



THE UNDER SECRETARY OF DEFENSE
2000 DEFENSE PENTAGON
WASHINGTON, DC 20301-2000

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ACTION MEMO

January 16, 2003, 3:00 PM

FOR: SECRETARY OF DEFENSE

DepSec Action _____

FROM: Douglas J. Feith, Under Secretary of Defense for Policy *DJF 1/16/03*

SUBJECT: Enabling Execution of Contingency Plans for Iraqi Oil Infrastructure ~~(S)~~

- ~~(S)~~ The OSD-led interagency group dealing with Iraqi oil issues recommends that you designate the Army as Executive Agent for this program. You directed CENTCOM and my office to develop contingency plans for continuity of oil production and sales. If these plans are to be executed there needs to be an overall executive agent that will be responsible for planning, coordinating and administering the execution. If you approve the recommendation, General Franks will retain overall responsibility to develop and execute plans in the context of a US military occupation of Iraq. The Army will have responsibility for planning, coordination and execution of the operation for the Iraq oil industry including but not limited to the following tasks:
 - Establish and coordinate program requirements with the Joint Staff and USD(P);
 - Budget for program execution in coordination with USD (Comptroller);
 - Establish a program office as soon as possible;
 - Coordinate acquisition strategy with USD(AT&L);
 - Negotiate, but not award, a contract for execution with the developer of the plan that can be awarded as soon as the Army receives direction to execute the plan;
 - Coordinate policy matters with USD(P); and

DECLASSIFIED
BY:USDP
05/19/2015

~~Derived from multiple sources
Declassify on: January 1, 2012~~



*→ SD 1/21/03
My office cleared
this memo with
Mike Delony at
Centcom.
Doug Feith*

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- Plan for competition for the execution effort at the earliest reasonable opportunity consistent with the needs of the mission.
- ~~(S)~~ The plan assumes that any execution would be immediately after hostilities, during a U.S. military occupation under the control of the Central Command.
- ~~(S)~~ The OSD-led interagency group is now refining a draft Contingency Support Plan for repairing and operating the Iraqi petroleum industry. We expect the plan will be ready for your review by mid-January 2003. To be poised to execute the plan immediately if directed to do so, we need to engage the right organizations to budget for and manage the execution phase of the plan. As a new program, this effort has no owner and no funding. Best to worst case estimates for the execution phase range from \$0.8 billion to more than \$3.5 billion.

RECOMMENDATION: SecDef designates the Army as Executive Agent for this program.

Approve _____ Disapprove _____ Other _____

COORDINATION: USD(AT&L), Joint Staff, OGC (Tab B)

Attachments:

Tab A is the previous draft of X00154/03, changes made on 1/16/03.

Tab B is the coordination page.

Prepared by: ~~(b)(6)~~ EIPG, ~~(b)(6)~~

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What are the immediate issues?

PLANNING FOR THE IRAQI PETROLEUM INFRASTRUCTURE:

Briefing for the Secretary of Defense

11 January 2003

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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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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.**
- about 1500 wells in country.*
- to Sept 2003*
- does not include refineries*

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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:** * Had to be given to buyers // Not to be given to management
 - 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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Legal Considerations: Consensus

USG consensus that :

- Under applicable international legal norms, permissible to:
 - Secure, repair and operate petroleum assets at pre-hostility capacity.
 - Use petroleum proceeds for humanitarian needs, reconstruction, oil operating costs, costs of occupation, and military operations within Iraq.
 - Increase oil production beyond pre-hostility levels, including development of new fields, if necessary for needs of Iraqi people (and possibly others, e.g., for needs of occupation).
- Executive Branch has authority to remove some impediments posed by U.S. domestic sanctions. To ensure availability of full range of options, we should be ready to seek legislative relief.

