject to USD(P) and SecDef approval.

IPG received final draft CSP yesterday (11 Dec 02).

Brief SecDef in detail during week of 16 Dec 02.

Production and sales targets (per EIPG guidance to BRS) -- be prepared

to restore current production *level* of about 2.4 million barrels per day (BPD)
as first priority.

to restore current production *capacity* of about 3.1 million BPD as next priority

to produce at 3.1 million BPD or other levels if so directed.

to apply marketing and sales force if so directed.

to maintain operations until directed to hand over to others.

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Key Features of Production Plans

Production restoration priorities:

First, crude oil.

Second, natural gas to support electrical grid.

Third, refined products (import during interim if necessary).

Modular components for major facilities (e.g., Oil and Gas Refinement Plants) and pre-positioned materials to restore production as possible.

Iraqi production personnel to extent available and reliable -
planned to supplement with American and other nationals as needed.

Recovery first where damage is least, to maximize early output.

How policies set by governing authority. “Iraq Oil Transition Authority” (IOTA)?

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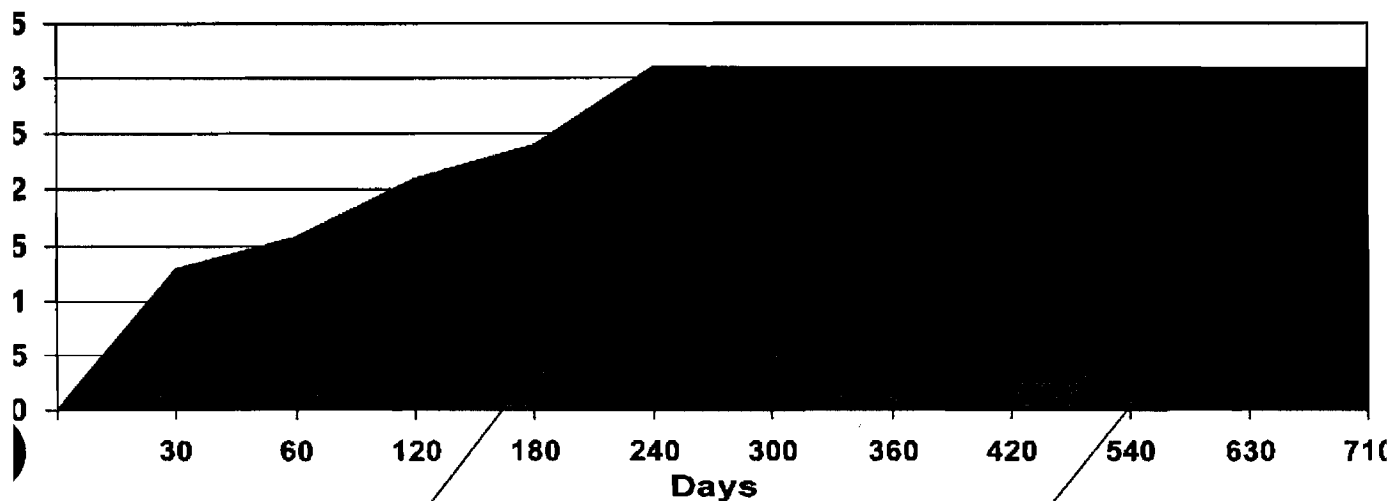
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Production Capacity vs Time



Best Case

- Production capacity of 2.4 million BPD within 6 months, 3.1 million BPD in 9 months.
- Contractor costs of about \$0.8 billion.
- Up to 1.5 billion barrels of additional potential production versus worst case (over 21-month period).

Worst Case

- Production capacity of 2.4 million BPD within 20 months, 3.1 million BPD in 21 months.
- Contractor costs of about \$3.4 billion (excludes refinery repair).
- Opportunity costs from lost production in excess of \$30 billion (over 21-month period) versus best case.

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Keys Features of Sales Plans

applies marketing and sales policies approved by SecDef/
ent/any coalition members participating in military govern

TA uses personnel from Iraq's State Oil Marketing Organization, SC
ent available and reliable.

IS or other contractor supplements with American or other nationals
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ternatively or additionally, IOTA authorized to hire qualified person
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ENERGY INFRASTRUCTURE PLANNING:

Declaratory Policy

DECISION BRIEFING FOR DEPUTIES

Dated: December 17, 2002

2/17/02 15:40

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Agenda

- Review of Issues Addressed This Month
- Issues for Today
- Decisions Needed

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Issues Addressed This Month

- How to organize and manage USG administration of Iraqi petroleum resources?
 - How to use petroleum proceeds?
 - What to do about current sanctions against Iraq?
 - Expand Iraqi oil production capacity, or merely operate what already exists?
 - What to do about existing and new development contracts?
 - Whether to use control of Iraqi oil to advance important US foreign policy objectives affected by energy issues?
 - Declaratory policy?◀◀
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Issues for Today

- Objectives
- Guiding Principles
- Main Themes of Public Diplomacy
- Rollout Strategy

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Objectives of Declaratory Policy

- Promote a stable Iraq that is committed to international cooperation.
- Promote understanding that US motives and actions are in best interests of Iraq and of international peace and security.
- Increase likelihood of international cooperation with US regarding Iraq and, in particular, Iraq energy.
- Manage relations with Congress, allies, coalition partners and UN to encourage effective domestic and international cooperation on sensitive issues including existing sanctions regimes.

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Guiding Principles

Iraq's oil resources are a national asset of all the Iraqi people. US policy should be transparent and sustainable over whatever period of time our administration may last.

In using proceeds, the US will act consistently with applicable legal norms while using proceeds for the benefit of the Iraqi people and other appropriate purposes.

Interim oil sector administration decisions will be based on prudent, accountable, best practices to prepare for the return of production and marketing responsibility to a stable Iraqi authority.

Use existing Iraqi personnel and organizations whenever possible to ease future transition.

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Public Diplomacy--Main Themes

- Iraqi petroleum resources are a national asset for all the people of Iraq, i.e., the nation as a whole, and not of any regional entity.
- Interim US administration decisions will be based on prudent, accountable, best practices to prepare for the return of the sector and its management to the responsible Iraqi authorities.
- Market forces should set prices.

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Public Diplomacy--Main Themes

- We will act, through our administration, so as not to prejudice future Government of Iraq decisions regarding:
 - Its oil development policies.
 - GOI relations with international organizations.
 - The future ownership structure of the Iraqi oil industry.
- US/Coalition will help the Iraqi people for as long as it takes to create conditions of stability and well-being for the people of Iraq, but the US/Coalition will not administer oil assets on a permanent basis.
- Proceeds from energy will be handled transparently and used for the benefit of the Iraqi people and other appropriate purposes.
- The United States will respect the legitimate interests of all countries in the reconstruction period.

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Rollout Strategy

- A phased rollout that first briefs key coalition members (e.g., UK, AUS and perhaps Turkey), then other diplomatic demarches, and then the press.
 - Phase 1 (pre-military campaign).
 - Immediately before commencement of military action, brief key coalition members on contingency plans and policy objectives.
 - Phase 2 (after commencement of military action).
 - Announce that X will assume role as head of transitional oil authority.
 - Brief main themes of public diplomacy to larger diplomatic audience, and press.
- Primary diplomatic briefs include Saudi Arabia, Russia, France, and UN.

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Decisions Needed

- Declaratory Policy?
- Main Themes of Public Diplomacy?
- Rollout strategy?

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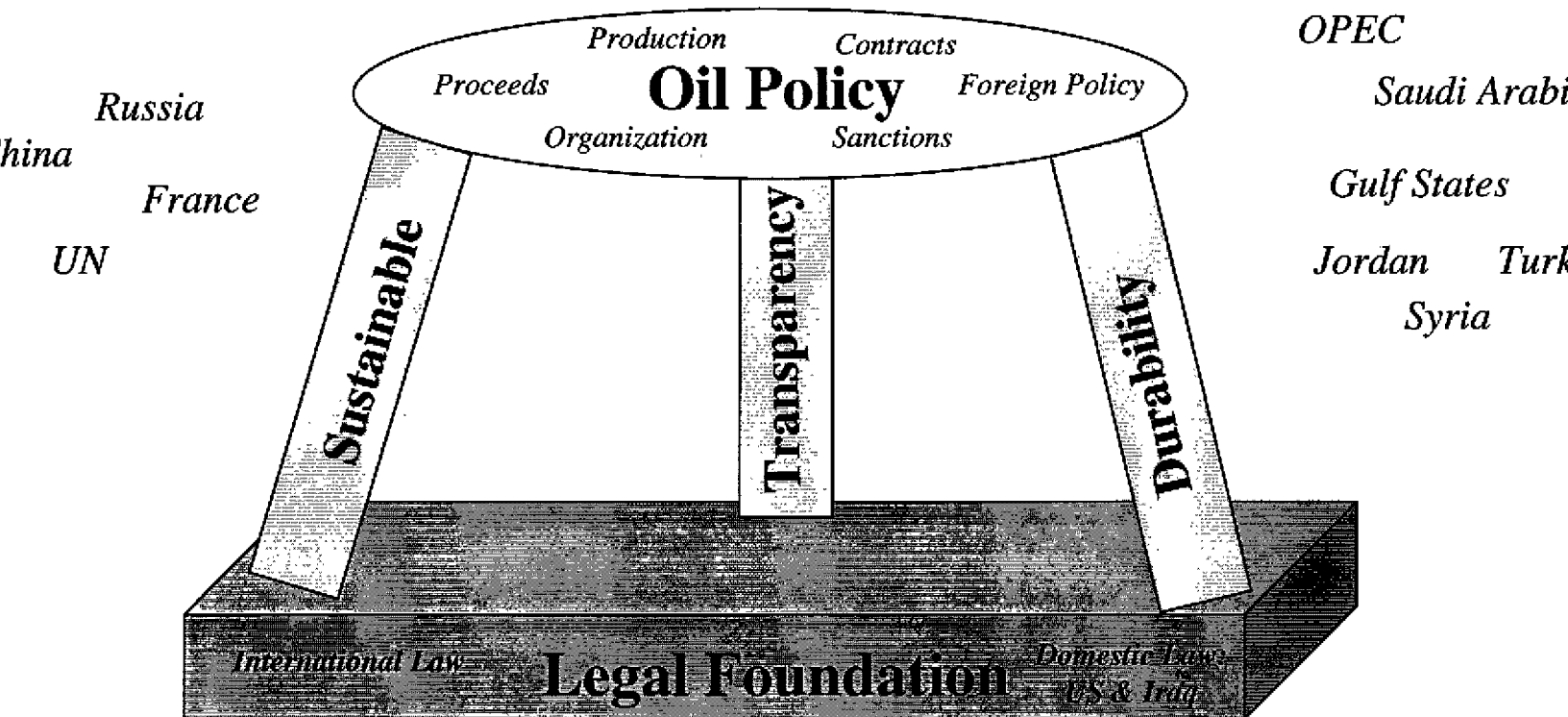
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Formulating Oil Policy



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ENERGY INFRASTRUCTURE PLANNING:

How to Spend Proceeds from Iraqi Petroleum Production

DECISION BRIEFING FOR DEPUTIES

Dated: November 6, 2002

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Issues to be Addressed This Month

How to organize and manage USG administration of Iraqi petroleum resources?

