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If you have a strong preference for either date, that will determine it. If not, our group will come-up with a firm recommendation for you as to the better implementation date.

We propose the following action steps:

1. Immediately form and staff the two task teams described above.
2. Have the energy subsidy reform team prepare by November 15 a detailed plan for your approval reflecting the terms outlined above, but including more detail, the amount of the compensatory payment, and detailed implementation steps.

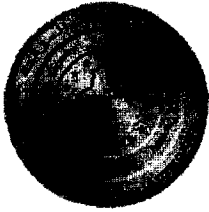
Approve \_\_\_\_\_ Disapprove \_\_\_\_\_ Approve with Modification \_\_\_\_\_

COORDINATION: None

ATTACHMENTS: None

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FOIA 09-826 CPA 000301



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

INFO MEMO

October 28, 2003

FOR: THE ADMINISTRATOR  
FROM: Keith Crane  
SUBJECT: Comments on Tom Foley's and Peter McPherson's Proposals for Oil Trust Funds

**PURPOSE & SUMMARY:** The purpose of this memo is to evaluate the proposals for oil funds made by Tom Foley and Peter McPherson, respectively, in terms of the ability of the proposed policies to achieve the goals stipulated in the memos. On the revenue side, both memos provide cogently argued rationales for collecting monies from oil sales in separate funds. On the expenditure side, both memos advocate unduly restrictive policies, especially in light of current and prospective budgetary needs. If CPA's goal is to leave the next Iraqi government with an enduring institution that will collect oil monies in a transparent fashion and limit the ability of future Iraqi governments to use these funds for purposes other than direct redistribution to Iraqi citizens, the two current proposals need to be modified. In their current form, I am certain that a future Iraqi government would change the expenditure allocations. I have provided some suggestions on how the proposals might be modified below.

**The Purpose of an Oil Fund**

Both memos provide good arguments for collecting oil monies in separate funds. To recapitulate, if properly designed and managed, an oil fund could:

1. Help control diversion of funds at the collection stage;
2. Provide transparency in expenditure as well as collection;
3. More quickly call government attention to unexpected shifts in oil revenue flows;
4. Can be used to sequester funds for future or special purposes;
5. May dampen economic fluctuations by adding or withdrawing funds from a stabilization fund;
6. May cap the amount of oil income directly available to the government, causing the government to resort to other, broader-based taxes to obtain revenues.

Of these goals, those pertaining to revenue collection are the least controversial. Many countries and states establish separate funds for the collection of resource taxes: Iraq operated a

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Development Fund based on oil revenues in the 1950s. An oil fund would put funds outside the control of the Ministry of Finance, permitting more automatic, timelier payouts for items that are on a regular payment schedule. The Iraqi Ministry of Finance has an institutional culture of multiple approvals and a very bureaucratic, autocratic disbursement system that is subject to individual decisions and whims.

Funds may have stipulations on the investment and allocation of monies. The Iraqi Development Fund, set up under the tutelage of the World Bank, mandated investment in infrastructure. Tom Foley's proposal restricts the share of the fund revenues that can be used for general revenues. Both proposals mandate investment in a capital fund and a "dividend" payment to each Iraqi citizen. Peter McPherson's proposal also calls for a stabilization account.

If this proposal is to last, the mandated allocation of funds has to provide incentives for future governments to adhere to the mandates; otherwise, once elected they will change the operation of the funds. The dividend payment is the easiest to make permanent because once households begin receiving it, they will not give it back. We have already introduced an "oil dividend" program: the monetization of the food basket and monetary compensation for increased energy prices. No other developing country of which I am aware could afford to provide monetary compensation for either food or fuel. Iraq's oil wealth makes this possible. Going through the accounts, I do not foresee any additional monies becoming available for another "dividend". To illustrate, a \$15 a month per capita payment for food and another \$5 a month payment for fuel generates an annual expenditure of \$6,480 million annually. The 2006 budget assumes 2.5 mbd of oil exports and an oil price of \$21 per barrel, resulting in annual gross oil revenues of \$19,300 million. Assuming an additional 1 mbd in sales to domestic refiners that would also be sold at this price, total gross oil revenues would be \$26,800, this one program would take a quarter of gross oil revenues and a substantially higher share of net oil revenues. In light of other demands on oil revenues, the monetization and energy compensation program leave little or no room for an additional dividend payment.

There are two other arguments against making a dividend payment separate from the monetary compensation programs. One, transaction (distribution) costs are very expensive in these programs. I have been working with Danilo Roseano on the costs of distributing the monetization payments. We do not yet know what the costs are, but they could easily run as high as \$1 per transaction plus set up costs and set up costs will run in the millions of dollars. Setting up a dividend program separate from the monetization program seems very wasteful in this regard and would absorb a substantial share of the distributed funds. Two, the size of a separate dividend would probably be considered laughable by most Iraqis. I had thought about advertising the monetization of the food basket as an "oil dividend," but the amounts available are the minimal amounts necessary to keep a poor family fed. My guess is that Iraqis perceive substantial dividend payouts. Advertising monetization as an oil dividend would probably result in a popular outcry because most people do not realize how limited funds are.

I do not think that CPA would be well-advised to expend political capital on trying to push through these mandates only to see them immediately overturned. Thus, any CPA-inspired mandates need to survive a new Iraqi government. I am unconvinced by some of the proposed mandates. Both memos argue for capital funds in which oil revenues would be collected for future generations. Tom Foley caveats this mandate by stipulating that for the next five years, oil funds should be used infrastructure development for the next five years. I concur with Tom that monies should be channeled into infrastructure for the time being; I am skeptical that five years

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will be enough time. The argument that funds should be set aside for portfolio investment, much of it abroad, would make sense if Iraq were at a mature or declining stage in oil production like Norway or Kuwait. However, the best thing that Iraq can do at this point in time would be to develop its oil resources so that future generations will be able to benefit from increased oil output. Politically, it would be very difficult to argue that the fund should invest abroad while foreign oil companies are being encouraged to invest in Iraq. My guess is that rates of return on funds invested in Iraqi oil in the coming few years will be high. Investing in infrastructure, if conducted sensibly, could also generate very high rates of return, however, measured. Investment in education should also generate high rates of return. In short, an infrastructure/education mandate would be much more palatable (and sensible) than a classic investment fund. Once the Supplemental runs out, I really see no other alternative. In light of Iraq's very young population and infrastructure needs, a classic fund that makes portfolio investments, many abroad, is a political non-starter and also not a good use of resources at this point in time. Those funds are more suitable for aging populations with fewer needs for infrastructure and education.

Another argument against national funds is their poor investment track record. If the government believes that oil revenues should be used to pay for future pensions, the most efficient solution is to provide a benefit to individuals and have them invest the benefit themselves in an accredited fund. Pension systems under which wage earners are compelled to invest a set share of income in privately managed savings accounts have been surprisingly popular and successful as alternatives to strictly state-run programs in emerging markets. In my view, it makes more sense to provide money through the oil for cash program and then tax back (show the amount taxed) a share for investment in individual retirement accounts than to have a national fund invest retirement savings and leave the government with the pension obligation. Under these systems, the government places strict conditions on funds eligible to participate in these programs. Everyone in the country monitors the performance of these funds because it is their money.

The track record of national funds, including the U.S.-East European enterprise funds has often been mediocre to abysmal. In particular, the idea that creating boards of directors formed of the great and the good will result in solid returns is often mistaken. Many corporate boards, including Enron's, are stacked with such people. A very good friend of mine was on the Hungarian Enterprise Board and, unfortunately, participated in some very bad decisions. These people usually like to be liked. They are very busy. Moreover, the money involved is not their own. Thus, they do not perform the oversight functions or challenge decisions the way they would if they were investing their own money. I would focus on disbursing funds to the government budget and individuals, not trying to have the funds invest it themselves.

The stabilization fund argument makes some sense, but is probably irrelevant for CPA as the likelihood that the Iraqi government will enjoy a surfeit of oil revenues in the medium term is very low. Good finance ministries do create set aside accounts and try to constrain spending in times of boom. This said, stabilization funds for countries or cartels (coffee, nickel, tin, etc.) have had a checkered history. I believe all of the commodity funds have gone bankrupt. The empirical evidence shows that no one can forecast long-term market trends. Thus, governments and cartels tend to spend too quickly and save too little. If CPA advocates a stabilization fund, it should be just that. It only makes sense to put money into these funds when commodity prices exceed a certain level (e.g., \$32 a barrel) and only permit withdrawals when the price falls below

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a certain level (e.g., \$12 a barrel). I see no sense in putting money into such a fund when oil prices are "normal" and especially during a period like now when the Iraqi government has such limited revenue options. The Iraqi government would be better off setting up contingent lines of credit in the future or looking at other rainy day options than sticking a large share of resources into a fund.

I disagreed with the mandate that only 10 percent of oil tax revenues be used for general government revenue. It is not enforceable and is fairly arbitrary. It also puts the cart before the horse. A substantial number of oil economies have become successful or semi-successful: China, Malaysia, Mexico, Russia, some of the Gulf states, not to mention Texas, California, Great Britain and Norway. As these economies have developed, the share of oil revenues to total government revenues declines, not because of oil tax policies, but because the importance of the oil sector declines as a share of GDP because of economic growth, making it possible to tap other sources of tax revenues. Oil taxes can actually have one of the least distortionary effects on an economy. In Middle Eastern societies, other taxes have much more pernicious effects because they put power in the hands of tax collectors, a profession that has been reviled since Biblical times. Customs, sales, excise, VAT, property, and income taxes are all much more arbitrary in these economies and potentially much more detrimental to economic growth than taxes on oil. Iraq should use its oil wealth to build up a head of steam for growth and then introduce other taxes.

Iraq also lacks the resources to become a classic Persian Gulf oil economy. If production hits 7.5 mbd, roughly Saudi production levels, Iraqi output is likely to have a depressing effect on world market oil prices. However, even assuming that it does not, gross Iraqi oil revenues at \$20 per barrel would still only be \$2,000 per capita, not enough to make Iraqis wealthy.

**Fund Mechanics: Revenue**

Both memos stated that net oil revenues rather than oil tax revenues should be used as revenues for the fund. Tom Foley's memo argues that all upstream assets should become the property of the fund. I think both proposals are major mistakes. The fund should only draw on oil tax revenues; the national oil companies need to operate on a commercial basis, not as revenue sources.