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Legal Considerations: Lack of Consensus

At present no USG consensus on:

- Applicability of existing UN sanctions and the Oil-for-Food Program.
 - DOD and DOJ: Persuasive argument that they will not apply.
 - State*: Still apply, would require UNSC action to lift/modify.
- Using petroleum proceeds to pay for military operations outside Iraq (e.g., activity elsewhere than in Iraq but related to Iraq campaign).
 - DOD and DOJ: Permitted, as long as related to war effort in Iraq.
 - State*: Problematic.

*NSC Legal Office
has lead.*

*Provisional view.

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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)

	<i>Probably underestimates costs</i> <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?

- Could use 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.
 - Current UN sanctions regime already takes precedence over these claimants.
- 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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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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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

due record

- **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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Iraq-Syria Pipeline: Use As Leverage

- Background.
 - Largest outlet for illegal Iraqi oil exports, 200-250 thousand barrels/day, despite Syrian denials of use.
 - Syria resells discounted Iraqi oil at estimated \$0.6 B to \$1.2 B in annual net profits.
 - Though Syria would not get discounted Iraqi oil during US/Coalition administration, it could still earn transit fees from pipeline.
- *Keep pipeline open only if Syria cooperates on issues of interest to US/Coalition.*

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Next Steps

- Brief DC next week, PC soon thereafter. *20 Jan*
- 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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Back Up

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Candidates Proposed by Various Sources for IOTA Chairman

- High public recognition.
 - James Schlesinger, former SECDEF and Secretary of Energy.
 - James Baker, former Secretary of State.
 - Frank Carlucci, Carlyle Group leader.
 - George Shultz, former Secretary of State.
 - Sam Nunn, former Senator.
 - General H. Norman Schwarzkopf, retired CENTCOM Commander.
- Lower public recognition.
 - Tom Pickering, former ambassador and Undersecretary of State.
 - William Ramsey, deputy director of IEA.
 - Frank Wisner, former USD(P), etc.
 - Gordon Sullivan, former Army CSA and Shell Oil Director.
 - Norman Augustine, retired CEO of defense contractor and Asst SecDef.

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Candidates Proposed by Various Sources for IOTA CEO

- Mark Moody-Stuart (British), former CEO of Royal Dutch Shell.
- Lou Noto (American), former CEO of Mobil Oil.
- Philip Carroll (American), former CEO of Shell Oil, US.
- H. Laurance Fuller (American), former CEO of Amoco.
- Vick Beginni (American), former CEO of Marathon Oil.
- Ken Derr (American), former CEO of Chevron.
- Robert McKee (American), former Chairman of Conoco (U.K.).
- Louis Gerstner (American), former CEO of IBM.
- Franco Bernabe (Italian), former CEO of ENI.

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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	3.8
Total	37.5

Tracy (signature)