How to use petroleum proceeds? ◀◀

What to do about current sanctions against Iraq?

Develop Iraqi oil production capacity, or merely operate what already exists?

If develop production capacity, what to do about existing and new development contracts?

Whether to use control of Iraqi oil to advance important US foreign policy objectives affected by energy issues?

Claratory policy?

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Assumptions

Existing UN Security Council economic sanctions against Iraq no longer apply. Have been modified to permit U.S.-led administration of petroleum proceeds.

UN Iraq escrow account.

Will not be available for use by US-led administration of Iraq.

Will continue to have virtually no reserve funds.

Proceeds from petroleum proceeds will be insufficient to pay for all needs of Iraq for several years to come.

3: Interagency legal review underway on sanctions regime, Hague regulation related matters that may affect assumptions and decisions on use of proceeds.

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Unknowns

level of aid other countries will be willing to provide to post-Saddam Iraq.

condition of Iraqi energy infrastructure.

fluctuations of world oil supply and price.

Paris Club decisions on rescheduling Iraqi debt.

willingness of Gulf War claimants to forgo claims.

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Revenue Amount

Oil revenue will vary according to levels of production and price.

Total revenue, including export revenue, could exceed \$20 billion per year.

If Iraq produced its approximate current capacity of 3 million barrels/day, and oil price fluctuated within a \$18-28 per barrel range, it would reap \$20-31 billion in annual revenue, excluding cost of production.

If domestic Iraqi consumption remained constant at current level, 300 thousand barrels/day, annual export revenue would range from \$18 to \$28 billion.

In principle, as Iraqi economy recovers, its production should rise.

Comparison: it took Kuwait two years after the Gulf War to regain prewar production.

Total: \$20-31 billion per year

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Option: Pay For Humanitarian Aid

Level of aid required is unknown and difficult to estimate in advance.
Requirements will depend on numerous variables.

Extent of war damage.

Disruption of electricity, fuel, water and food supplies/distribution systems.

Displacement of population.

o

Could be an immediately available source of funding for urgent needs, if petroleum production not seriously disrupted.

Would reduce dependence on international assistance, which is time-consuming and difficult to assemble.

Would reduce aid costs borne by US.

on

Could reduce incentives for other countries to provide aid.

Would divert resources from other important uses.

Total

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Option: Post-Conflict Reconstruction of National Infrastructure

Level of damage resulting from military campaign cannot be precisely estimated.
Advance.

Degree of resistance.

Incidence of sabotage.

A estimates of need range widely.

\$28-40 billion over ten years (\$3-4 billion annually) if war damage comparable to Gulf War.

Damage could be much higher than in Gulf War.

Total: \$3-4 billion per a

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Option: Post-Conflict Reconstruction of National Infrastructure (cont.)

Could be immediately available source of funding.

Would reduce dependence on international assistance.

Would reduce needs for US funds and avoid implication that USG is legally responsible.

Could accelerate process of Iraqi independence and political stability.

Diverts resources from other uses.

Arguably should be decided by new Iraqi government.

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Option: Repair Existing Energy Infrastructure

includes petroleum production, refining, pipeline, electricity and natural gas facilities.

Wars and sanctions have eroded condition of energy infrastructure.

Iraqis have used band-aids and questionable industry practices to keep oil flowing, further damaging the oil fields.

Possible decline in production capacity of roughly 5-15% annually, and even more in the north, if current conditions persist.

Iraqi cost of production per barrel is less than one-half of other producing countries in the region, suggesting improper production techniques.

To reach pre-Gulf War production of 3.5 million barrels/day, with no new damage, will cost \$2-3 billion over 12-18 months.

Includes well workovers, and maintaining and fully utilizing existing facilities.

Might require expansion beyond existing facilities.

To reach 3.5 million barrels/day with war damage, costs could exceed \$5 billion.

3: Kuwait spent \$5 billion in first 12-18 months to repair damage caused by Iraqi sabotage in Gulf War, and perhaps \$20 billion overall.

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Option: Repair Energy Infrastructure (cont.)

Essential for maintaining revenue stream and even partly meeting demand for funds outlined in this briefing.

Would minimize reliance on international assistance.

Would facilitate any decision, by US-led administration or new Iraqi government, to increase production capacity.

Could be controversial, sparking allegation of US exploitation.

Would divert resources from other uses.

Could discourage private sector involvement.

Could prejudice policy decision on increasing production.

Total: \$2-5 billion per a

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Option: Pay Foreign Debt

q has made no foreign debt payments since 1990.

UN sanctions regime has shielded oil reserves from claims by those holding Iraqi d
Official Iraqi government foreign debt estimated to be over \$82 billion, includi
erest from 1990.

Principal owed is \$41 billion.

Excludes \$37 billion principal owed to Gulf states from Iran-Iraq war.

argest governmental creditors--Russia and France.

Russia is owed \$16.1 billion (principal: \$8 billion), or 20% of total--mostly for we

France is owed \$9.1 billion (principal: \$4.5 billion), or 11% of debt.

Japan is owed \$9.1 billion (principal: \$4.8 billion), or 11%.

US is 6th largest creditor: owed \$4.4 billion (principal: \$2.2 billion), or 5%, less th

Germany and former Yugoslavia.

annual debt service estimated at \$7-15 billion.

far no bilateral or multilateral debt rescheduling.

Total: \$7-15 billion per a

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Option: Pay Foreign Debt (cont.)

new investment often not precluded by non-payment of previous regime's debt.

Not unusual to give new regime grace period of several years.

Cuba never repaid its pre-Castro debt or compensated investors for expropriated property, and yet investors came in. Soviet Union was lent money even though it paid a tiny fraction of tsarist debt.

O

Debt servicing may be necessary to promote investment, trade and economic recovery.

Could strengthen international support for US policies.

We have generally not distinguished debt for military sales from other types of debt.

on

Not an urgent priority, unless necessary for near-term foreign investment.

Paris Club negotiations necessary, and appropriate for new Iraqi government to participate on matter that will have such long-standing consequences.

US should not be perceived as adding to new government's burdens.

Paying for Russian arms sales to Saddam should not be a priority.

Diverts resources from other needs.

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Option: Pay Gulf War Compensation

Since 1991, UN Compensation Commission has received 2.6 million claims from most 100 countries totaling over \$300 billion, for compensation for losses directly resulting from Iraq's invasion and occupation of Kuwait.

As of October 2002, UN Compensation Commission has approved \$43 billion for 5 million claims, of which \$16 billion has been paid.

UN deducts 25% annually of Iraq's oil revenues for compensation.

\$7 billion left to be paid on claims already validated and awarded.

Over \$15 billion alone to Kuwaiti Oil Company.

\$457 million to US corporations.

\$70 billion in claims remain to be considered.

\$149 billion worth of claims from governments, over half of which are from Kuwait.

Other large claimants: Jordan and Saudi Arabia.

\$5.2 billion in corporate claims, including 119 U.S.-filed claims seeking \$213 million.

\$8.5 billion in individual claims.

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Option: Pay Gulf War Compensation (cont.)

OFF does not apply, a new structure would need to be established to pay claims. UNSCR 687 imposes liability on Iraq for these claims independently of OFF program.

25% payout for compensation could exceed \$5 billion in annual payments.

o

Could promote international support for US policies.

Could avoid renegotiation of UNSCR 687.

Preserves an important precedent in using Security Council action to deter future aggression by ensuring aggressor sacrifices financially to compensate its victims.

on

Would burden new Iraqi government with precedent of paying for substantial war costs caused by Saddam regime.

Many American groups and businesses already feel the process is opaque and unfair.

Could be preferable to establish a conference of claimants, where we would encourage forgiveness of claims, particularly by Kuwait, which would have an interest in generosity.

Total: \$5-7 billion per annum

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Recover US/Allied Costs of Occupation

ree aspects

US/allied military--salaries, operations and maintenance, etc.

- Most controversial.

US/allied civilian--American civilians involved in administration.

- Very few people involved.

Iraqi administrative--salaries for Iraqis in government bureaucracy, utilities, etc.

- Uncontroversial.
- Costs partly met by collection of taxes from Iraqis.

BO estimates cost at \$4 billion per month, excluding costs for humanitarian aid and reconstruction of Iraq.

Transparency in accounting particularly necessary here.

Total: \$48 billion per a

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Recover US/Allied Costs of Occupation (cont.)

Occupation benefits Iraqi people and should be paid by Iraqi resources.

Probably permissible under any applicable legal theory (legal review still ongoing)

Would be highly controversial internationally.

Could generate domestic Iraqi opposition.

Would reduce resources available for other urgent needs.

Even if all revenues devoted to this category, it would only cover about half of projected monthly costs.

Would deviate from UNSC decisions to exclude costs of military operations from Iraq's Gulf War compensation obligations.

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Recover US/Allied Costs of Military Campaign

Estimated costs of campaign vary.

CBO estimates \$20 billion for deploying troops to Gulf and returning troops home, \$6-9 billion in combat expense per month.

House Budget Committee, Democratic staff, estimates up to \$60 billion total.

Gulf War of 1991 cost \$58 billion.

Potential legal distinction between operations inside and outside Iraq (subject to ongoing legal review).

Operations inside Iraq: legally permissible.

Operation outside Iraq: legally controversial.

Transparency in accounting also essential here.

Total: \$30-60 billion per a

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Recover US/Allied Costs of Military Campaign (cont.)

Iraqi resources should pay for campaign that liberated Iraqi people and removed international threat emanating from the country.

Would be very controversial.

Could erode international support for US policies, and could affect support for future interventions.

Would divert resources from other needs.