Currently, the oil industry, despite the nominal existence of "companies," is run by the Ministry of Oil as a budgetary institution, not as a set of independent units. Robert McKee notes that the best state-owned oil companies are those that are most independent from the Ministry of Finance and the worst run state-owned oil companies are those that are run by financial authorities. If Iraq is to have a strong oil industry, the industry needs to be run on a commercial basis and face as much competition as possible. To elicit the proper supply responses and to create a tax framework in which independent units can operate, the operating units need to be restructured into a set of independent profit centers with an eye to increasing competition in refined oil products markets. Each link in the state-owned supply chain needs to be operated as an independent profit center, making it possible to introduce competition at each stage. This will involve creating balance sheets, cash flow, and profit and loss statements. This financial information can then be used to make better operating decisions and provide proper incentives for management to compete for market share, control costs, and run their operations in a profitable manner. Creating proper incentives and inventory and financial controls is crucial,

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because some managers will lose substantial sums of money because of reduced opportunities for graft.

The fiscal instruments used to tax the industry need to be consistent with multiple, independent producers. These include royalties, profit taxes, and dividends paid to the state. Royalties can be set as a percentage of world market prices or export prices. Profit taxes should be designed to leave enough retained earnings to enable the company to operate in a commercial fashion. The board of directors, which would consist of government appointees, would make decisions on dividend payments to the treasury. Eventually, excise taxes on motor vehicle fuels may also be levied. In this structure, taxes are levied at discrete stages of the production process. For example, percentage royalties are levied at the production stage and excise taxes on refined products at the wholesale or terminal stage. Such a tax system can be applied uniformly to all future participants in the oil sector, including foreign investors. A clear, transparent energy tax code will ensure both that the fund or funds will only draw on a clearly defined set of tax revenues from the oil sector and that state-owned oil companies will be able to retain sufficient funds to conduct their own operations efficiently. In this system, tax revenues from oil will be constrained by the international oil market and Iraqi oil companies' financial performance. The Iraqi government will not be able to treat the industry as a revenue source rather than a business.

For these reasons, I do not support giving an oil fund all oil assets. The treasury or state property holding company should hold the equity. The fund should benefit from taxes on the industry as a whole. It should not be involved in owning and managing operating companies.

#### Financial Implications

Table 1 shows summary data for the Iraqi budget for 2004-2006.

Table 1: Oil Revenues and the Iraqi Budget			
Million Dollars			
	2004	2005	2006
(1) Production mbd	12,000	18,500	19,300
(1) Gross Oil Revenues (exports only)	12,000	18,500	19,300
(2) Total Revenues	13,839.2	19,183.2	19,763.4
(3) Percent	86.7	96.4	97.7
(4) Gross Oil Revenues			
(4) Oil Tax Revenues assuming \$5/barrel production costs			
(5) Household Compensation Payments	6,480		
(6) Government Operating Budget			

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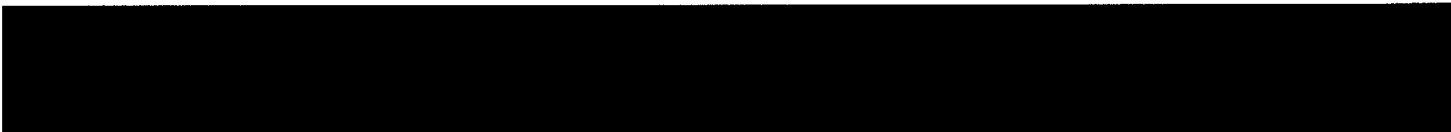
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COALITION PROVISIONAL AUTHORITY  
BAGHDAD

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INFO MEMO

October 29, 2003

FOR: THE ADMINISTRATOR  
From: Robert McKee, Director for Oil Policy  
Subject: Ministry of Oil Update

Please find attached the following requested information:

- **Pipeline Sabotage:** There has an increased sabotage to the oil pipeline (seven attacks since 11 October) which is disrupting oil exports, fuel for electricity production and fuel distribution. We expect a higher level of protection with the full implementation of Task Force Shield. (attached)
- **Task Force Shield (Oil Infrastructure Security Force with Erinys):** On 15 October, Task Force Shield has begun the implementation phase of its force roll-out in close coordination with CJTF-7. At the end state of this phase, phase on 30 November, we will have a trained, supervised guard force into one command and controlled organization supported by the combat power of CJTF-7. Amb McManaway is receiving a briefing on the current status shortly. (attached)
- **Congressman Waxman's Request for Audit of KBR:** In a non-related issue to the above, Congressmen Henry A. Waxman and John D. Dingell, in a letter to LTG Robert Flowers, the USACE Commander, allege that KBR (the US Army Corps of Engineers has contracted KBR to import gasoline to Iraq) has overcharged the US Government. If there is proof of overcharging, they request that reimbursements be initiated and that punitive measures be taken against the contractor. (attached)

Attachments: As Stated

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**Congressman Waxman Request for Audit of Fuel Prices Paid by KBR  
Task Order No. 5  
Contract No. DACA63-03-D-0005**

1. KBR was contracted by the US Army Corps of Engineers (USACE) to import gasoline to Iraq. Congressmen Henry A. Waxman and John D. Dingell, in a letter to LTG Robert Flowers, the USACE Commander, allege that KBR has overcharged the US Government and have requested that the US Army Corps of Engineers conduct a joint investigation with the Defense Contract Audit Agency (DCAA) and other federal agencies to determine how much KBR is paying for gas, the cost to transport the gas, and an explanation as to why the costs are high. If there is proof of overcharging, they request that reimbursements be initiated and that punitive measures be taken against the contractor (Encl 1).

2. A USACE assisted DCAA audit is currently underway. The preliminary assessment does not indicate any criminal wrong-doing on the part of the contractor. The current audit action is focused on the purchase of gasoline from the Altamia Company, a licensed fuel marketer in Kuwait, since fuels purchased from other sources in Turkey were less expensive. The cost for the Kuwaiti fuel and the cost for transportation to Iraq from Kuwait have been determined to be \$1.13/gallon and \$1.14/gallon, respectively (Encl 2).

3. USACE and the DCAA auditors are continuing to evaluate KBR purchase records. The next steps will be to evaluate KBR's purchasing process to determine if they followed proper procedures and then to determine if they exercised due diligence in seeking responsible, low-cost bids for these purchases in accordance with the terms and conditions of the contract.

4. POC: (b)(6) DSN (b)(2)

**2 Enclosures:**

1. Email from (b)(6) Defense Contracting Audit Agency, Baghdad,  
Subject: Kuwait Gas Pricing, Contract No. DACA63-03-D-0005/Task Order #5

2. Congressional request from Rep Waxman

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

**From:** (b)(2), (b)(6)

**Sent:** Monday, October 27, 2003 3:51 PM

**To:** (b)(6)

**Cc:** (b)(6)

(b)(6)

**Subject:** Kuwait Gas Pricing, Contract No. DACA63-03-D-0005/Task Order #5

**Importance:** High

**Sensitivity:** Confidential

**TO:** (b)(6)

US Army Corps of Engineers  
RIO Program, Baghdad

**DATE:** 10/27/2003

**SUBJECT:** Kuwait Gas Pricing, Contract No. DACA63-03-D-0005/Task Order #5

(b)(6)

**RE:** Your conversation with (b)(6) DCAA Regional Audit  
Manager and (b)(6) Supervisor Auditor, on 10/26/03, Baghdad, Iraq.

At your request, attached please find our preliminary assessment of the Kuwait fuel (gasoline) prices as purchased by KBR under Contract No. DACA63-03-D-0005, Task Order # 5 only. Please be advised that as of this date the attached information is a compilation of cost that is represented in KBR files, and is not audited, and as such, we express no opinion on the attached. Our audit of these costs is incomplete at this time, and our audit is still in-process; accordingly the information is marked "unaudited." The purpose of the information provided is for your discussions with CPA officials.

Please contact me or the following individuals who are located in room M208 of the Presidential Palace in Baghdad if you have any questions relative to the attachment.

(b)(6)	Supervisory Auditor
(b)(6)	Supervisory Auditor

Telephone No.  
(b)(2)

/s/  
(b)(6)  
Acting Branch Manager  
Tel. No. to Kuwait (b)(2)

Enclosure 1

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Contract No. DACA63-03-D-0005/Task Order #5

**Kuwait Gasoline Costs**

Period Covered: 5/7/03 to 9/30/03

**Gasoline Purchased under the following Purchase Orders**

<u>KBR Purchase Order No.</u>	<u>Liters</u>	<u>Currency</u>	(KD = Kuwait Dinar)
311	41,010,000	3,774,179.940	KD
341	38,712,000	3,511,200.000	KD
402	<u>134,657,010</u>	<u>12,119,130.900</u>	KD
<b>Total</b>	<b>214,379,010</b>	<b>19,404,510.840</b>	<b>KD</b>

**Liter to Gallon Conversion**

1 gallon = 3.7854118 liters      3.7854118

Total Gallons Purchased (5/7 to 9/30)      **56,632,943**  
 (214,379,010 / 3.7854118)

**Kuwait Currency to US Dollars Conversion**

For this exercise 1Kuwait Dinar (KD) = \$3.30

**\$3.30**

Total Gasoline Purchased in US Dollars      **\$64,034,886**  
 (19,404,510.840 KD x \$3.30)

**Fuel Tanker Costs**

Fuel Tankers leased from inception thru 9/30/03      +      **64,638,845**      USD

**Total Cost per Gallon (from 5/7/03 to 9/30/03)**

**TOTAL GASOLINE AND FUEL TANKER COSTS**      **\$128,673,731**  
 (\$64,034,886 + \$64,638,845)

**Total GALLONS**      **56,632,943**

**PRICE PER GALLON**      **\$2.27**      (Kuwait Only)  
 (\$128,673,731 / 56,632,943 gals.)

**Cost of Gasoline per Gal. (\$64,034,886 / 56,632,943)**      **\$1.13**

**Cost of Fuel Tankers per Gal. (\$64,638,845 / 56,632,943)**      **\$1.14**

*Kuwait Gasoline Purchases (Task Order #5) Only*

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**FAX COVER**

**COMMITTEE ON GOVERNMENT REFORM**

**DEMOCRATIC STAFF OFFICE**

**HON. HENRY A. WAXMAN**  
RANKING MINORITY MEMBER  
B350A RAYBURN HOUSE BUILDING  
PHONE (202) 225-8051  
FAX (202) 225-4784, 8185

**DATE:** October 21, 2003

**TO:** Lt. Gen. Robert Flowers

**FAX:** (202) 761-8843

**FROM:** Rep. Henry A. Waxman

**SUBJECT:** \_\_\_\_\_

**NO. OF PAGES:** 8  
**(INCLUDING COVER SHEET)**

**COMMENT:**

**IF THERE IS A PROBLEM WITH THIS  
TRANSMITTAL, PLEASE CALL OFFICE A.S.A.P.**

Enclosure 2

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**Congress of the United States**  
**House of Representatives**  
**Washington, D.C. 20515**

October 21, 2003

Lt. Gen. Robert B. Flowers  
ATTN: Directorate of Military Programs  
U.S. Army Corps of Engineers  
441 G Street, NW  
Washington, DC 20314

Dear General Flowers:

On October 15, 2003, we wrote to Joshua Bolten, Director of the Office of Management and Budget, to express our concern about indications that Halliburton has been overcharging the taxpayer for importing gasoline into Iraq. Since then, we have received significant new evidence of overcharging by Halliburton. We are writing to urge you to investigate and take appropriate action.