- 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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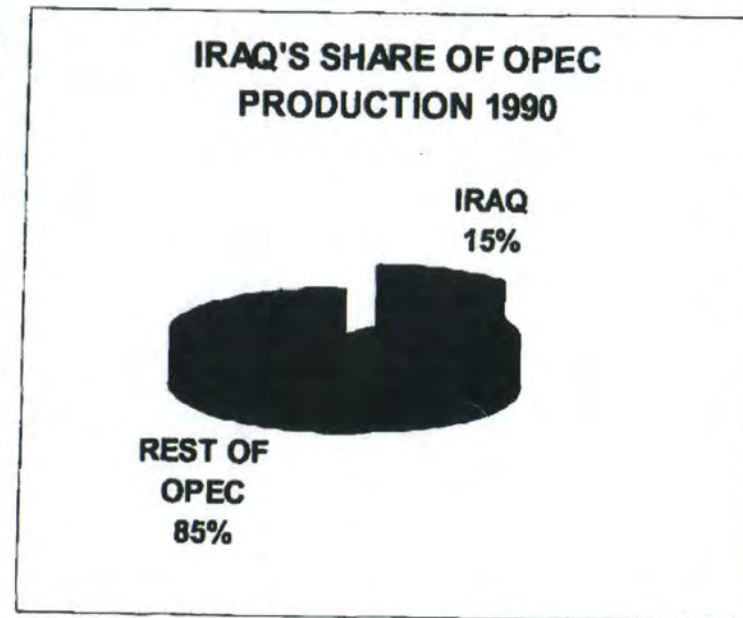
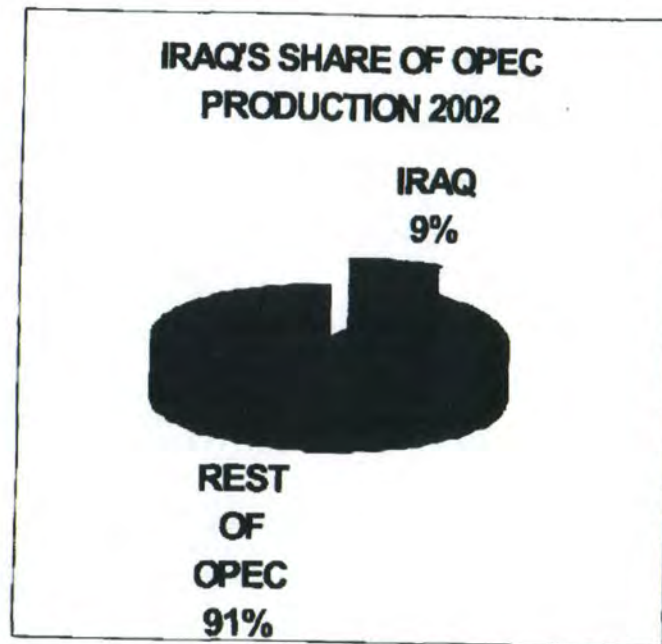
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Iraq's Share of OPEC Production



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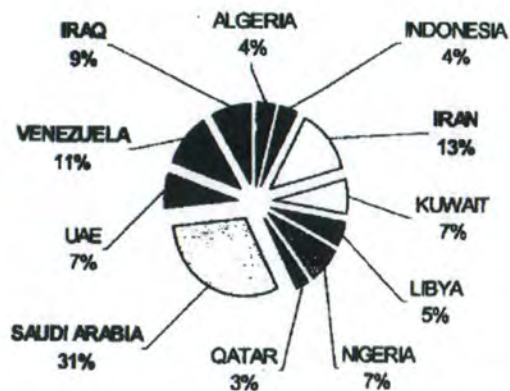
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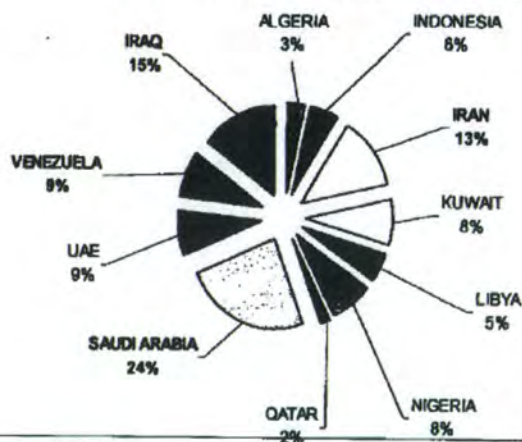
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OPEC Production

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 Qurnah 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 Qurnah	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 Qurnah Phase 1 (300,000 b/d)	Service Contract	Approved by UN	Service contract for water injection	Difficult
China					
China National Petroleum Corp. (CNPC)	Ahdab (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 (Enterprise Tunisienne Activite Petroleum)	Kif (40,000 b/d)	Development Contract	Contract signed, according to Iraqi media	NFI	Unclear
Turkey					
TPAO	Karkuk - Khurmala 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 initialed but not signed	Reports: Terms not competitive. TEF would get unusually high rate of return	Unclear

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Prepared by Energy Infrastructure Planning Group

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