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Summary / Balance Sheet

demands on petroleum revenue will substantially exceed available funds for foreseeable future.

Numbers below exclude potentially large humanitarian needs, unaddressed Gulf War claims, and potential repairs to petroleum infrastructure beyond 12-18 months after conflict. When possible, (average) annual numbers are provided.

RANGE OF FINANCIAL DEMANDS (in \$ billions)		
	<u>Low</u>	<u>High</u>
Humanitarian Aid	-	-
Reconstruction of War-Damaged Eco. (annual avg)	3	4
Repair Energy Infrastructure (initial)	2	5
Foreign Debt Payment (annual)	7	15
Gulf War Claims (annual)	5	7
Costs of Occupation (annual)	48	48
Costs of Military Campaign (total)	30	60
TOTAL DEMAND	95	139
TOTAL PETROLEUM PRODUCTION REVENUE	20	31
BALANCE	-75	-108

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***IRAQ AGREEMENTS WITH
JORDAN, TURKEY, SYRIA***

December 12, 2002

1/02 10:13

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Iraq Sells Oil Outside UN Oil-for-Food Program

rdan

pays roughly \$9 per barrel in its barter arrangement for 80,000 BPD
saves \$350 million off market price on annual basis.

compensation for its potential loss of discounted oil already under discussion

- USG seeking regional producers to sell discounted oil.

urkey

receives \$6/barrel discount on 65,000 BPD of crude oil and a \$17/barrel discount on 5,000 BPD of petroleum products.

saves \$175 million annually on discounted crude, for which it pays cash for 1/3 purchases and the rest in barter.

earns \$200 million in pipeline tariffs for OFF sales; paid in kind with oil purchases in assistance to ease potential wartime loss already under discussion.

- Financial compensation and attempt to provide free crude oil.

/02 10:13

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Oil Sales (Continued)

Yria

pays roughly \$6-10/barrel discount from market price on 250,000 BPD smuggled in Iraqi oil.

- 180,000 BPD via main Iraq-Syria pipeline and 20,000 BPD via pipeline in northeastern Syria.
- 50,000 BPD via tanker trucks and rail.
- Pays in cash and barter.

Receives over \$600 million to \$1 billion from discounts.

Some illegal trade began in 1999 and then terminated.

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f ID of oil

ENERGY INFRASTRUCTURE PLANNING:

Iraq Sanctions Regime

DECISION BRIEFING FOR DEPUTIES

November 8, 2002

11-12-02 11:22 IN

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Agenda

- Review of Issues Addressed This Month
- Issues for Today
- Decisions Needed

3:00 PM

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Issues to be Addressed This Month

organize and manage USG administration of Iraqi petroleum resources

use petroleum proceeds?

do about current sanctions against Iraq? ◀ ◀

Iraqi oil production capacity, or merely operate what already exists

op production capacity, what to do about existing and new development

to use control of Iraqi oil to advance important US foreign policy
affected by energy issues?

ory policy?

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Issues for Today

t to do about current sanctions against Iraq?

Guiding principles for addressing current sanctions.

What to do about UN sanctions.

What to do about USG sanctions.

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Guiding Principles

*...possible any desired financial and legal transactions that
...le for immediate humanitarian and reconstruction needs
...s future business activity.*

...ter disinformation that US objective is to control Iraq's

*...age relations with Congress and the UN to encourage
...ve cooperation.*

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United Nations Sanctions

ope

UN sanctions imposed pursuant to various United Nations Security Council Resolutions beginning with Resolution 661, dated 6 August 1990. A listing of the twenty-three resolutions is in the appendix on page 17.

UN member states required to effect broad trading and funds transfer bans against Iraq with certain humanitarian exceptions, including the OFF program. Iraq may use oil proceeds to purchase non dual-use items. Contracts previously approved unless they contain dual-use items on "Goods Review List" (GRL). UNMOVIC and IAEA review all contracts and may approve those with no GRL items. Contracts with GRL items are referred to UN Sanctions Committee for a decision.

Reparations to Kuwait, other governments (including USG) and other claimants are now funded through UN OFF program and UN Compensation Commission.

Existing resolutions mandate that UN-member states deposit into Iraq's UN escrow account any funds used to pay for petroleum products exported "from the territory of Iraq."

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United Nations Sanctions (con't)

ions

Option 1 - Seek broad lifting of all UN sanctions, except those dealing with arms trade, particularly WMD.

- Likely require termination or suspension by Security Council. Most recent precedent was of remaining sanctions on Yugoslavia, 10 September 2001.
- Will require negotiations to obtain necessary support (9 of 15 members, no veto by permanent members).
- Assuming a US occupation and regime change, argument that sanctions should be removed as their purpose would no longer be served.
- Plan for phase out of UN escrow account. Reparations to Kuwait, other governments (including USG) and other claimants eventually would be funded directly without channeling through UN. Encourage claimants to consider foregoing additional Gulf War reparations in light of Iraq regime change.

Pros

• Moving Iraq to a new era, ease humanitarian suffering caused by Saddam's mismanagement of OFF resources.
• Rational use of proceeds from oil sales.

Cons

- Could take time and political capital to obtain Security Council approval.

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United Nations Sanctions (con't)

tions (con't)

Option 2 - Construct new UNSC approved regime through an omnibus resolution, allowing for new situation, including a US/Coalition period of occupation. Possible scope of new UN program:

- Continue Oil for Food program in some form.
- UN continues to manage reparations, if they continue.
- UN continues sanctions on arms and WMD.

Pros	Cons
n some international community consensus. s some continuity in regime transition. s US claim that we are not going in for the	<ul style="list-style-type: none">• Could limit our options in managing petrol resources.• Could take time and political capital to obt Security Council approval.• Could provide UNSC more control over oi revenue.

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United Nations Sanctions (con't)

tions (con't)

Option 3 - Do not change UN sanctions.

- A. Argue UN resolutions inapplicable because of changed circumstances apply Hague Regulations.
 - Iraqi oil out of the ground may be seized and sold.
 - Iraqi oil in the ground may be extracted and seized at pre-war levels of production.
 - Extracting and seizing oil at greater than pre-war levels of production, w/ not expressly forbidden, could be controversial. E.g., development of new fields.

Pros	Cons
flexibility for managing oil production. to negotiate sanctions issues with UN during occupation. Can be delayed until transition to new government.	<ul style="list-style-type: none">• Will hurt US claim that we are not going in for the oil.• Only delays addressing UN sanctions. Transition to new government from military occupation might be delayed until UN sanctions issues are addressed.• Undermines UNSCR process.• Opposition/complaints from countries and businesses have unpaid or unfunded contracts pending under OLC.

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United Nations Sanctions (con't)

tions (con't)

Option 3

- B. Operate under existing UN sanctions, apply OFF program.
 - Under the Oil-for-Food program, we can, through the UN:
 - » Produce and sell oil.
 - » Pay contracts to rehab, fight fires, etc.
 - » Distribute revenues for humanitarian purposes, reparations and reha payments.
 - We cannot seek private investment because overall UN embargo would remain.

Pros	Cons
<p>• some international community consensus.</p> <p>• some continuity in regime transition.</p> <p>• US claim that we are not going in for the</p>	<ul style="list-style-type: none">• Could limit our options in managing petrol resources.• Could provide UNSC more control over oil revenue.

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US Sanctions Based on EO 12722 & EO 12724

Scope

Declared by President via executive orders.

Treasury implemented in consultation with State.

Comprehensive embargo includes:

- Freezing all property in which Iraq has an interest.
- Prohibit US persons from trading with Iraq or items of Iraqi-origin.
- Exceptions granted (in the form of licenses) consistent with foreign policy and the United Nations oil-for-food program.

Termination in whole or in part of Executive Orders 12722 & 12724 would require 15 day advance notice to Congress.

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US Sanctions Based on EO 12722 & EO 12724

ptions

Option 1 - Broadly remove the provisions of the Executive Orders.

- Rescission or modification of Executive Orders.
- Suspension of implementing regulations.

Pros	Cons
ptions for tailoring a response. as all executive branch restrictions on activity with Iraq. not require cumbersome licensing process. EO provides for a clean start.	<ul style="list-style-type: none">• Will require Congressional notification.• Can achieve same results at lower executive levels via licenses.

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US Sanctions Based on EO 12722 & EO 12724

ptions (con't)

Option 2 - General licenses from Treasury authorizing transactions.

- Accomplished by regulatory change.
 - State Department defense export controls would be unaffected.
-

Pros	Cons
• Do not require new EO. • Do not require Congressional notification. • Allow for control of types of transactions • Do not receive waivers.	• A new EO would provide for a clean start.

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US Legislative Sanctions

pe

The Iraq Sanctions Act, Iran-Iraq Arms Non-Proliferation Act, and sections of the Foreign Assistance Act, Foreign Operations Appropriations Act and Arms Export Control Act impose US restrictions on transactions with Iraq. A detailed listing of these sanctions is in the appendix on page 23.

Changing the restrictions can be accomplished by legislation and executive branch determinations or waivers.

ions

Option 1 - Omnibus legislation that addresses all sanctions.

- Pros
 - Clean start with new regime.
- Cons
 - Congressional process might be cumbersome.
 - Most goals can be achieved by executive branch without involving Congress.

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US Legislative Sanctions (con't)

ions (con't)

Option 2 - Go to Congress only when legislative relief is really necessary.

- Pros
 - Involves Congress only when necessary.
 - Only one piece of legislation (see option 3 below) may require Congressional action.
- Cons
 - Legislature is still involved, so process might be cumbersome.

Option 3 - Act under executive authority alone.

- It appears that only one piece of legislation will require Congressional action; Executive act sufficient for everything else. It is Section 507 of the Foreign Operations Appropriations Act. This law prohibits the obligation or expenditure of funds made available under that Act to finance directly any assistance or reparations to Iraq. It specifically prohibits direct loans, credits, insurance and guarantees of the Export Import Bank.
- Pros
 - Avoids possible cumbersome legislative process.
- Cons
 - Does not address Section 507 constraints.
 - May inhibit accomplishment of US objectives and limit flexibility.

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Decisions Needed

Guiding principles.

What to do with UN sanctions?

What to do with Executive Orders 12722 & 12724?

What to do with US Legislative sanctions?