Our letter to OMB Director Bolten was based on a comparison between the prices Halliburton has charged to import gasoline and the prices independent experts told us would be reasonable. The Congressional Research Service informed us that Mideast gasoline costs about 71 cents per gallon. Other experts told us transportation costs should be no more than 25 cents per gallon, bringing a reasonable total cost to around 96 cents per gallon. Our letter pointed out that Halliburton has been charging an average price of at least \$1.59 per gallon to import gasoline into Iraq, far more than the experts said was reasonable.

Halliburton's response was to dispute that gasoline could be imported into Iraq for as little as 96 cents. According to Dave Lassar, the CEO of Halliburton, the prices Halliburton charges are "fair and competitive."<sup>1</sup>

We now have concrete evidence that Halliburton is wrong and that gasoline can be — and indeed has been — imported into Iraq for under \$1.00 per gallon. We contacted Iraq's state-owned oil company, the State Oil Marketing Organization (SOMO), to determine what prices it pays to import gasoline into Iraq. We learned that SOMO pays between 90 and 98 cents per gallon to import gasoline into Iraq, almost exactly what the experts told us would be reasonable. In comparison, the price Halliburton is charging is at least 65% — and as much as 88% — more expensive than SOMO's prices.

We have also confirmed from the Coalition Provisional Authority that SOMO buys its gasoline from the same countries as Halliburton, transports its gasoline into Iraq by truck just like Halliburton, and delivers its gasoline to the same central depots as Halliburton.

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<sup>1</sup> *Halliburton's Mission*, Wall Street Journal (Oct. 17, 2003).

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Lt. Gen. Robert B. Flowers  
October 21, 2003  
Page 2

Finally, we have learned that some of the funds paid to Halliburton are coming from the humanitarian funds transferred from the U.N. Oil for Food Program. This raises serious questions about our relationship with the United Nations and our allies. Under the terms of U.N. Security Council Resolution 1483, an independent board called the International Advisory and Monitoring Board was supposed to ensure that the U.N. Oil for Food funds were spent for the benefit of the Iraqi people. Not only has this board not been created, it now appears that part of the \$1 billion transferred from the U.N. Oil for Food Program has been squandered by paying inflated prices to Halliburton.

Based on these concerns, we urge you to take three specific actions: (1) investigate overcharging by Halliburton that already may have occurred; (2) seek reimbursements for any inflated amounts paid to Halliburton; and (3) if you confirm that Halliburton has been overcharging for gasoline, disqualify Halliburton from receiving either of the two new oil reconstruction contracts that the Corps is close to awarding.

The rest of this letter explains these concerns in more detail.

### Evidence of Halliburton's Overcharges

As you know, a significant component of Halliburton's work under the sole-source oil contract has been to import gasoline and other petroleum products, such as LPG and kerosene, into Iraq. According to data provided by your staff, as of September 18, Halliburton had received task orders worth \$378,931,314 to import these products into Iraq.<sup>2</sup> Of this amount, Halliburton was paid \$304,486,577 to import 191,965,150 gallons of gasoline.<sup>3</sup> On a per-gallon basis, Halliburton charged the U.S. government \$1.59.

This amount does not include Halliburton's "profits," which are calculated separately.<sup>4</sup> Because the Administration agreed to a "cost-plus" contract, the government reimburses

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<sup>2</sup> E-mail from U.S. Army Corps of Engineers to Minority Staff, Committee on Government Reform (Sept. 23, 2003).

<sup>3</sup> *Id.* According to the e-mail, 727,140,721 liters of gasoline had been delivered as of September 18, 2003. At a conversion rate of 0.264 gallons per liter (or 3.785 liters per gallon), the total number of gallons is 191,965,150. The cost of \$304,486,577 was calculated by assuming a conversion rate of 1,500 Iraqi dinars per U.S. dollar.

<sup>4</sup> U.S. Army Corps of Engineers, *Frequently Asked Questions: Engineer Support to Operation Iraqi Freedom* (Oct. 3, 2003) (online at [www.hq.usace.army.mil/cepa/iraq/faq.htm](http://www.hq.usace.army.mil/cepa/iraq/faq.htm)) ("It is an Indefinite Delivery/Indefinite Quantity, cost-plus type contract. The government

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Lt. Gen. Robert B. Flowers

October 21, 2003

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Halliburton for its costs and then provides an additional award of between 2% and 7%.<sup>5</sup> When this additional award is taken into account, the cost to the taxpayer increases to between \$1.62 and \$1.70 per gallon. Although Halliburton claims its profits are included in the \$1.59 per gallon price,<sup>6</sup> your staff confirmed for us last week that this is not the case.<sup>7</sup>

Numerous experts told us Halliburton's prices were "outrageously high," that they were potentially "a huge ripoff" to taxpayers, and that Halliburton could be guilty of "price gouging."<sup>8</sup> They estimated a more reasonable cost of about 96 cents per gallon. According to the Congressional Research Service, the average price for "Arab Gulf" gasoline in the Middle East was about 71 cents per gallon between April and September, not including the cost to transport the gasoline into Iraq.<sup>9</sup> One expert said that under ordinary conditions, it should be possible to transport gasoline into Iraq for costs ranging from 15 to 25 cents per gallon.<sup>10</sup> Another expert said it might be possible to transport gasoline into Iraq for as little as 10 cents per gallon.<sup>11</sup> Even assuming the most expensive transportation estimate, Halliburton's total per-gallon costs should not exceed 96 cents.

<sup>5</sup> *Id.* ("The contractor is guaranteed a fee of two percent and can make a maximum of seven percent, depending on performance").

<sup>6</sup> *Press Release: Halliburton Refuses Statements Made about Fuel Procurement and Delivery in Iraq* (Oct. 17, 2003) (claiming the \$1.59 figure includes the company's profits).

<sup>7</sup> Telephone conversation between Janice Rasgus, U.S. Army Corps of Engineers, and Minority Staff, Committee on Government Reform (Oct. 17, 2003).

<sup>8</sup> Telephone conversation between Philip K. Verleger, Jr., President, PKVerleger LLC, and Principal, Battle Group, and Minority Staff, Committee on Government Reform (Oct. 10, 2003). Other experts, including individuals with detailed knowledge of Iraq's oil markets, expressed similar views, although they asked that their identities not be revealed. One said: "There is no way on earth Halliburton should be buying gas for 80 cents and selling it for \$1.70 — that's highway robbery."

<sup>9</sup> Congressional Research Service, *Average of Recent Gasoline Prices in the Persian Gulf* (Oct. 14, 2003) (surveying Platts Global Energy's *Oilgram Price Report* for the average sales price of "Arab Gulf" gasoline between the fall of Baghdad on April 9, 2003, and the last date for which the Army Corps of Engineers provided information, September 18, 2003).

<sup>10</sup> Telephone conversation between Gordon Schremp, Senior Fuels Specialist, California Energy Commission, and Minority Staff, Committee on Government Reform (Oct. 14, 2003) (assuming 400 miles between Kuwait and Baghdad).

<sup>11</sup> Telephone conversation with Philip K. Verleger, *supra* note 8.

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Lt. Gen. Robert B. Flowers  
October 21, 2003  
Page 4

### The New Information from SOMO

When Halliburton contested the views of the experts we consulted, we sought information directly from SOMO, the Iraqi state-owned oil company, about what it costs to import gasoline into Iraq. We learned that SOMO has been importing gasoline into Iraq from the same countries as Halliburton and doing so at a fraction of the cost that Halliburton has been charging.

The minority staff of the Government Reform Committee contacted Mohammed M. Al-Jibouri, the General Manager of SOMO. Although Mr. Al-Jibouri would not comment on whether Halliburton was inflating its prices, he provided our staff with the prices SOMO pays to import gasoline. According to Mr. Al-Jibouri, SOMO pays between \$324 to \$347 per metric ton of gasoline imported into Iraq.<sup>12</sup> Converted to dollars per gallon, the price paid by SOMO is between 90 and 98 cents per gallon.<sup>13</sup>

According to Mr. Al-Jibouri, the specific price paid by SOMO depends on the source of the imported gasoline and its destination inside Iraq. The most expensive gasoline purchased by SOMO is the gasoline imported from Turkey and delivered to Baghdad. According to Mr. Al-Jibouri, "gasoline price from Turkey cost USD 347 per m. ton delivered to Baghdad which is about USD 0.98 per gallon."<sup>14</sup> The least expensive gasoline is gasoline imported from Kuwait and delivered to Basrah, which costs just 90 cents per gallon. Gasoline imported from Kuwait and delivered to Baghdad costs 97 cents per gallon.

The enormous difference between the prices charged by Halliburton and the prices at which SOMO can import gasoline is not explained by differences in source countries, mode of transport, or delivery locations. In comparing the Halliburton imports to SOMO imports, the Coalition Provisional Authority (CPA) confirmed that "[b]oth KBR and SOMO are bringing in

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<sup>12</sup> Letter from Mohammed M. Al-Jibouri, General Manager, State Oil Marketing Organization, to Minority Staff, Committee on Government Reform (Oct. 16, 2003). Because SOMO does not have cash to make these purchases, they enter into barter transactions to trade fuel oil for gasoline.

<sup>13</sup> According to the Congressional Research Service, metric tons of gasoline can be converted into gallons by multiplying the number of metric tons by 8.53 to get the number of U.S. barrels and then multiplying this number by 42 to get the number of gallons. Memo from Lawrence Kumins, Congressional Research Service, to Minority Staff, Committee on Government Reform (Oct. 16, 2003).

<sup>14</sup> Letter from Mohammed M. Al-Jibouri, *supra* note 12.

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Page 5

imports from Turkey and Kuwait." The CPA also confirmed that "KBR and SOMO fuel imports are generally being delivered to the same depots and distribution systems."<sup>15</sup>

Although Halliburton has raised security concerns as a possible explanation for its higher prices, the CPA also confirmed that "[f]uel truck convoys are required to be escorted by coalition military forces regardless of ownership."<sup>16</sup> Since the U.S. armed forces provide security for fuel convoys traveling through Iraq, this cost is being borne largely by the military, not Halliburton or SOMO.

Halliburton's actions are not simply a matter of past overcharging. The Administration has requested an additional \$2.1 billion in oil reconstruction funds for Iraq. The largest component of this supplemental is a request for \$900 million to import petroleum products. If Halliburton's overcharging for gasoline is not halted, between \$286 and \$339 million of this \$900 million could be needlessly wasted.<sup>17</sup>

### The Use of U.N. Oil for Food Funds

We have recently learned that a significant portion of the funds used to pay Halliburton's inflated prices for importing gasoline comes from the Development Fund for Iraq, which is the successor fund of the United Nations' humanitarian Oil for Food Program.

The Oil for Food Program was created to provide for the basic needs of Iraqis while U.N. sanctions were in effect against Iraq. After the end of the war, U.N. Security Council Resolution 1483 formally transferred control of the assets in the Oil for Food Program to the CPA and placed these assets in the Development Fund for Iraq. On May 28, 2003, the Development Fund received \$1 billion in assets from the Oil for Food Program.<sup>18</sup>

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<sup>15</sup> E-mail from Office of Secretary of Defense to Minority Staff, Committee on Government Reform (Oct. 16, 2003) (attributing responses to Larry Rogers, Deputy for Program Management, Task Force RIO).

<sup>16</sup> *Id.*

<sup>17</sup> The low-end figure presumes that Halliburton obtains the gasoline at the highest price available to SOMO and receives the minimal 2% fee on top of its reimbursed costs. The high end figure presumes that Halliburton obtains the gasoline at the lowest price available to SOMO and receives the maximum 7% fee.

<sup>18</sup> Open Society Institute, *Keeping Secrets: America and Iraq's Public Finances* (Oct. 2003).

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According to the Corps's website, \$600 million from the Development Fund has been used to pay Halliburton for importing fuel into Iraq through October 16.<sup>19</sup> This raises significant issues about how the CPA is administering these funds. Money from the Development Fund was supposed to be used "in a transparent manner to meet the humanitarian needs of the Iraqi people ... and for other purposes benefiting the people of Iraq," not to enrich Halliburton.<sup>20</sup> Misuse of these funds threatens to undermine U.S. efforts to convince our allies to help fund Iraqi reconstruction and likely will increase mistrust of the Administration among Iraqis.

Security Council Resolution 1483 also mandated the creation of an International Advisory and Monitoring Board (IAMB) to oversee Development Fund disbursements. The Board was to be comprised of four members representing the United Nations, the International Monetary Fund, the World Bank, and the Arab Fund for Social and Economic Development.<sup>21</sup> The IAMB was intended as "the primary vehicle for guaranteeing the transparency of the DFI and for ensuring that DFI funds are used properly."<sup>22</sup> Five months later, however, the CPA has yet to establish the IAMB. Without an operational IAMB, there is no international auditor to ensure that Development Fund monies are being spent properly. Not surprisingly, potential donor countries are dissatisfied with the resulting lack of transparency and international involvement.

Although it initially appeared that Halliburton was gouging only American taxpayers, it now seems that the company is overcharging the humanitarian Oil for Food Program and the Iraqi people as well. This significantly compounds the implications of Halliburton's actions.

### Requested Actions

In light of the evidence of Halliburton's overcharging outlined above, we request that the Army Corps of Engineers take three specific actions. First, we request that you conduct a joint investigation with the Defense Contract Audit Agency, the Defense Finance and Accounting Service, and the Defense Department Inspector General to determine what amounts Halliburton is paying for gasoline, what amounts it is paying for transportation, and why these amounts are so high.

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<sup>19</sup> U.S. Army Corps of Engineers, *supra* note 4.

<sup>20</sup> United Nations Security Council Resolution 1483 (May 22, 2003); Coalition Provisional Authority Regulation Number 2 (June 15, 2003).

<sup>21</sup> United Nations Security Council Resolution 1483 (May 22, 2003).

<sup>22</sup> Open Society Institute, *supra* note 18.

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Second, if the results of this investigation confirm overcharging, we request that you seek reimbursements or refunds for any inflated amounts paid to Halliburton, including amounts overpaid by both U.S. taxpayers and the United Nations.

Third, if the results of the investigation confirm overcharging, we request that the Corps disqualify Halliburton from future oil reconstruction contracts in Iraq. The Corps has sought to address concerns about the manner in which Halliburton was awarded the no-bid oil infrastructure contract by splitting the contract into two competitively bid oil reconstruction contracts — one for northern Iraq and one for southern Iraq.<sup>23</sup> According to statements from the Corps, these new contracts could be awarded later this month.<sup>24</sup> Halliburton should not be rewarded with either of the two new contracts if overcharging has in fact occurred.

We urge you to give this matter the high priority that it deserves.

Sincerely,

  
Henry A. Waxman  
Ranking Minority Member  
Committee on Government Reform

  
John D. Dingell  
Ranking Minority Member  
Committee on Energy and Commerce

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**COALITION PROVISIONAL AUTHORITY  
BAGHDAD**

**INFO MEMO**

**October 29, 2003**

**FOR: THE ADMINISTRATOR**

**FROM: Tom Foley - Director, Private Sector Development  
George Wolfe - Director, Economic Development**

**SUBJECT: Iraqi Oil Trust**

Several areas within CPA have considered and produced preliminary proposals for an Iraqi Oil Trust. We propose that these efforts be consolidated into a task team formed for that purpose. The task team would have the following responsibilities:

1. By November 15 provide for your approval a rationale for an Oil Trust and a list of basic principals and objectives the Trust should satisfy. Following your approval these would be presented to the Governing Council for initial discussions.
2. By December 1 provide for your approval a final proposal for an Iraqi Oil Trust fulfilling the basic principals and objectives agreed to by you and including an order forming the trust and setting forth its structure, governance, and other critical features. Following your approval, the Trust and order would be presented to the Economic Committee of the Governing Council.
3. Be available after December 1 to respond to requests for information and other tasks associated with obtaining Governing Council and other interested party approval during the first quarter of 2004.

We propose the task team include at least the following people:

(b)(6)



Rodney Bent  
Designee of Rob McKee

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We propose the task team seek the input of the US Treasury and private sector experts. We propose the task team report jointly to the two of us and Marek Belka.

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COALITION PROVISIONAL AUTHORITY  
BAGHDAD

ACTION MEMORANDUM

October 29, 2003

TO: Administrator, CPA

FROM: David R. Oliver   
Program Review Board

SUBJECT: PRB Allocation Request #37

The Program Review Board met on October 28, 2003 and voted on funding requests for programs in support of the CPA mission priorities. These requests were thoroughly vetted by the Program Review Committee prior to presentation to the Board. The Board recommends a total allocation of \$17,480,400 for the projects described below.

**Summary of Proposed Allocation:**

**#541 – UN Oil for Food Authentication - \$8,800,000**

**Requestor: Ministry of Trade**

The request is to fund the continuation of the authentication contract with Cotecna. UN Resolution 1483 mandated the transition of the Oil for Food program from the UN to the CPA on November 21, 2003 with the CPA appointing a third party to authenticate the arrival of OFF goods to Iraq. All suppliers of OFF goods are paid from escrow accounts created by Iraqi oil sales controlled by the UN in accordance of UNSCR 986. UNSCR 986 requires authentication to be performed by an independent Contractor that is approved by the UN Secretary General.

**#539 – UN Oil for Food Shipment Security - \$7,680,400**

**Requestor: Ministry of Trade**

The request is to fund a contract to provide convoy security of the UN Oil for Food shipments coming into Iraq for the next six months. Hijacking and theft from fraud during shipments from the borders into the country cities have been increasing. Presently CJTF-7 does not have sufficient resources to support additional security requirements beyond shipments for electricity and oil needs.

**#540 – Emergency Spending Authority for CPA Chief of Staff - \$1,000,000**

**Requestor: CPA – Comptroller**

The request authorizes the Chief of Staff of CPA to request funding directly from the Comptroller's office to support emergency needs for cash in support of CPA. No individual request shall exceed \$100K without PRB approval. The Chief of Staff will provide supporting documentation to the Comptroller for retention and documentation.

031102-18

2 November 2003

**Memorandum of Conversation**

**TO: FILE**  
**FROM: L. Paul Bremer III**  
**SUBJECT: Meeting with Yukio Okamoto**

**Summary.** Met with Yukio Okamoto, Special Advisor to Japanese PM Koizumi. Discussion focused on Japanese economic aid to Iraq, in particular the \$1.5B allocated for 2004 that must be spent by March 31, 2004 – the end of the Japanese fiscal year. Urged Mr. Okamoto to work directly with the Iraqi Minister of Electricity on a \$400M purchase of turbines for adding 1200 mgw by next summer. **End Summary.**

**Economic Aid.** Okamoto reviewed the Japanese aid package recently announced in Madrid. He confirmed that it will contain \$1.5B in the form of grants for 2004 (which must be spent by March 31). A “sizable portion” would go to the trust fund but a good deal would also become Japanese bilateral assistance. I mentioned that the trust fund would be set up by December but it would be slow and bureaucratic, making it impossible to spend Japanese funds by March 31. Okamoto stated that Japan would like to give money directly to the GC or the ministries. I strongly advised against giving the money directly to the GC as they have no capacity for managing expenditures. I emphasized that we are working to set up an Iraqi mechanism for coordinating inflows that will allow for political oversight by the GC, but no direct access to funds. It would most likely be housed in the Ministry of Planning (soon to be renamed “Ministry of Development Cooperation”) and would be staffed with CPA personnel –which could include Japanese. I encouraged them to see Amb Belka and CIC staff on the details of the mechanism.

**Power.** Okamoto indicated that the Japanese plan to allocate \$400M of the package to the power sector. I briefed Okamoto on the Minister of Electricity’s plan to purchase gas turbines costing roughly the same amount which would bring 1200 additional megawatts online in time for next summer. Given the urgency of power generation and the Japanese urgency to spend money by March 31, I urged Okamoto to see the Minister of Electricity during his visit and called the minister to pre-brief him. Okamoto agreed in principle, indicating only that it would have to be a Japanese producer of turbines.