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Listing of UN Resolutions on Iraq Sanctions

661 (1990) of 6 August 1990 imposed economic sanctions on Iraq, including a full trade embargo barring all imports to Iraq, excepting only medical supplies, foodstuffs, and other items of humanitarian need, as determined by the sanctions committee, which was also established by Resolution 661. The sanctions committee is chaired by the Ambassador from Mauritius and Bulgaria providing vice chairmen. (Note: All 15 Council Members sit on the committee.)

687 (1991) of 3 April 1991, the cease-fire resolution, declared that the full trade embargo against Iraq would remain in effect until Iraq complies with the obligations imposed by Resolution 687.

687 (1991) of 19 September 1991 allowed for a partial lifting of the embargo, which would have enabled Iraq to use the proceeds for humanitarian purposes. In return, Iraq would have been subject to strict UN monitoring of the contracts for humanitarian goods bought with the oil revenues.

986 (1996) of 14 April 1996 enables Iraq to sell up to \$1 billion of oil every 90 days and use the proceeds for humanitarian purposes. On 20 May 1996, the UN and the Government of Iraq concluded the Memorandum of Understanding on practical arrangements for the implementation of the oil-for-food agreement. The sanctions committee subsequently approved the Procedures for the implementation of Resolution 986. On 9 December 1996, the Secretary-General reported to the Security Council (S/1996/1015) that all the steps necessary to ensure the effective implementation of Resolution 986 had been completed. As a result, Resolution 986 went into effect at 00.01 hours Eastern Standard Time on 10 December 1996. The first oil shipment arrived in Iraq on 20 March 1997.

1051 (1996) of 27 March 1996 established the export/import monitoring system for Iraq. Iraq and countries exporting to Iraq are required to report to UNSCOM (United Nations Special Commission) and the IAEA (International Atomic Energy Agency) regarding all exports and imports of dual-use items to Iraq. Such items are subject to inspection upon their arrival in Iraq as well as at the site where the items are exported.

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Listing of UN Resolutions on Iraq Sanctions (con't)

1111 (1997) of 4 June 1997 decided that the provisions of Resolution 986, except those contained in paragraphs 1 and 2, shall remain in force for another period of 180 days beginning at 00.01 hours, Eastern Daylight Time, on 8 June 1997; further decided to conduct a thorough review of all aspects of the implementation of this resolution 90 days after the entry into force of paragraph 1 to the end of the 180 day period, on receipt of the reports referred to in paragraphs 3 and 4, and expressed its intention to consider favorably renewal of the provisions of this resolution, provided that the reports in paragraphs 3 and 4 indicate that those provisions are being satisfactorily implemented.

1115 (1997) of 21 June 1997 decided not to conduct the reviews provided for in paragraphs 21 and 28 of resolution 1115 until after the Special Commission submits its next consolidated progress report due on 11 October 1997, after which the reviews shall resume in accordance with Resolution 687.

1129 (1997) of 12 September 1997 decided that the provisions of Resolution 1111 should remain in force, except to permit the import of petroleum and petroleum products originating in Iraq, including financial and other services directly relating thereto, sufficient to produce a sum not exceeding a total of one billion United States dollars within 60 days from 00.01 hours, Eastern Daylight Time, on 8 June 1997 and, thereafter, a sum not exceeding a total of one billion United States dollars within a period of 60 days from 00.01 hours, Eastern Daylight Time, on 4 October 1997; and decided that the provisions of paragraph 1 shall apply only to the period of implementation of Resolution 1111.

1134 (1997) dated 23 October 1997 expressed the firm intention, if Iraq does not comply with paragraphs 2 and 3 of Resolution 1115, to adopt measures which would oblige all States to prevent without delay the entry into or transit through their territory of all Iraqi officials and members of the Iraqi armed forces who are responsible for or participate in the instances covered by paragraphs 2 and 3 of Resolution 1115. It decided not to conduct the reviews provided for in paragraphs 21 and 28 of Resolution 1115 until after the next consolidated progress report of the Special Commission, due on 11 April 1998, after which the reviews shall resume in accordance with Resolution 687, beginning on 26 April 1998.

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Listing of UN Resolutions on Iraq Sanctions (con't)

1137 (1997) dated 12 November 1997 imposed travel restrictions on all Iraqi officials and members of the Iraqi armed forces who were responsible for or participated in the instances of non-compliance including the denial of entry to Iraq to Special Commission officials on the grounds of their nationality and the denial of entry to sites designated by the Special Commission to Special Commission inspectors on the grounds of their nationality. The resolution decided that the review provisions of paragraphs 21 and 28 of Resolution 687 shall resume in April 1998 in accordance with paragraph 8 of Resolution 1134, provided that the Government of Iraq shall have rescinded its decision of 29 October 1997 to impose conditions on cooperation with the Special Commission.

1143 (1997) of 4 December 1997 the Security Council decided that the provisions of Resolution 986, except those in paragraphs 4, 11 and 12, shall remain in force for another period of 180 days beginning at 00.01 hours, Eastern Standard Time on 4 December 1997.

1153 (1998) of 20 February 1998 the Security Council decided that the provisions of Resolution 986, except those in paragraphs 4, 11 and 12, shall remain in force for a new period of 180 days beginning at 00.01 hours, Eastern Standard Time on the day after the President of the Council has informed the members of the Council that he has received the report of the Special Representative requested in paragraph 5 of Resolution 1153, on which date the provisions of Resolution 1143, if still in force, shall remain in force, except as regards sums already produced pursuant to that resolution prior to that date.

1158 (1998) of 25 March 1998 the Security Council decided that the provisions of Resolution 1143 shall remain in force, except that the provisions of Resolution 1153, except that States are authorized to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a total of 1.4 billion United States dollars within the period of 90 days from 00.01 hours, Eastern Standard Time on 25 March 1998.

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Listing of UN Resolutions on Iraq Sanctions (con't)

on 1175 (1998) of 19 June 1998 authorized States, subject to the provisions of paragraph 2 of the resolution, to permit the provisions of paragraph 3 (c) of Resolution 661, the export to Iraq of the necessary parts and equipment to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of Resolution 1153. By the same resolution, the Committee established by Resolution 661, or a panel of experts designated by that Committee may approve contracts for the parts and equipment and up to a total of 300 million United States dollars may be used for that purpose.

on 1175 also noted that the distribution plan approved by the Secretary-General on 29 May 1998, or any new distribution plan approved by the Government of Iraq and the Secretary-General, will remain in effect, as required, for each subsequent period of the temporary humanitarian arrangements for Iraq and that, for this purpose, the plan will be kept under constant review and amended as necessary through the agreement of the Secretary-General and the Government of Iraq and in accordance with Resolution 1153.

on 1194 (1998) of 9 September 1998 decided not to conduct the review scheduled for October 1998 provided for in paragraphs 21 and 28 of Resolution 687, and not to conduct any further such reviews until Iraq rescinds its above-mentioned decision of 5 August 1998 and the Special Commission and the IAEA report to the Council that they are satisfied that they are able to exercise the full range of activities provided for in their mandates, including inspections.

on 1194, the Security Council also reaffirmed its intention to act in accordance with the relevant provisions of Resolution 687 for the duration of the prohibitions referred to in that resolution and notes that by its failure so far to comply with its resolutions Iraq has delayed the moment when the Council can do so.

on 1210 (1998) of 24 November 1998, the Security Council decided that the provisions of Resolution 986, except those in paragraphs 4, 11 and 12, shall remain in force for a new period of 180 days beginning at 00.01 hours, Eastern Standard Time on 1 December 1998. The resolution also decided that paragraph 2 of Resolution 1153 shall remain in force and shall apply to the new 180-day period.

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Listing of UN Resolutions on Iraq Sanctions (con't)

Resolution 1242 (1999) of 21 May 1999, extended the oil-for-food program for a further 180 days starting on 25 May 1999.

Resolution 1266 (1999) of 4 October 1999 decided that paragraph 2 of Resolution 1153, as extended by Resolution 1242, be modified to the extent necessary to authorize States to permit the import of petroleum and petroleum products originating from Iraq, including financial and other essential transactions directly related thereto, sufficient to produce an additional sum, that provided for by Resolution 1242, equivalent to the total shortfall of revenues authorized but not generated under Resolutions 1210 and 1153, 3.04 billion United States dollars, within the period of 180 days from 00.01 hours, eastern standard time, on 25 May 1999.

Resolution 1281 (1999) of 10 December 1999, extended the oil-for-food program for a further 180 days starting on 12 December 1999 (phase VII).

Resolution 1284 (1999) of 17 December 1999, stressed the need for a comprehensive approach to the full implementation of relevant Security Council resolutions and Iraq compliance with these resolutions. The resolution established the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) to undertake the responsibilities of the former Special Commission, which was charged with monitoring the elimination of weapons of mass destruction in Iraq. The resolution also lifted the ceiling on Iraqi oil exports and provided for additional specific arrangements for facilitating humanitarian supplies, including the conditional suspension of the sanctions regime.

Resolution 1302 (2000) of 8 June 2000, extended the "oil for food" program for a further 180-day period beginning 9 June 2000. The Council repeatedly extended the program for 180-day periods over the following years.

Resolution 1409 (2002) of 14 May 2002, adopted a revised Goods Review List of military-related goods or commodities that was to enter into effect on 30 May 2002. From that date onward, States are authorized to sell or supply any commodities not on the Goods Review List, while the Council would regularly conduct thorough reviews of the Goods Review List.

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US Legislative Sanctions

What is the sanction and how do we change it?

Iraq Sanctions Act

- Restricts the ability of the Executive branch to enter into, support or license various transactions involving Iraq.
- Provide advance notice to Congress of the President's intent to terminate sanctions.
- Or, President can grant a national security interests waiver.

Iran-Iraq Arms Non-Proliferation Act

- Imposes mandatory sanctions on any person or government that transfers goods or technology so as to contribute knowingly and materially to efforts by Iran or Iraq to acquire CBW or nuclear weapons or destabilizing numbers and types of certain advanced conventional weapons.
- No action necessary. Does not impact oil.

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US Legislative Sanctions (con't)

Section 620A of the Foreign Assistance Act of 1961, (FAA)

- Prohibits assistance under the FAA, the Agricultural Trade Development and Assistance Act of 1954, the Peace Corps Act, or the Export-Import Bank Act to any country if the Secretary of State has determined that the government of that country has repeatedly provided support for acts of international terrorism.
- Rescission of Determination by the Secretary after the President submits to the Speaker of the House and the Chairmen of the SFRC and HIRC that a fundamental change has taken place in the leadership and policies of Iraq.