**Other sectors.** On health, Okamoto indicated a willingness to spend about \$10M each on refurbishing two dozen Japanese hospitals in Iraq. I urged him to see the senior advisor for health immediately to organize needs assessments for the hospitals. On oil, I advised that \$1.2B would be allocated from the supplemental but that an additional \$800M would be needed to repair existing infrastructure in 2004 and that he should see Sr. Advisor Rob McKee during his visit. Okamoto also expressed Japanese interest in the cement (provision of industry advisors) and automobile sectors (for police cars and ambulances).

**Self Defense Forces.** Okamoto informed that 500-600 SDF would be deployed in early December to Muthanna Governorate for participation in a water purification project. Additionally the Japanese will provide C-130s to assist coalition air operations.



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

## INFO MEMO

November 3, 2003

FOR: THE ADMINISTRATOR

FROM: Tom Foley *TF*, Director, Private Sector Development  
George Wolfe – Director, Economic Development

SUBJECT: Iraqi Oil Trust

Several areas within CPA have considered and produced preliminary proposals for an Iraqi Oil Trust. We propose that these efforts be consolidated into a task team formed for that purpose. The task team would have the following responsibilities:

1. By November 15 provide for your approval a rationale for an Oil Trust and a list of basic principals and objectives the Trust should satisfy. Following your approval these would be presented to the Governing Council for initial discussions.
2. By December 1 provide for your approval a final proposal for an Iraqi Oil Trust fulfilling the basic principals and objectives agreed to by you and including an order forming the trust and setting forth its structure, governance, and other critical features. Following your approval, the Trust and order would be presented to the Economic Committee of the Governing Council.
3. Be available after December 1 to respond to requests for information and other tasks associated with obtaining Governing Council and other interested party approval during the first quarter of 2004.

We propose the task team include at least the following people:

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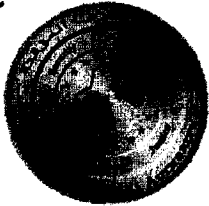


Rodney Bent  
Designee of Rob McKee

We propose the task team seek the input of the US Treasury and private sector experts. We propose the task team report jointly to the two of us and Marek Belka.

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## COALITION PROVISIONAL AUTHORITY

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## INFO MEMO

November 11, 2003

FOR: THE ADMINISTRATOR

FROM: (b)(6) Ministry of Oil

THROUGH: Robert McKee

SUBJECT: Providing Fuel Production for the Iraqi People

The Ministry of Oil, CPA Oil Directorate, and TF RIO face a daunting challenge to supply the Iraqi people's fuel needs (benzene, kerosene, diesel, and LPG). Benzene is used mainly for automobiles; kerosene for heating; diesel for commercial transport, agriculture, and power generation; and LPG for cooking and heating. Production from Iraq's refineries and imports must supply these fuels. Meeting demand is not the only goal, but another is building strategic inventories to combat shortages in the event of poor weather, reduced production, etc. The planned demand, production, and imports levels are shown below for the winter.

	Winter Demand	Planned Production	Planned Imports
Benzene	16	10.5	7
Kerosene	18	9	9
Diesel	17	13.5	4
LPG	5500	3000	3300

Note: Quantities listed are millions of liters per day, except for LPG which is tons per day.

**Road Blocks:** Anything reducing production or imports will hamper success; however, the major items are:

1. Pipeline operation: Sporadic pipeline operation due to sabotage, looting, and equipment failure has impacted refinery production. First, the crude supply to refineries has been affected by pipeline sabotage. This has reduced production of refined products especially at Daura refinery in Baghdad. Daura is remote from large oil fields and its crude supply is piped from the Kirkuk and Basra oil fields. Second, fuel oil and naphtha, other products of the refining process, are normally transported away from refineries via pipeline. With the pipelines damaged, the fuel oil and naphtha can only be trucked away, which is very inefficient and unresponsive. Supplies of fuel oil and naphtha at refineries have reached near maximum levels; therefore, production of these and all products has been reduced to match the rate the fuel oil and naphtha can be hauled away.

2. Inefficient processing – Dilapidated refineries: Iraqi refineries suffer from decades of lack of needed investment and produce about 1/3 less of "light products" (benzene, kerosene, and diesel) from the same barrel of oil at an up-to-date refinery. Also, the Iraqi refineries are in need of a shut down to perform

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production capacity, and the pipeline capacity will be doubled when the Nasiryah pump station becomes operational.

3) Import Levels: Imports have just been increased and not yet had time to ramp up to the new levels.

4) Port Efficiency/Capacity: As the product and LPG pipelines become operational; the bottleneck for imports will shift to the port area. Efforts are focused to ensure the product availability via ship and the products will be efficiently moved from ship into pipeline and then north for distribution or storage.

5) Security: TF RIO is working with CJTF-7 to improve truck security in the North and increase the number of escorts in the South.

6) Import Sources: Imports come from Turkey and the south (ports and overland from Kuwait). Expanding the source of imports will expand the import capacity and reduce the impact of a problem with one source. There are limited imports from Jordan but since Jordan is petroleum poor, any exports to Iraq are imports into Jordan. CPA and Ministry of Oil are investigating imports from Iraq's other neighbors.

7) Enforce allocation and reduce consumption: To prevent over-consumption and build stocks, we are developing an IO campaign and are working to ensure that daily distributions to retail outlets are not exceeded.

ATTACHMENTS: NONE

COORDINATION: N/A

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INFO MEMO

December 12, 2003 1100

FOR: THE ADMINISTRATOR

FROM: Rob McKee, CPA Oil Senior Advisor  
VIA: ~~Keith Kellogg~~, Chief Operating Officer

SUBJECT: Status of Fuel Contracts (KBR and DESC)

1) KBR negotiations with Al Tanmia for increasing the fuel imports from Kuwait are close to an impasse, which we are monitoring closely. The status of the negotiations is:

- According to US Embassy Kuwait, Al Tanmia is the only authorized "sole source" for fuel from Kuwait. Al Tanmia is not experienced with contracts that must comply with US Federal Acquisition Regulations and this is particularly an issue in view of the recent KBR publicity.
- The fuel price is competitive; however, the transportation cost is uncompetitive and is approximately 65% greater than other companies. (SOMO has recently entered negotiations with Al Tanmia and has encountered a similar price differential for fuel delivered to Baghdad as compared to its current suppliers from the Gulf. SOMO continues to be our best alternative for near-term supplies.)
- KBR has requested a best and final offer which is needed if a sole source contract can be utilized. Al Tanmia requested and was given a letter of intent to purchase.
- Al Tanmia has NOT responded with an offer.
- Additional recent publicity, apparently inaccurate, surrounding the DCAA audit, has made the situation more problematical for KBR and has contributed to their conservative approach to the negotiations.

2) DESC is moving to take over fuel contracts. However, DESC will probably not be rapid enough to have a significant impact and will also use limited competition contracts for a short period.

- DESC previously:
  - 1) Sent a team to evaluate the current fuel contracts with KBR,
  - 2) Sent a single individual to observe the CJTF-7/TF RIO Fuel Distribution Team.
- DESC currently has a single individual in Baghdad to make logistics preparations for a team to arrive in mid-January.

- The DESC team arriving in mid-January plans to use 60-90 day sole source or limited competition bridge contracts until full and open source contracts are in place in mid-April. Mid-April fuel import requirements will be less than half of current requirements.

Note that CPA Oil and TF RIO are reviewing methods to gradually transfer all import purchasing and delivery to SOMO with a goal of having this complete end-April.

Mr. Ambassador  
 Recommend you can send out say a  
 mid January arrival is to have arrival at  
 start of January for mid January bridge  
 contracting - or, if possible, earlier.  
 K. 1412

rm 1116031

COALITION PROVISIONAL AUTHORITY  
BAGHDAD

November 16, 2003

MEMORANDUM

To: Mr. Nabil Lamousa, Director General of Planning, Ministry of Oil

Through: Robert McKee

SUBJECT: Assisting the Ministry of Electricity with Fuel Planning

Dear Mr. Lamousa,

I would like to thank you and your associates at the Ministry of Oil for your assistance in our efforts to restore the power to Iraq to a stable, pre-war level. This pre-war goal has been achieved, but only meets about half of the country's actual electricity needs. As you know, we are now in a major effort to increase the level of power to provide the Iraqi citizens, businesses and industries with sufficient power to meet the needs of a growing economy over the coming years.

The first stage to increase power involves the work of USAID through their contractor Bechtel, and the US Army's Task Force Restore Iraqi Electricity (TF RIE). These entities have been interacting extensively with you in coordination with the Ministry of Electricity (ME) through the Fuel Task Force. I understand there has been some confusion as to points of contact, and in response Mr. Randy Richardson prepared the attached memo to Dr. Aiham Al-Sammarei, who agreed with the proposal contained therein.

The second stage involves \$5.56 Billion of funding for this sector, nearly \$3 billion of which will go to new generation. We recognize that MOO does not have the budget to build the fuel transmission infrastructure to the level needed to support this generation. Therefore, per my verbal request of a week ago, I kindly request that you assist us in the planning effort for this additional electrical capacity. The matrices attached are only slightly improved from those I gave you and your team last week. The questions I pose are the following, for each site or for multiple sites if they can be addressed with a single project: what is the fuel infrastructure for transmission and processing that would be needed to make the project possible, and approximately how much would that work cost?

Unfortunately, as with many things in this post-war reconstruction effort, we are on a highly accelerated timeframe. We need to have a rough idea on needs and costs by November 20<sup>th</sup>. The input you provide can certainly be very rough; the principle goal here is for us to convey the need to the US Congress and build in justifiable project components as early as possible. Once these projects are submitted, our Bearing Point consultants will be embarking on a Master Planning effort, and would very much enjoy a closer and high quality interaction with you as we move forward in this sector.

While Mr. Randy Richardson, the CPA Senior Advisor for Electricity is out of town, I will be the sole point of contact for the effort described above.

Kindest regards,

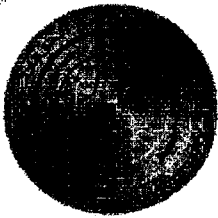
(b)(6)

Deputy Senior Advisor - Electricity

**Attachments:**

1. Memorandum to the Minister of Electricity
2. Matrices on fuel needs for combustion turbines and steam power plants.

CC: Dr. Aiham Al-Sammarei, Minister of Electricity  
Mr. Randall B Richardson, CPA Senior Advisor for Electricity  
(b)(6) TF RIO  
Dr. Eymad Hussein Ali, Deputy to the Minister of Electricity  
(b)(6) TF RIO  
(b)(6) TF RIO



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

ACTION MEMO

DATE: 18 November 2003

FOR: THE ADMINISTRATOR  
FROM: Rodney G. Bent, OMB  
SUBJECT: Supplemental Decisions

We need your guidance on several issues with respect to the supplemental. I've attached the latest version of our table, along with draft copies of the justification material we propose to send to CPA/Washington following your approval. This material would serve as the basis for seeking OMB apportionment of funding to CPA and subsequent notification to Congress.

**Issue # 1: Move \$124 million in supplemental funding from the New Iraqi Army to the Iraqi Civil Defense Corps.** The additional funding for the ICDC would enable it to stand up 36 battalions with 10 brigade headquarters. This number of battalions is double the original proposal in the supplemental, which had one battalion in each of the 18 governates. Our recommendation would decrease NIA funding from \$2.0 billion to \$1.876 billion and increase funding for the ICDC from \$76 million to \$200 million. We are working with CJTF to identify how we would revise the NIA requirements.

- Recommend moving \$124 million from the NIA to the ICDC to enable it to double its size to 36 battalions.

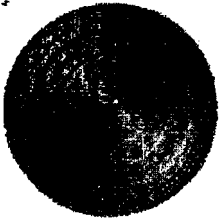
Approve:

Disapprove:

Approve with modification:

**Issue #2: Move \$189 million in funding from the purchase of emergency supplies of refined petroleum products to (1) increase spending by \$168 million on democracy building activities and (2) increase spending by \$31 million on private sector development and banking system modernization.** Given the proposed transfer of sovereignty by July 2004, we believe it important to spend additional funds on governance and other activities that will improve the odds of successful political and economic transition. At the moment, we are planning on spending \$550 million of DFI on refined petroleum imports, which should fill estimated requirements through the end of January. From February forward, the current estimate of additional needs for these imported products is approximately \$420 million through the end of the spring, by which time we hope domestic refining capacity will be available. As the supplemental includes \$690 million for purchases of these products, we may have more funding

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BAGHDAD**

than needed. The supplemental specifies that we can only take 10% from any functional category, so we can only moved \$189 million from the \$1,890 million for oil infrastructure.

- Recommend moving \$189 million from emergency oil imports to increase spending on governance activities.

Approve:

Disapprove:

Approve with modification

**Issue #3: Move \$10 million from the witness protection program and \$5 million from technical investigative methods to the reconstruction of detention facilities.**

- Move \$15 million from the witness protection program and technical investigative methods to the reconstruction of detention facilities.

Approve:

Disapprove:

Approve with modification:

There are two issues of which you should be aware. First, AID is sending you a memo under separate cover in which it lays out what it believes are its spending requirements. Some of these requirements may possibly be accommodated within the increased amounts above for governance issues. Other spending requests would require us to create new categories with offsets from existing categories.

Second, there are some explicit spending requirements within the supplemental that will have to be accommodated within broad spending categories. As an example, "not less than" \$6 million shall be made available for administrative expenses of the Department of State Bureau of International Narcotics Control.

**ATTACHMENTS: Table of FY 04 Iraq Relief and Reconstruction Fund Proposal  
Program fact sheets**

**COORDINATION:** Rob McKee, Senior Advisor to the Ministry of Oil  
Scott Castle, Senior Advisor for Governance  
Jerry Thompson, Senior Advisor to the Ministry of Security Affairs  
Steve Casteel, Senior Advisor to the Ministry of the Interior  
Larry Rubini, Senior Advisor to the Ministry of Justice  
Lewis Lucke, AID Mission Director  
(b)(6) Congressional Affairs

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COALITION PROVISIONAL AUTHORITY  
BAGHDAD

18 November 2003

H. E. Dr Ibrahim Bahr al-Uloun  
Minister of Oil

Subject: Capital Investment Budget for 2004

Thamir Ghadhban submitted a letter to CPA dated 9 November 2003 requesting the status of the Oil Ministry capital budget for 2004. Because of the importance of this subject, it is more appropriate that our response be directed to you.

Presently, the Ministry has no capital budget allocated for its sole control in 2004. As such, I want to take the time to explain to you just how we should proceed over the next couple of months.

The Supplemental that was signed by the President includes funding of \$1.2 billion for oil infrastructure projects and \$690 million for the purchase of petroleum products. These are US government appropriated funds, so they will be administered by the US Army Corps of Engineers or similar organization of the US government. The \$1.2 billion will be used to complete the remaining projects of the work plan agreed to last July as well as the new projects that have been identified for the USACE to administer, under the name of Task Force RIO.

In addition, there will be a need for additional oil infrastructure capital for the Ministry. How do we attain and manage this capital?

We had hoped that completion of a national petroleum regime and transition to the INOC structure would be further along by now, allowing for an efficiently-managed capital investment program among other things. Therefore, it is important to reiterate that I cannot support any additional funding until 1) a national petroleum regime is defined and published and 2) a national oil company is established and we are satisfied the appropriate management processes and financial controls are defined. Per our previous discussions, I know that you are supportive of these very important undertakings and intend to implement them this coming January, after consultation and guidance from CPA and the Governing Council.

If money is required prior to either of these two conditions being satisfied, all requests will have to be justified and presented to my office for review, and only emergency funding will be considered. If I agree, we would then seek approval from the Program

Review Board for each project. My feeling is that you and your Ministry would not be at all happy with this process.

However, when the two conditions ARE satisfied I intend to work with Ambassador Bremer to provide a capital budget which will be solely controlled and administered through INOC, without any day-to-day oversight by CPA. This is a significant step in our being able to return the oil business completely to Iraqi direction and control.

I would recommend you continue your planning such that the Ministry is prepared to submit a detailed capital budget for 2004 to CPA in January. Meanwhile, Task Force RIO will be working to complete its approved work program and mission separately from the capital budget discussed above.

Sincerely,

A handwritten signature in black ink, appearing to be 'R.E. McKee', written over a horizontal line.

R.E. McKee  
Senior Advisor  
Iraqi Oil Ministry

Cc: Amb L. Paul Bremer



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

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INFO MEMO

November 20, 2003

FOR: THE ADMINISTRATOR  
FROM: Robert McKee, Senior Advisor, Ministry of Oil  
SUBJECT: Product Supply

The following summarizes some current issues and information related to supplying product to Iraqi consumers through the coming months.

A very high level summation of the supply problem is that, in total volumes, we are unable to manufacture and import enough products into the country on a day-to-day basis to cover basic consumption, let alone be able to build stocks. Therefore, our current days of stock gradually are being decreased. Our current mode is by necessity very reactionary, much like the Dutch boy sticking his thumb in the dike; however, it's a fact we're running out of short-term solutions. This situation exists because of several things – security of convoys, pipelines and repair crews; a buildup of refinery byproducts that are difficult to dispose of; border gridlocks; feedstock interruptions to the refineries; erratic electrical grid performance; and significant delays in returning some LPG and pipeline infrastructure to service.

We are working with CJTF7 to improve the security situation. It is apparent that the military and our Task Force Shield efforts need to be synchronized and that aerial surveillance and mobile patrols are critical to this improvement. Generals Gallinetti, Figgures and Davis are being very supportive of this effort and we meet again today to jointly work on the problem. One loose end is that Ambassador Kennedy has agreed to talk to our current Task Force Shield Commander's boss in the U.S. about extending here for us. This is critical at this particular stage of standing-up Task Force Shield and integrating/training the Erinys contractor.

The Turkish border gridlock can continue to be helped by getting assistance from the Turkish government. I would request that you officially ask their government to help us relieve the congestion on both sides of Habur Gate. It is important that we don't have thousands of trucks held up for days just to cross the border in either direction. Although Ambassador Kennedy raises good diplomatic and Kurd arguments against opening another route from Turkey through the NE corner of Syria, I believe if that route could be sanctioned by you, the U.S. and Turkey, it would at least help in the short-term.

At the current time, we prioritize the products in the following order: Kerosene (heating), LPG (heating), Diesel (lighting and other services) and Benzene (personal driving). For kerosene, we have stayed ahead of demand for the last 10 days and have begun to build stocks slightly. The same applies to LPG, and this situation should alleviate further as we get the

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remainder of the southern LPG manufacturing system up and running. In diesel, about 25% of the daily consumption is going into power plants that were forecast to be running on other fuel at this time, so it remains problematical. And in benzene, our days of stock are being depleted as we concentrate on kerosene and diesel. One significant thing in our favor is that the 14" product and the 14" LPG pipelines from the south are for the moment fully operational and we are able to move kerosene and diesel in one and LPG in the other all the way to Baghdad. This in turn relieves the stress on trucking, which we can then use more efficiently to move benzene and to transport residue away from the refineries. Therefore, what the challenge becomes is to keep the refineries and LPG plants running (security and electrical power are key components), repairing and protecting key product pipelines (security again) and moving even more volumes into the ports and across the borders (money, logistics and security).

I worry about the supply of benzene in the coming days. Already lines are beginning to form at stations in Baghdad and Mosul as people begin to hoard and the black marketeers begin to stock up. Should we consider raising the price of benzene across the board, or at least raising regular prices a small amount and premium by a lot larger amount? Benzene is not as crucial to survival through the winter and if we could help create a form of rationing by increased pricing, pressure would in turn be relieved on our other more important products.

Finally, a heads-up on the status of the Defense Energy Support Center (DESC). The DESC had a team here the last few days to review whether or not they would immediately take on the job of buying products and distributing them. As the team departed, they made a couple of points:

- If they take this job on, it's an order of magnitude larger than any individual mission they now undertake.
- They will not be briefing the 3-star who leads the DLA (Defense Logistics Agency), under which the DESC resides, until next week. Then, they will brief the Assistant Secretary of the Army two weeks from now. Only after that will a decision be made whether they will take the job.
- KBR did the job well – KBR can do the job as well or better than they could do it – no sense in undoing what's being done so well now (presume they're referring in these comments to logistical management, not actual product purchasing).
- The decision in two weeks could be, "Yes to both purchasing and logistics management," or "Yes to purchasing, but No to logistics management," or "No to both".

My concern is that time is flying and that by definition we'll not be able to get converted away from KBR in total or even partially for some time. I would like to see more of a sense of urgency to get them mobilized. However, they say that only the Secretary of Defense or the Chairman of the Joint Chiefs can actually order them to take on this job.