Section 507 of the Foreign Operations Appropriations Act, 2002

- Prohibits the obligation or expenditure of funds made available under that Act to finance directly any assistance or reparations to Iraq. It specifically prohibits direct loans, credits, insurance and guarantees of the Export Import Bank.
- Legislative change required. No waiver authority included.

Section 523 of the Foreign Operations Appropriations Act, 2002

- Prohibits funds appropriated under this act from being obligated to finance indirectly any assistance to terrorist states.
- President can grant a national interest waiver.

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US Legislative Sanctions (con't)

Section 527 of the Foreign Operations Appropriations Act, 2002

- Prohibits funds appropriated for bilateral assistance under this act or prior appropriations acts from being made available to Iraq.
- President can grant a national security or humanitarian waiver.

Section 620G of the FAA

- Requires withholding assistance under FAA from any foreign government that provides assistance to a state sponsor of terrorism.
- President can grant a national interests waiver.

Section 40 of the Arms Export Control Act (AECA)

- Prohibits a variety of transactions with terrorist countries, including denial of license for export of munitions items.
- No action necessary. Does not impact oil.

Section 40A of the Arms Export Control Act

- Prohibits the sale or licensing for export of defense articles or services to a foreign country that is not cooperating fully with US antiterrorism efforts.
- No action necessary. Does not impact oil.

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US Legislative Sanctions (con't)

Section 531 of the Foreign Operations Appropriations Act, 2002

- Prohibits assistance under the Act or the AECA to any country not in compliance with UN Security Council sanctions against Iraq.
- President can grant a national interests waiver.

Section 620t of the FAA

- Prohibits assistance under this or any other act to any country which has severed diplomatic relations with the US.

Section 620H of the FAA

- Requires withholding assistance under the FAA from any government that provides lethal military equipment to a terrorist state.
- President can grant a national interests waiver.

Section 570 of the Foreign Operations Appropriations Act, 2002

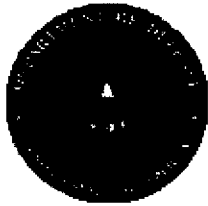
- Provides that Economic Support Funds may be made available for programs benefiting the Iraqi people and to support efforts to bring about a political transition in Iraq.
- No action necessary.

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ENERGY INFRASTRUCTURE PLANNING:
Organizing and Managing Iraq's Petroleum Resources
DECISION BRIEFING FOR DEPUTIES
Updated: 10 January 2003

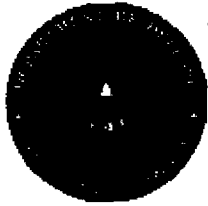
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Issues for Today

Organizing and managing USG administration of Iraqi petroleum resources.

- Guiding principles for managing Iraq's petroleum resources.
- Organizational and management structure.
- Choosing the organization's leader.
- Composition of a board of advisors.

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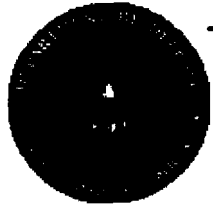
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Guiding Principles

- *If US temporarily administers Iraqi petroleum resources, we should provide for their security and repair, and for production and sale of petroleum products.*
- *Transparently manage resources:*
 - *“In trust”.*
 - *For Iraqi people as beneficiaries.*
 - *[To meet needs of occupation, defray costs of administering Iraq, other appropriate purposes.]*
- *Use existing Iraqi personnel and organizations when possible.*
- *Avoid unnecessary disruption to supply in the world oil market.*
- *Counter disinformation that US objective is to control Iraq’s oil.*
- *Be sure there is sufficient stability, transparency and responsible leadership in Iraq before US places these resources into anyone else’s hands.*



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Legal Authority of Iraq Oil Transitional Authority

- Assume the US in Iraq would have broad authority to administer public property in occupied territory, including natural resources.
- SECDEF orders Commander CENTCOM to establish Iraq Oil Transitional Authority (IOTA) pursuant to authority of military government.
 - CENTCOM Commander's military order can detail provisions of IOTA's charter and organizational structure.

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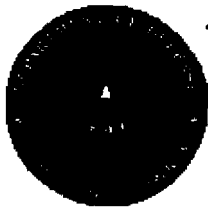
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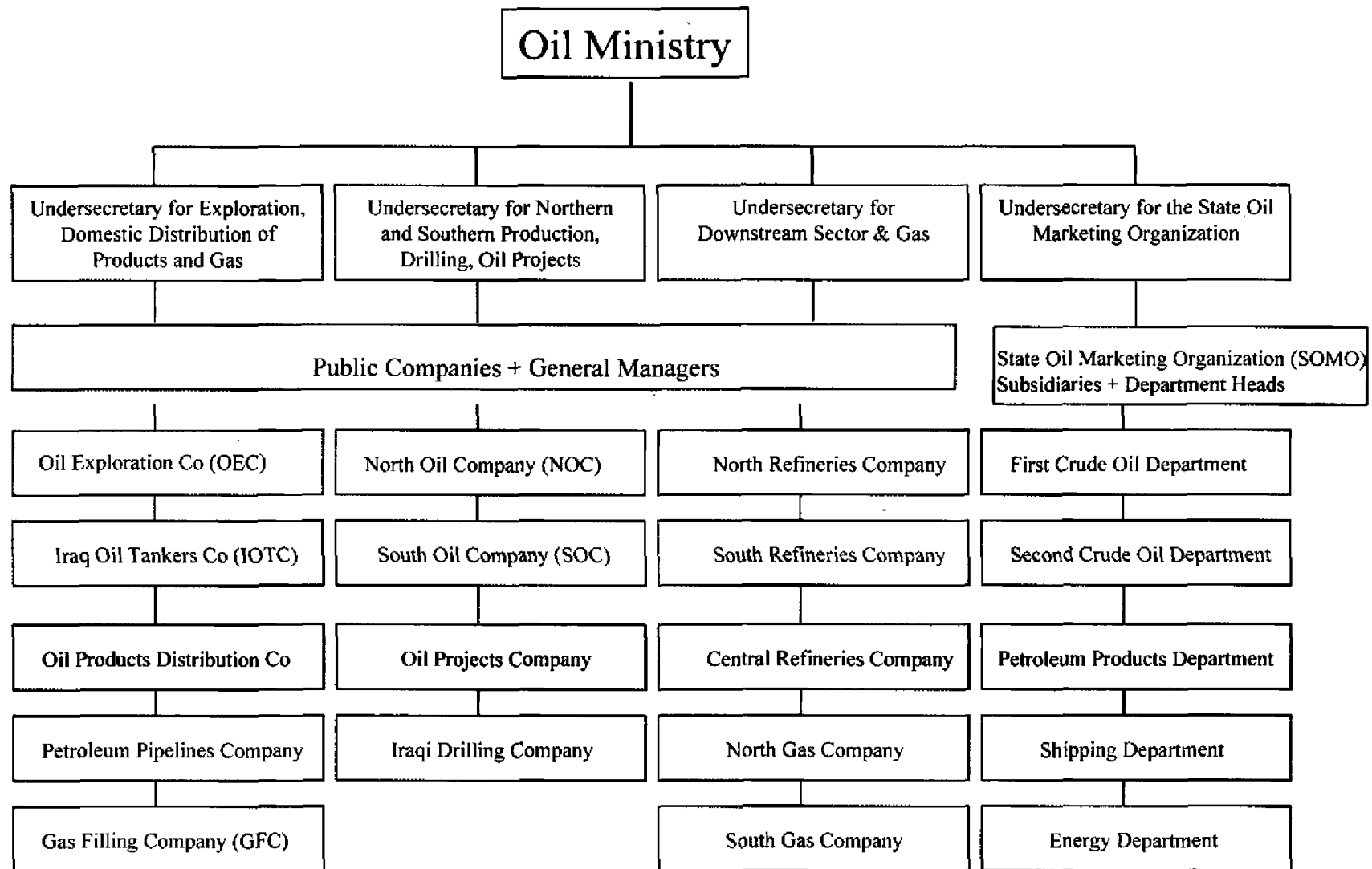
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Current Organization of Iraqi Oil & Gas Industries



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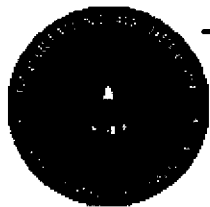
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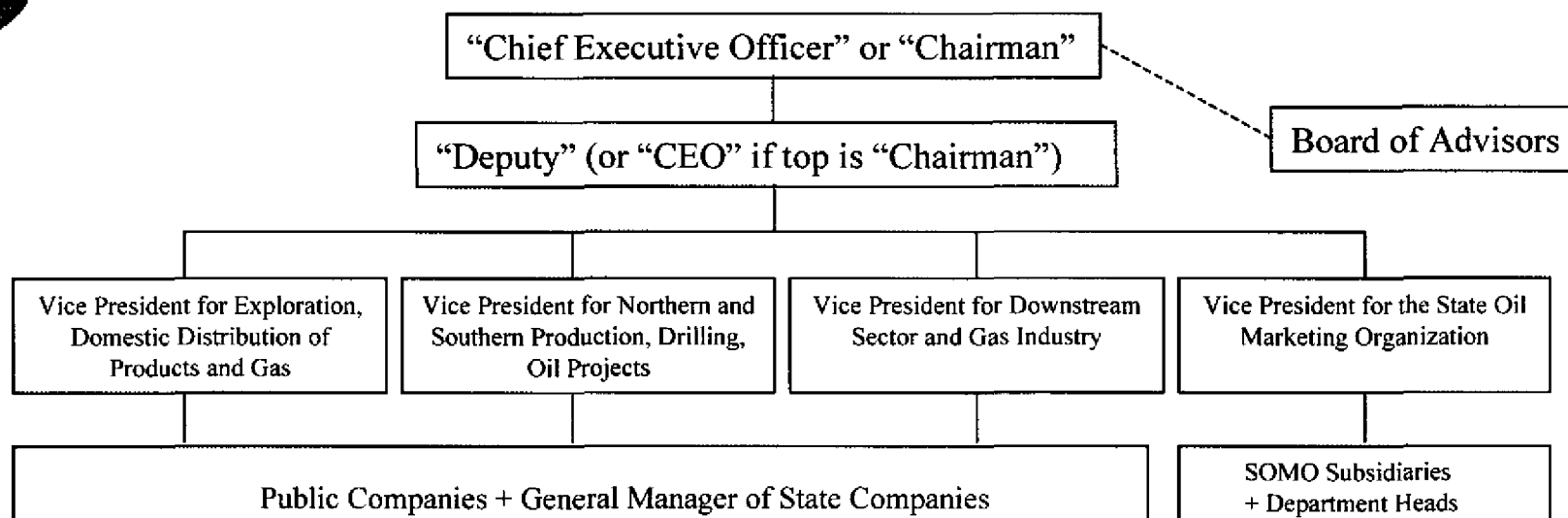
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Oil Organization

Option : Iraqi Oil Ministry Model



Structure

- Patterned after existing structure of Iraqi Oil Ministry using a CEO (minister) and vice presidents (directors).
- This organization assumes that much of the oil infrastructure is in place and many of the existing personnel can remain.
- Establish a Board of Advisors to provide guidance to the CEO and to facilitate transparency to Iraqi public and international community. It could consist of representation from people of Iraq, coalition countries, industry advisors and USG.

Pros

- Facilitate transition to future ministry.
- Less intrusive. Allows Iraqis more input.

Cons

- May not be feasible if much of the infrastructure is destroyed and many of the personnel cannot be used.
- SOMO may be too tainted to be retained.

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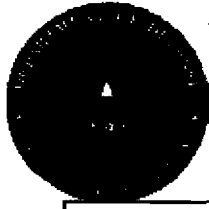
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IOTA “CEO” Responsibilities

- Efficiently manage Iraq oil resources.
- Execute US policy as approved by the President and issued by SECDEF to the military government.
- Act as primary US liaison on Iraqi oil to:
 - International community (oil producers and consumers).
 - International organizations (UN, IFIS).
 - Board of Advisors.
- Likely an American.
- *“Mr. Outside”.*

IOTA “Deputy” Responsibilities

- Day-to-day oversight of operations.
- Directly manage the operating divisions.
- Applies industry expertise.
- Likely a non-American.
- *“Mr. Inside”.*

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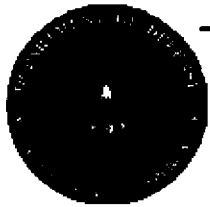
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Timing of Choosing “CEO”

- First step: As soon as possible, appoint X as a Special Advisor to the President or other appropriate position.
 - Get X into place and involved in on-going planning for administration of Iraqi petroleum industry.
- Second: At appropriate time, announce that all Iraqi oil assets will be administered by IOTA and that President is appointing X to head IOTA.

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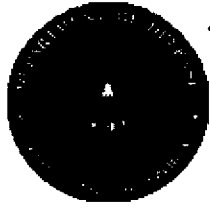
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Choosing a “CEO”

Will send a message.

- Selecting an individual with significant public recognition will draw attention to the announcement.
- The candidate's background, credentials, politics and experience will spark speculation regarding USG intentions toward the Iraqi oil sector.
- The candidate will have to work with a variety of other significant individuals.
- Some factors to consider:
 - Relevant expertise, previous experience in region.
 - Any continuing involvement with business organizations (conflicts of interest).
 - Will need DOJ, possibly other, legal vetting.
 - Working styles: Purely corporate? Ability to adapt to government service role?

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IOTA CEO Candidates from Industry (con't)

- Selecting a “CEO” from oil industry.
 - Advantages:
 - Has experience running large oil operations.
 - May give perception of some independence from politics.
Technical versus political leadership.
 - Disadvantages:
 - May give perception of US corporate control of Iraq oil.

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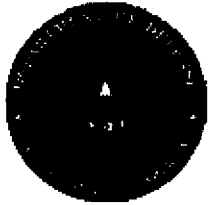
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IOTA CEO Candidates not from Industry (con't)

- Selecting a “CEO” not from oil industry (statesman/other).
 - Advantages:
 - Provides statesman with international political experience.
 - May avoid perception of “big oil” control.
 - Disadvantages:
 - May not have sufficient industry expertise to manage large oil organization effectively.
- May require appointment of a “Deputy” from oil industry to manage oil business effectively.

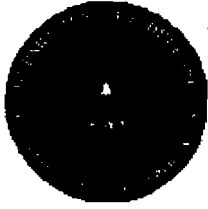
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Board of Advisors Responsibilities

- Provide advice and feedback from interested parties to IOTA CEO. CEO not bound by Board advice.
- Provide transparency.
 - Communicate to interested parties the Guiding Principles of US policy.
- Oversee work of independent auditors.

CEO and Deputy should nominate to USG candidates for Board based on policy principles.

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Policy Principles: Composition of Board of Advisors

- Should be substantially international.
- Half of members should be Iraqi.
- Could include members from:
 - Representatives of allied governments or coalition partners.
 - US and international oil industry experts.
 - Former Iraqi opposition figures.
 - Remaining Iraqi industry technocrats (non-Ba'athist).
 - US or non-US financial and development specialists.
- Could allow observers from international organizations to attend Board meetings, at selected times.

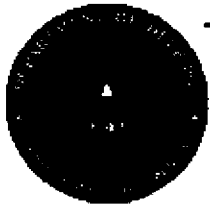
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PLANNING FOR THE IRAQI PETROLEUM INFRASTRUCTURE:

Work Status and Decisions Needed

Revised as of 10 January 2003

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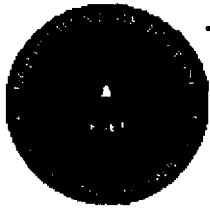
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Outline of Presentation

- *Guiding Principles*
- *Public Diplomacy*
- *Contingency Planning for Repair, Production and Sales*
- *Legal Considerations*
- *Organization and Management (Issue for Decision: Chairman/CEO Candidates)*
- *Use of Petroleum Proceeds*
- *Funding Enhancement: Borrow Against Future Oil Revenues?*
- *Issue for Decision: Production Targets*
- *Existing and New Contracts*
- *Issue for Decision: Iraq-Syria Pipeline*

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Guiding Principles

Certain principles should guide any temporary US/coalition administration of Iraqi petroleum resources, including:

- *Iraq's oil resources are an asset that belongs to all the Iraqi people.*
- *Any temporary administration of Iraqi oil production and marketing:*
 - *Should involve existing Iraqi personnel and organizations whenever possible to ease future transition;*
 - *Should work with the international community to build support for our policies;*
 - *Will seek to minimize disruptions and promote confidence and stability in world markets;*
 - *[Will not be used to influence world prices];*
 - *[Will respect Iraqi contracts previously approved by the United Nations];*
 - *Will be conducted transparently and accountably, in accordance with applicable legal norms and prudent industry practices, for the benefit of the Iraqi people;*
 - *Will prepare for the return of production and marketing responsibility to a stable Iraqi authority as soon as practicable.*
- *The initial goal should be to bring Iraqi petroleum production up to pre-hostility capacity of about 3.1 million barrels/day, consistent with sound business considerations.*
- *Any increase in production levels and capacity should serve the interest of maximizing revenues for the people of Iraq.*

Public Diplomacy--Main Themes

- Iraqi petroleum resources are a national asset of all the Iraqi people, i.e., the nation as a whole, and not of any regional entity.
- We want to work with the Iraqis themselves and the international community in administering petroleum proceeds for the benefit of the Iraqi people.
- Interim administration decisions will be based on prudent, accountable, best practices to prepare for the return of the sector and its management to responsible Iraqi authorities.
- We will act, through our administration, so as not to prejudice Iraq's future decisions regarding:
 - Its oil development policies.
 - Its relations with international organizations.
 - The future ownership structure of the its oil industry.
- US/Coalition will fulfill its responsibility to the Iraqi people to create conditions of stability and well-being for the people of Iraq, but we will not administer oil assets on a long-term basis.
- Petroleum proceeds will be handled transparently and used for the benefit of the Iraqi people.
- We will respect the legitimate interests of all countries in the reconstruction period.
- [We will respect Iraqi contracts previously approved by the United Nations.]

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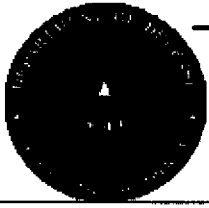
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Contingency Plans for Repair

- OUSD(P)/Energy Infrastructure Planning Group manages planning project.
- EIPG guidance to the Army contractor:
 - Plan for full range of damage scenarios: Little or no damage, to major disabling damage by Iraqi forces to key choke points (e.g., Gas and Oil Separation Plants (GOSPs), marine terminals, pumping stations).
 - Fight over 1,000 well fires, if necessary.
 - Repair priorities:
 - First, restore current *production* of about 2.4 million barrels per day as soon as conditions permit.
 - Second, restore current *capacity* of about 3.1 million barrels per day.
- Plan (draft) calls for modular components for major facilities (e.g., GOSPs, pumping stations) wherever needed, to restore production ASAP.
- “Best case” = No infrastructure damage, just safety repairs needed.
 - 6 mos. to 2.4 million b/d, 9 mos. to 3.1 million b/d.
 - Cost: appro. \$0.8 Billion.
- “Worst case” = Major, disabling damage throughout infrastructure.
 - 20 mos. to 2.4, 30+ mos. to 3.1.
 - Cost: \$7 to \$8 Billion (oil only). Refineries and gas plants add **another** \$4-\$5 Billion.



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Contingency Plans for Production and Sale

- ***Production priorities:***
 - First, crude oil.
 - Second, natural gas to support electrical grid.
 - Third, refined products (import during interim if necessary).
- **Build on “modular” approach.**
 - Pre-conflict: Profile all fields and facilities.
 - Post-conflict:
 - Rapidly assess production level achievable with whatever still works.
 - Assemble building-blocks of a functioning system with whatever still works.
 - Use all functioning production facilities to extent safe and cost effective.
- **Produce first where damage is least, to maximize early output.**
- ***Sales:***
 - IOTA uses personnel from Iraq’s State Oil Marketing Organization (SOMO) to extent available and reliable -- supplement with other nationals as needed.
 - IOTA approves terms and conditions of sales, within policies set by higher authority.
 - “Good Title”: SOMO and Iraqi Central Bank currently co-sign all oil sales contracts.
 - Standard terms include warranty of title.
 - Suggests need to maintain existence and operations of Iraqi Central Bank and SOMO.
 - Would continue to warrant good title to buyers.
 - Would help reassure markets, reduce likelihood of later disputes about validity of sales.