CC: Generals Jon Gallinetti, Andrew Figgures, Larry Davis; (b)(6)  
(b)(6) Gary Vogler

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PC

**COALITION PROVISIONAL AUTHORITY**

**EXECUTIVE SECRETARIAT**

(b)(6)

**FROM:**

**DATE:** 26-Nov-03

**FOR:** THE ADMINISTRATOR

**ORIGINATOR:** Oil & Transport

**RE:** Responses to your two questions

The questions you posed this morning on the 24 NOV 2003 memo, "Ministry of Transportation Issues Update" are answered in the following attachments from Rob McKee and Gordon Mott.

**ATTACHMENTS:**

Info Memo from (b)(6) Railroad Advisor

Email Response from Rob McKee

Ministry of Transportation Issues Update with your notations

(Drafted by) (b)(6)



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

031124-30

LPB HAS SEEN

INFO MEMO

November 26, 2003

FOR: THE ADMINISTRATOR  
FROM: Gordon Mott, Principal Railroad Advisor  
SUBJECT: Italian Army Railway Battalion Support

**Background:** You asked for more information on the following entry from our weekly report:

**Italian Railway Battalion:** This specialized battalion is willing to provide support to the Railways in Iraq. They need to operate out of Nasiriyah, where the Italian Forces in Iraq are based. Correspondence took place to define the needs and what the Italians might be willing to offer, particularly after the Nasiriyah bombing on November 12, 2003.

**Additional Information:**

- The Italian Army's Railway Battalion has told us of its possible offer of support in performing emergency railway track repair work at An Nasiriyah.
- We are working with the Italian military to assess the offer and are currently awaiting further information from the Italians regarding their exact capabilities and the resources that they propose to deploy. Specific items requiring clarification include:
  - **Personnel.** How many troops are available for deployment? Would they be supervisors only or would they include people such as specialized equipment operators? For how long would they be deployed?
  - **Equipment.** Would they bring their own tools and equipment or would they require that the railway supply such? If equipment is to be leased, who would be expected to pay for it? If it is to be supplied by the railway, is it available?
  - **Materials.** Exactly what work would the Italian battalion do? What materials would be required? Is it available and who would pay for it?
  - **Security Concerns.** The Italians have stated that the work would need to be in the An Nasiriyah area, but at the same time that the work must be executed in "non-troubled spots." Does An Nasiriyah currently satisfy their security requirements?
- When additional information is received, we will make a recommendation as to whether the offer should be accepted.

COORDINATION: CJTF-7 (b)(6) – concurs  
(b)(6) CPA MOT – concurs

ATTACHMENTS: NONE

FOIA 09-826 CPA 000338

031124-30

(b)(6)

**Subject:** Why Would Iraq Export LPG to Turkey  
**Start Date:** Wednesday, November 26, 2003  
**Due Date:** Wednesday, November 26, 2003  
**Priority:** High

**Status:** Not Started  
**Percent Complete:** 0%

**Total Work:** 0 hours  
**Actual Work:** 0 hours

**Owner:** McKee, Robert E. (SES)

Jerry—I don't know from where this report emanated. There are no plans to export any LPG out of Iraq. Rob McKee  
Ambassador Bremer has a follow- question regarding your memo of 24 NOV 2003

The memo states that Turkey will provide rail cars to support the export of LPG from Taji, Iraq to Turkey.

Bremer questions, "Why would we export LPG??"

If there is a brief response, please reply with an email to ExecSec that we can print out and highlight for the Ambassador.

If you want to send a more detailed memo, the templates are available on the intranet.

Thanks -

(b)(6)



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INFO MEMO

November 24, 2003

FOR: THE ADMINISTRATOR  
FROM: John Gaughan, Acting Senior Advisor to the Iraqi Ministry of Transportation  
SUBJECT: Ministry of Transportation Issues Update

I. RAILROADS

- **Railroad Security.** The IRR has been negotiating several security contracts with the sheiks whose territory includes railroad lines. About ninety percent of the contracts have been negotiated. Additionally improvements have been seen with citizens giving early warnings and detecting IEDs in the Iskandariyah area. Unfortunately, the Sheik from this area was assassinated.
- **Railroad Service Update.** Two shunt engines (switch engines) will arrive from Turkey by December 2, 2003 and this will be the first of six. The engines were purchased under an Oil for Food Protocol between Turkey and Iraq. Two Russian mainline locomotives are due to arrive in Iraq by the end of this year. This will be the first of thirty purchased under the UN Oil for Food Program.
- **Iraq-Syria Rail Link.** On November 22 the first passenger service train from Syria, originating at Aleppo, arrived in Mosul and will run once a week.
- **Baghdad Central Station Update.** Work continues on the cleaning and minor refurbishing of the Central Railway Station in Baghdad which will greatly improve its appearance to the public. The station continues to process daily passenger trains to Basrah in the south and Al Qaim in the west.
- **Fuel Trains for Northern Iraq.** A delegation from the Turkish railroad and TPIC (Turkish Petroleum International Company) met with the IRR senior management in reference to shipping LPG from Taji, Iraq to Turkey. The outcome was positive and progress was made to support Iraq's reconstruction. Turkey will provide 39 LPG rail tank cars to support this operation and will gross the IRR \$12,000 per train and additionally provide revenue to the Ministry of Oil.

II. AVIATION

- **DHL Airbus Attack.** The latest reports indicate that the DHL Airbus plane was fired on by two surface to air missiles (SAM's) during the planes takeoff. One missile allegedly struck the left wing, and caused a fire. The crew brought the plane in for an emergency landing. The CPA Ministry of Transportation has persuaded the air companies from abruptly deciding to cease operations and pull out of Iraq. Currently maintaining constant

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contact with the civil air carriers to make sure that they are informed. We expect the DHL plane will be moved to a proper location by the end of Tuesday.

- **Source Selection Board for the Air Navigation System (ANS).** The selection process has been completed. The results will be announced after final review. The Air Navigation System will allow for the expansion of civil aviation in Iraq.
- **Commercial Cargo Operations at BIAP.** The CPA aviation team, along with Skyline, has developed a readiness plan for increasing commercial cargo operations at BIAP. Additionally, CPA Ministry of Transportation personnel traveled to Amman for preliminary discussions with several carriers for the purpose of expanding commercial air cargo capability to Iraq. Initial discussions were focused around the availability of appropriate aircraft and optimal security. Follow up discussions are scheduled for Nov. 26<sup>th</sup> in Amman. The demand for cargo service is expected to grow exponentially in the coming months due to the goods and equipment coming into Iraq as a result of the U.S. supplemental budget, in addition to shipping requirements as a result of the Madrid Donor's Conference. Plans are to provide an additional 3 cargo flights a day for a total of up to 21 possible flights per week. These flights are in addition to the current government contracted operations with DHL and FedEx.
- **Hajj Flights.** The CPA Ministry of Transportation, in coordination with CJTF-7 and the Ministry of Interior, will be conducting an assessment of several airports to assess the viability of conducting Hajj flights from Iraq to Mecca. The assessment will take into consideration the technical, logistic, political and security considerations. Several carriers are currently being evaluated to conduct the Hajj flights including Royal Jordanian who is already following protocols for passenger flights into BIAP and Boeing who could wet lease planes for the Hajj (includes flight crews) as well as a third regional carrier. The anticipated demand for air service for the Hajj is expected to be 6,000 to 10,000 passengers or 50 flights. The report will be completed on November 28, 2003.

### III. MARITIME

- **Routine Port Operations Update.** The operating conditions continue to improve in the port. Humanitarian cargoes continue to be off loaded, most recently rice and sugar. The ferries from Dubai continue their regular port calls. The container vessel BELUGA INSPIRATION is currently unable to unload due to a failure to pay port charges. Her cargo contains many OFF shipments. This delay is sure to be raised by officials as an indication of problems within the port but is a commercial dispute that will be resolved between the parties.
- **Clearing Wrecks from the Umm Qasr Port and the surrounding waterways.** The United Nations Development Programme (UNDP) salvage contract has been 'turned over' to CPA with the expiration on the UN mandated Oil for Food program. The practical consequences of this are being investigated. There continues to be friction between the UNDP team and the IPA over the terms of the salvage contract.
- **New Grain Silo Operational.** The M/V DISCO VOLANTE is currently moored at the silo and is unloading. There continues to be concerns expressed by them over the lack of fuel for the generators to power the silo. This second offload is behind schedule due to the

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overly optimistic sailing schedule put in place by the UN. The third vessel originally scheduled for the silo has been diverted to Aqaba due to the over-scheduling.

- **Customs Service at Umm Qasr Port.** The CPA MOT maritime team met with the CPA MOI customs officials to discuss the 'way ahead' in Umm Qasr. CPA MOI indicates that they plan to locate the Regional Customs Office in Umm Qasr and that will provide uniforms, equipment and weapons for the new Iraqi customs agents assigned to Umm Qasr.
- **Port Security.** The SSA contracted Gurkha guard force is deployed to both the new and old port areas. The port badging system is in operation to control access to the port. All vehicles and trucks are inspected upon entry and exit from the port complex. Intruders are routinely arrested and turned over to the local Iraqi police officials. There is concern that with the re-location of the UK Forces National Support Element (NSE) from Umm Qasr in late December/early January there will be a decrease in the 'military deterrence' presence in the region. SSA is discussing the situation with UK forces locally. CMATT is discussing a security contract for their personnel being assigned to Umm Qasr to oversee the construction of the new Iraq Coastal Defense Force base at Berth 1 in the Old Port {subject to a final, national level, decision of the use of the berth for the ICDF rather than OFF shipments or other uses}.
- **Military Rail Service at the Port.** The U.S. military continues to transfer cargo containers from trucks to empty railroad flat cars for routing throughout Iraq. This process is commonly referred to as 'building' military sustainer rail container unit trains.[Nothing new to report]
- **Oil for Food (OFF) Shipments to the Port.** With the withdrawal of United Nations representatives from Iraq, the UN's port authentication contractor (COTECNA) has also withdrawn its operations to Dubai. As a result, verification of OFF shipment arrivals is being done by CPA officials in the port. Approximately 1,500 OFF shipments are expected to pass through the port. The CPA MOT maritime team has verified/certified all OFF shipments for which it has complete documentation. The team certified the off load of the 52,500 MTs of Australian wheat from the M/V BANASTAR (done by draught survey). CPA is currently monitoring the offload of the M/V DISCO VOLANTE.