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Organization and Management

- Deputies agreed to recommend establishing an organization dedicated solely to managing Iraqi petroleum industry, with a corporate organizational model (“Iraqi Oil Temporary Administration” -- “IOTA”) drawing on current Iraqi Oil Ministry structure.
- To “internationalize,” appoint:
 - Chairman
 - American.
 - Current or former statesman or former CEO of oil company.
 - Chief Executive Officer.
 - British or other international.
 - Former chairman or CEO of oil company or other significant business.
 - Vice Presidents for each functional sector within current Ministry.
 - Preferably Iraqis.
 - Board of Advisors.
 - Advisory, non-binding on management.
 - Half composed by Iraqis, rest by various international figures.

Issue for Decision: Selection of Chairman, CEO.

- Candidates vetted by PCC (see Back-Up Slides for possible candidates).
- Chairman, CEO will recommend to USG candidates for Board.

Petroleum Proceeds: Possible Uses and Availability

- Figures below exclude high end range of humanitarian needs and unaddressed Gulf War claims. When possible, (average) annual numbers are provided.
- Humanitarian aid, military campaign and occupation costs -- about 1 year; others vary from about 2 to 10 years or more.
- **Bottom Line:** Demands on petroleum revenue will likely exceed available funds for foreseeable future.

RANGE OF POTENTIAL FINANCIAL DEMANDS (in \$ billions)		
	Low	High
Humanitarian Aid (minimum) -- Humanitarian Planning Group	16	16
Reconstruction of War-Damaged Eco. (annual avg) -- CIA	3	4
Restore prewar oil production capacity (initial) -- CIA/Industry	1	8
Expand oil capacity to 3.6 million b/d (additional) -- CIA/Industry	3	5
Expand oil capacity to 5-8 million b/d (annual avg) -- CIA/Industry	1	4
Foreign Debt Payment (annual) -- CIA	7	15
Gulf War Claims (annual) -- CIA/State	5	7
Costs of Occupation (annual) -- CBO	48	48
Costs of Military Campaign (total) -- CBO/House Budget Comm., Dem staff	30	60
TOTAL DEMAND	114	167
TOTAL ANNUAL PETROLEUM PRODUCTION REVENUE*	16	25
BALANCE	-98	-142
* Based on 2.4 million b/d of oil production and an \$18-28/bbl average price		

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Funding Enhancement: Borrow Against Future Oil Revenues?

- Could explore using future oil revenues as collateral for loans.
- Precedents: Russia, Iran, Ecuador have borrowed using oil revenues as security.
- Iranian practice could be a model; Iranian Central Bank has borrowed billions of dollars:
 - As direct bank loans secured by future oil sales.
 - By treating developer capital “invested” under exploration and development contracts as “loans,” repaid with future oil produced (developer gets oil as loan payment, no “ownership” in reserves).
- Iraq’s existing major claimants -- Russia, France, Japan, Kuwait, Saudi Arabia--would be urged to postpone claims in favor of these loans. Their incentives to do so?
 - Current UN sanctions regime already takes precedence over these claimants.
- Major issues:
 - Lawyers would need to assess any actual plan for international law compliance.
 - Recent Iraqi oil revenues may not support major loans (i.e., billions of dollars) without new development contracts in place to back them up.
 - Who would borrower be during temporary administration? Iraqi Central Bank? Would it still exist and function?
 - New lender(s) likely to demand subordination of pre-existing debt and third-party guarantors (other governments?).
 - Likely to require rescheduling Iraq’s existing foreign debt (about \$82 billion at end 2002 assuming 6% interest rate). Practicable? Complications?
 - Iraq also owes \$27 billion in unpaid claims awarded by UN Compensation Commission for Gulf War damages.

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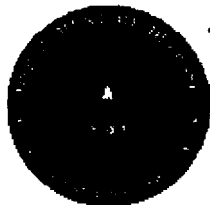
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Iraqi Production Goals: Initial Objective of up to 3.1 million b/d

Bring production up to prewar capacity of about 3.1 million barrels/day (b/d).

We have contingency plans to do this (see Slides 5 and 6).

- Current actual *production*: 2.4 million b/d.
 - Annual revenue with \$18-28/barrel average price range: \$16-25 B.
- Current production *capacity*: 2.8 - 3.1 million b/d .
 - Investment needed to sustain: \$1-8 B over 6-20 months, depending on damage level (based on CIA and industry estimate).
- Iraq a member of OPEC but has not been in quota system since Gulf War.
 - Traditional OPEC quota at parity with Iran, or currently 3.18 million b/d.

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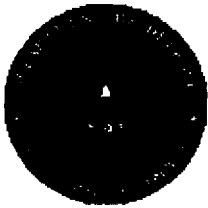
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Iraqi Production: Possible Mid-Term Objective of 3.6 million b/d ?

Enable Iraq to regain its historical capacity?.

- 3.6 million b/d.
 - Likely to require heavy maintenance of existing fields and possible development of new fields.
 - Reachable about one year after obtaining 3.1 million b/d.
 - Cost: additional \$3-5 billion over 3.1 million b/d level (industry estimate).
 - Would put Iraq output at current Iranian output levels of 3.6 million b/d.

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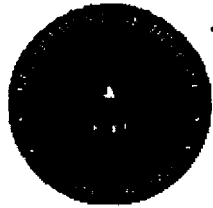
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Iraqi Production: Possible Long-Term Objective > 5 million b/d?

Put Iraq on path to achieve economically reasonable increase in capacity?

- Would exceed 5 million b/d.
 - Requires development of new fields.
 - About 5 million b/d reachable within 3-5 years with investments of around \$30 B (CIA and industry estimate).
 - Consistent with long-term plans of Iraqi Oil Ministry for 6-8 million b/d with investment of \$30-40 B (CIA and industry estimate).
 - Could force questions about Iraq's future relations with OPEC.

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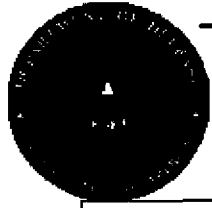
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Increasing Iraqi Production Beyond 3.1 million b/d: Considerations

Advantages

- Hastens Iraqi rehabilitation and stability.
- Supported by many in Iraqi opposition.
- May put long-term downward pressure on price.
- May help consumers.
- Diversifies/increases global oil supply and spare production capacity in long-term, if no price war.
 - Strengthens global economic security.
 - Only 3.7 million b/d of global spare capacity (CIA), or 5% of demand.
 - Saudis have 2/3 of global spare capacity.

Disadvantages

- Politically controversial, especially if new fields are developed.
- Might trigger a price war, which would likely decrease Iraqi oil revenues and could drive out higher-cost producers, thus reducing diversity of supply.
- Some would argue that new Iraqi government should decide.
- Could force unwelcome questions about our intentions towards OPEC.

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Contract Policy

- ***Existing deals: [IOTA should observe contracts previously approved by UN.] Query whether should observe those made in hopes sanctions eventually would be lifted? (May depend on terms of particular contracts, provisions of which not fully known to us now.)***
 - One production maintenance “fee-for-service” contract (Zarubezhneft and Tatneft of Russia) currently approved by UN under OFF.
 - Iraq has signed four capacity expansion contracts (Chinese CNPC, Syrian Oil Co., Petro Vietnam, Tunisian ETAP), which await lifting of UN sanctions.
 - French Total Fina Elf initialed but reportedly not yet signed.
 - Iraq recently abrogated Russia’s Lukoil contract.
 - Over 60 foreign companies pursued various stages of oil negotiations since sanctions were imposed.
 - Iraqi opposition opposed to honoring deals made by Saddam unless clearly in Iraqi interests.
 - Better to defer these for new Iraqi government to decide.
 - US and British companies were not allowed to enter into such contingency contracts.
- ***New deals: As a rule, should be based only on economic return, open competition, and sound business practices.***
 - IOTA will likely need to contract with foreign companies -- whether to expand production capacity or to maintain existing capacity.
 - Repairs from war damage, safety upgrades, normal operations and maintenance.
 - Should be governed by sound business decisions unless compelling reasons otherwise.
 - ***Generally let IOTA management run it like a business.***

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Iraq-Syria Pipeline: Use As Leverage?

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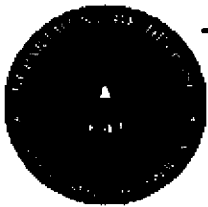
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Back Up

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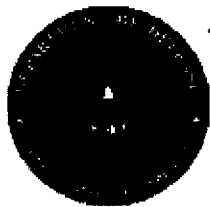
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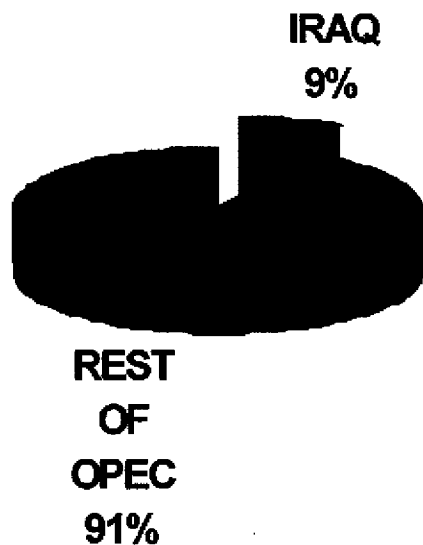
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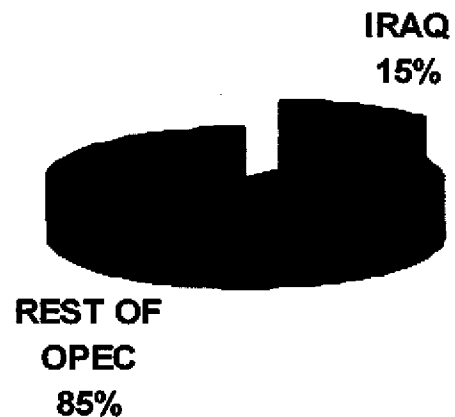
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Iraq's Share of OPEC Production

**IRAQ'S SHARE OF OPEC
PRODUCTION 2002**



**IRAQ'S SHARE OF OPEC
PRODUCTION 1990**



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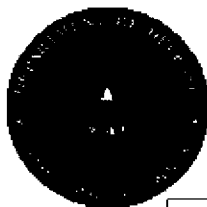
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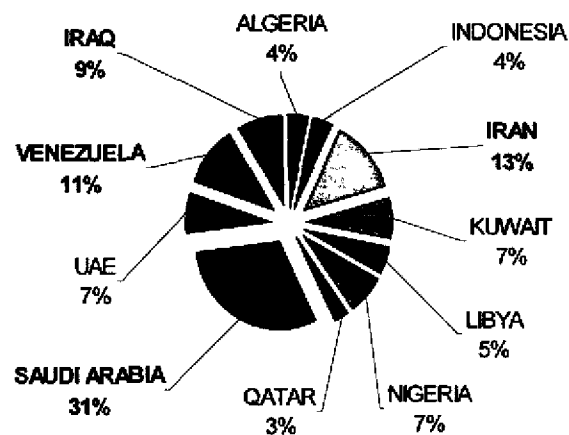
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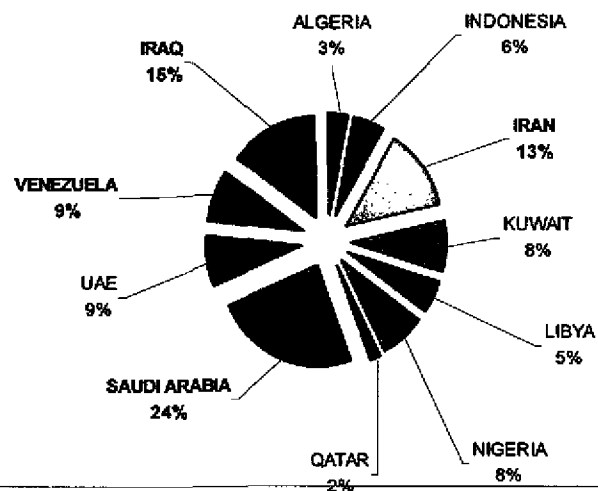
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OPEC Production

OPEC PRODUCTION OCT. 2002



OPEC PRODUCTION JULY 1990



OPEC PRODUCTION 2002 vs 1990 (thousands barrels/day)

(Excludes Equador and Gabon, which are no longer members)

	Output Oct. '02	Output Jul '90	02/'90 Diff
Algeria	1,000	760	240
Indonesia	1,100	1,280	(180)
Iran	3,600	3,000	600
Kuwait	2,000	1,900	100
Libya	1,400	1,250	150
Nigeria	2,000	1,750	250
Qatar	700	370	330
Saudi Arabia	8,500	5,610	2,890
UAE	2,000	1,950	50
Venezuela	3,100	1,950	1,150
OPEC-10 Total	25,400	19,820	
Iraq	2,400	3,500	(1,100)
OPEC Total	27,800	23,320	4,980

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PLANNING FOR THE IRAQI PETROLEUM INFRASTRUCTURE:

Decisions Needed

Dated: 30 January 2003

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24/03 15:40

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Guiding Principles/Public Diplomacy Goals

Provide broad operational guidance to the field.

Counter misimpressions that the U.S. seeks to control Iraqi oil for its own benefit.

Provide transparent information to markets to enhance understanding of our actions.

Assure the Iraqi people of our commitment to their best interests.

See hand-out).

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Organization and Management

General Principle: Increase Iraqi role as situation stabilizes, returning to full Iraqi control as soon as feasible.

Three phases – In sync with overall administration of Iraq

Phase One: Military (aims: secure, protect).

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- General Franks, CENTCOM.

Phase Two: US/Coalition civil administration (aims: post-conflict triage, repair, rebuild, resume and oversee operations).

- Chairman, Chief Executive Officer.
- Iraqis in senior posts to extent feasible, but not in control of funds.

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Phase Three: New Iraqi ^{Government} regime/indigenous Iraqi management

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Central Question

Whether to pursue a conservative approach or an expansive approach to U.S. management of Iraqi oil resources?

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Conservative Approach

Restore capacity to pre-hostility levels (roughly 3.1 million barrels/day), to the extent economically prudent

Defer to a future Iraqi Government questions regarding

- New oil field development/capacity expansion.
- Iraq's relationship with OPEC.
- Ownership/privatization of Iraqi oil.
- Borrowing against future oil revenues.

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Expansive Approach

Put Iraq on a path to increase its long-term capacity.

Develop/explore new oil fields.

Estimates project that capacity of 5 million b/d could be reached in 3-5 years with \$30 billion in investment.

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Conservative Approach: Issues

Market Impact: Less likely to be interpreted as destabilizing to market or as attempt to manage prices.

Public Diplomacy: Diminishes arguments that incursion is driven by oil considerations.

Impact on Future GOI Decisions: Maximizes future policy flexibility; may reduce, or delay growth of, future revenues.

Cost: \$1-8 billion needed to reach 3.1 million b/d, additional \$3-5 billion needed to reach 3.6 million b/d.

Revenue: Est. annual revenue of \$20-\$32 billion (3.1), \$24-37 billion (3.6) one year later.

Timing: 3.1 = X mos., 3.6 add a year.

Contracts: Keeps contracting decisions limited to production maintenance.

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Expansive Approach: Issues

Market Impact: More likely to be interpreted as destabilizing to market or as attempt to manage prices.

Public Diplomacy: Increases arguments that incursion is driven by oil.

Impact on Future GOI Decisions: Reduces future policy flexibility, may increase, or speed growth of, future revenues.

Cost: \$6-10 billion/year investment required over and above costs of restoring current capacity.

Revenue: Est. annual revenue of \$33-\$51 billion (5 M b/d) unless OPEC starts price war, making revenue streams unpredictable.

Timing: 3-5 yrs.; development contracts would extend beyond expected U.S. administration of oil sector. (b)(5)

Contracts: Russian considerations would come into play.

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Funding Enhancement: Borrow Against Future Oil Revenues?

Explore using future oil revenues as collateral for loans?

Major issues:

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Perception of mortgaging the legacy of the Iraqi people.

Credibility of the debt.

- Who would borrower be during temporary administration? Iraqi Central Bank? Would lenders accept?
- Recent revenues may not support major loans (i.e., billions of dollars) without new development contracts in place to back them up.

Posture of existing creditors.

- Likely to require rescheduling Iraq's existing foreign debt (about \$82 billion at end 2002 assuming 6% interest rate). Practicable? Complications?
- New lender(s) likely to demand subordination of pre-existing debt and third-party guarantors (other governments?).

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Contract Policy?

Existing deals:

Give due consideration to contracts previously approved by UN

- Four production maintenance "fee-for-service" contracts (three Russian, one Turkish) currently approved by UN under OFF. (b)(5)

Deals pending removal of UN sanctions?

- Iraq has signed about four capacity expansion contracts (Chinese CNPC, Syrian Oil Co., Petro Vietnam, Tunisian ETAP) that await lifting of UN sanctions. (b)(5)
- Iraqi opposition opposed to honoring deals made by Saddam unless clearly in Iraqi interests.

y deals: As a rule, base only on economic return, open competition, and sound business practices?

Development contract issue?

Likely need to contract with foreign companies -- if only to maintain existing capacity.

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ENERGY INFRASTRUCTURE PLANNING:

UPDATE FOR THE SECRETARY OF DEFENSE

16 NOVEMBER 2002

11/16/02 11:26

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Agenda

- Summary of Task
- Summary of Key Issues
- Backup Slides
 - Guiding Principles
 - Status of Work
 - Next Steps

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Summary of Task

- SecDef Planning Guidance Memo 30 Sep 02:
 - Develop a comprehensive contingency plan for protecting, repairing and operating Iraqi energy infrastructure, to be used if US/allies must occupy.
 - Address legal, policy and operational issues.
 - OSD/CENTCOM division of labor.
 - CENTCOM: plans for protection and repair.
 - OSD: plans for maintaining continuity of operations.
- DoD lead, other agencies participating as required.

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Summary of Key Issues

- Organizational: How USG should organize and manage its administration of Iraqi petroleum industry?
 - Specially created, dedicated organization (short-hand: “Iraqi Oil Trust”)?
 - Who heads, what kind of board, accounting and transparency?
- Legal: What a military government can and cannot do?
 - Rules for development, use, oversight of energy resources?
 - How current sanctions work, how to change them?
- Operational: Spending and development policies?
 - How to use proceeds (what gets paid for, what does not)?
 - Develop more production capacity, or just operate what’s there now?
 - How to handle existing and future contracts for development and services?
- Foreign Policy?
 - What key US foreign policy goals could/should be advanced by administration of petroleum industry?
 - Declaratory policy (how we explain what we are doing and why)?

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BACKUP SLIDES

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Guiding Principles

- *If US acquires possession of Iraqi petroleum resources, we should provide for their security, repair, production and sale.*
- *Transparently manage resources:*
 - *Not for ourselves but “in trust”*
 - *For Iraqi people as beneficiaries*
 - *To meet needs of occupation, defray costs of administering Iraq, other appropriate purposes.*
- *Iraqi petroleum resources belong to all the people of Iraq, i.e., the nation as a whole, not to any regional entity, so policies should be set at a national level and proceeds allocated equitably among the regions.*
- *Use existing Iraqi personnel and organizations when possible.*
- *Avoid unnecessary disruption to supply in the world oil market.*
- *Counter disinformation that US objective is to control Iraq’s oil.*
- *Be sure there is sufficient stability, transparency and responsible leadership in Iraq before US places these resources into anyone else’s hands.*

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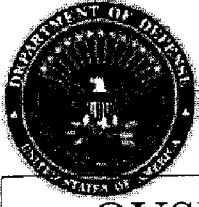
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Status of Work

- OUSD(P)'s Energy Infrastructure Planning Group (EIPG) leads.
 - Established mid-October.
 - Briefed Deputies on work plan 18 October 02.
 - Received full complement of detailees (State, Energy, CIA, OUSD/AT&L) 1 Nov 02.
 - Consults with panel of senior executives (retired) from US energy sector.
 - Now in briefing cycle for Deputies -- preparing key issues for decisions.
- DoD Office of General Counsel.
 - Participates in interagency lawyers' group analyzing legal issues -- what a military government can lawfully do in administering petroleum industry.
- Army Materiel Command contractor (Brown & Root Services) preparing contingency plans.
 - Under direction of EIPG, in coordination with CENTCOM.
 - Full range of scenarios.
 - Must deliver completed plans not later than 11 Dec 02 covering contingencies for repair, safeguarding, maintaining continuity of production, sales and delivery.

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Next Steps

- Contractor.
 - Must deliver completed plans not later than 11 Dec 02 covering contingencies for repair, safeguarding, maintaining continuity of production, sales and delivery.
- EIPG.
 - Continue preparing key policy issues for Deputies.
 - By end November deliver 7 policy decision briefings to Deputies.
 - Brief SecDef on contingency plans immediately after 11 Dec 02 receipt from contractor.

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