#### IV. ITALIAN MASTER PLAN

- **Ministry of Transport** – On November 19<sup>th</sup> the Italian team had a meeting with the Minister Behnam in which they discussed the National transport situation outlining possible development scenarios and priorities. Specific details have been faced concerning the railway situation and project priorities.
- **Danish Component:** Denmark has pledged 350,000 €. It was agreed that the Danish component will complement the main Master Plan ongoing with Italian funding and that it will deal with: a) the Master Plan of Marine Ports; b) the Feasibility Study on the resumption of river navigation; c) a Road Pavement Management System. A second version of the Terms of Reference has been received during the period. A revised version has been sent back and all comments were judged relevant by the Danish authorities.
- **Italian Railway Battalion:** This specialized battalion is willing to provide support to the Railways in Iraq. They need to operate out of Nasiriyah, where the Italian Forces in Iraq

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what is this

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are based. Correspondence took place to define the needs and what the Italians might be willing to offer, particularly after the Nasiriyah bombing on November 12, 2003.

- **Meteorology:** Italy has indicated interest to provide funding for an emergency re-start of the sector with state-of-the-art equipment. Two packages have been identified, valued respectively: a) 1.47 m€ and b) 6.6 m€. Negotiations are ongoing in Rome on the total amount which might be assigned to meteorology versus other sectors.

**V. SURFACE**

- The Korea International Cooperation Agency (KOICA) has offered to provide the Iraqi Ministry of Transportation with multiple 45-person passenger busses worth an estimated \$3 million. The offer will be discussed with the Ministry of Transportation in the coming weeks.

**VI. SECURITY**

- **CPA Badges.** In an effort to ensure that the CPA Ministry of Transportation tightly controls the approval of CPA badges, our staff is reviewing the list of individuals (i.e., government, military personnel, contractors and Iraqi personnel) who have been issued CPA badges.
- **Better Vetting System Needed.** The Ministry of Transportation vetting system for Iraqi personnel is currently assessed as inadequate. Improvements, such as the use of a National Crime Information System (NCIC) are currently under consideration. Vetting software, training and other vetting related issues will be coordinated with Ministry of Interior and military representatives as appropriate.

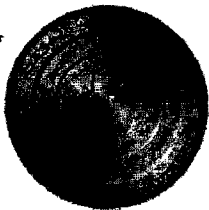
ATTACHMENTS: NONE

COORDINATION: Department Heads

Drafted: (b)(6) (b)(2)

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*Call into the*

COALITION PROVISIONAL AUTHORITY

BAGHDAD

03/210-41

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*Action Completed*

INFO MEMO

December 10, 2003

FOR: THE ADMINISTRATOR

FROM: (b)(6) CPA Senior Advisor for Trade

SUBJECT: Update on Iraqi delegation's discussion with WTO officials

An Iraqi delegation led by Fakhrlidin Rashan, Deputy Minister of Trade, visited with the World Trade Organization's (WTO) Director General Supachai and other WTO officials in Geneva on December 4<sup>th</sup> and 5<sup>th</sup>. The focus of the meetings was Iraq's interest in applying for WTO observer status. Other issues addressed included potential challenges with Iraq's application and technical assistance. The overall view of most officials was extremely positive and supportive of Iraq's interest (with the slight exception of the EU.)

The officials agreed with Iraq's plans to submit a letter of application for WTO observer status in early January (then proceed with preparing for application for WTO accession sometime after July 2004.) This would permit the issue to be included as an agenda item for the mid-February General Council meeting. Most officials indicated that Iraq's success at obtaining observer status depended upon Iraq's efforts to lay the groundwork for WTO member support prior to the issue being raised at a WTO General Council Committee meeting. If that work is done, most officials predicted a successful outcome for Iraq at the February meeting. The groundwork would include confirming the support of key WTO members including Arab neighbors and the EU via visits in Geneva and relevant capitols. Some of these members may try to use Iraq's application as leverage to boost support for other entities that have not been able to obtain observer status including Iran, Syria, and Libya and of less concern--the Arab League.

As a signator to the Havana Convention in 1947, Iraq had previously been an observer to the WTO's predecessor, the GATT. This should enhance Iraq's efforts to gain observer status now.

**Highlights from Select Meetings**

Director General Supachai expressed his full support and admiration for Iraq's interest in applying for WTO observer status. He indicated that Iraq's application should be approved without incident unless a member tried to use Iraq to promote other interests, like Iran. Supachai stressed the important role the Arab Group played in the WTO and urged the Iraqis to meet with the Group and individual Arab countries. He also stressed the importance of technical assistance from reputable organizations like the WTO and the Arab IMF.

WTO Accessions Division Director Arif Hussein enthusiastically supported Iraq's interest in WTO observership, stressing the importance of strategically calibrating the application as politics at times interfered with the trade function of the organization. Technically the process is simple, an application letter and supportive paper on Iraq's trade regime, economic development plan, WTO observership expectations and Iraq's presence in Geneva is submitted to the Director General. The Chairman of the General Council then consults with member countries and determines if the application should be placed on the agenda for the next General Council meeting. If cleared the issue is raised at the meeting and a senior representative for the country (in this case most likely Minister Allawi) would be there to accept the approval for WTO observer status. Hussein stressed the importance of meeting with member countries, ensuring WTO compliant laws and regulations, a strong diplomatic presence in Geneva and participating in technical assistance programs (note: Hussein and others were critical of UNCTAD's WTO related programs, though some other programs particularly those focused on investment are reputable.)

Jordan Ambassador expressed strong support for Iraq's interest in the WTO and offered to provide advocacy support with other Arab countries, advisory assistance and technical assistance. The Ambassador hosted a luncheon meeting for the Iraqi delegation and the Arab Group on Saturday, December 6<sup>th</sup>.

~~Japanese Ambassador Oshima offered Iraq Japan's full support including technical assistance (note: Oshima is rumored to become Chairman of the WTO General Council in February.)~~

UK Minister Neil McMillan offered Iraq Britain's full support including assistance with the process. He suggested that the two work together throughout the WTO observership application process and beyond to ensure that any potential roadblocks (i.e. Iran, the Arab League or the EU) are addressed.

EU Deputy Chief of Delegation Peter Thompson queried the delegation on the views of other WTO officials regarding Iraq's interest in WTO observership. He was particularly interested in the delegation's discussions with other Arab countries and the Secretariat. Thompson indicated he was not in a position to offer the EU's support until member countries are consulted. He indicated that before providing support, the EU would need answers on Iraq's governance (prospects for democracy) and trade regime (including IPR, standards.) He also expressed the EU's potential concerns with other entities interest in participating in the WTO including Iran (the EU has supported Iran's application and some members have economic ties with the country) Syria, and Libya (not concerned with the Arab League.)

#### Next Steps

To support Iraq's interest in participating in the WTO I recommend that the following steps be implemented as soon as possible.

1. Enhance Iraq's presence in Geneva by January 15<sup>th</sup>. Ensure that officials linked to the previous regime are removed from office. Increase the number and rank of staff. A high-level, seasoned trade diplomat (someone of Rashan's caliber) should be appointed as Iraq's Ambassador to Geneva. In addition, at least one other trade official should be placed in Geneva. Consider refurbishing Iraq's Mission in Geneva as it is small, dirty

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Info from cable

Meet weekly w/ discuss.

and dated. There is an Ambassador's residence there which reportedly is on the lake and impressive.

2. Continue to gain the support of WTO members, particularly Arab countries and the EU, by encouraging high-level Iraqi visits to these countries over the next month. Rashan plans to accept invitations to meet with officials and business groups in Germany and France as well as meet with the EU in Brussels.
3. Create inter-ministerial cabinet and deputy-minister level groups by January 5th. I recommend that the cabinet level group be chaired by Trade Minister Allawi. Other members should include Foreign Affairs, Interior, Finance, Industry, Agriculture, Oil, Planning and Standards. The CPA advisors should support the Iraqi led effort.
4. Complete draft "Overview of the Economic Policy and Foreign Trade Regime of the Republic of Iraq" by January 10<sup>th</sup>. (b)(6) can assist Rashan with this effort.
5. Develop and implement multi and bi-lateral technical assistance programs. This should include sending promising Iraqi staff to Geneva for WTO sponsored training programs, participating in Arab IMF programs, and developing Iraq specific programs with reputable sponsors (i.e. WTO, US, UK, Australia, and Japan.)
6. Send an Iraqi delegation to Geneva to submit the letter of application for WTO observer status from Minister Allawi to DG Supachai by January 15<sup>th</sup>. Then if the application is accepted as expected, the issue would be raised at the General Council meeting in mid-February and Minister Allawi should be present to accept.

Other meetings included US Ambassador Linnet Deily, Australian Ambassador Spencer, Polish Ambassador Jakubowski, WTO Deputy Director Rufus Yerxa, and the UN Conference on Trade and Development (separate report to follow.) The Iraqi delegation also met with the Ambassadors for Kuwait and Egypt as well as the Arab Group.

#### **Delegation Members**

Ministry of Trade: Deputy Minister Fakhrldin Rashan, DG for Private Sector Development

Abdul Hadi Abid, Director Abdul Salma

Ministry of Foreign Affairs: Ahmed Jewad

CPA Senior Advisor for Trade (b)(6)

cc: Amb Greenstock

Amb Jones

Tom Foley

Rodney Bent

Marek Belka

Rob McKee

(b)(6)

Steve Casteel

(b)(6)

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COALITION PROVISIONAL AUTHORITY  
BAGHDAD

INFO MEMO

FOR: THE ADMINISTRATOR  
FROM: Rob McKee, CPA Oil Senior Advisor  
VIA: Keith Kellogg, Chief Operating Officer  
SUBJECT: Status of Fuel Contracts (KBR and DESC)

December 2, 2003 1100

1) KBR negotiations with Al Tanmia for increasing the fuel imports from Kuwait are close to an impasse, which we are monitoring closely. The status of the negotiations is:

- According to US Embassy Kuwait, Al Tanmia is the only authorized "sole source" for fuel from Kuwait. Al Tanmia is not experienced with contracts that must comply with US Federal Acquisition Regulations and this is particularly an issue in view of the recent KBR publicity.
- The fuel price is competitive; however, the transportation cost is uncompetitive and is approximately 65% greater than other companies. (SOMO has recently entered negotiations with Al Tanmia and has encountered a similar price differential for fuel delivered to Baghdad as compared to its current suppliers from the Gulf. SOMO continues to be our best alternative for near-term supplies.)
- KBR has requested a best and final offer which is needed if a sole source contract can be utilized. Al Tanmia requested and was given a letter of intent to purchase.
- Al Tanmia has NOT responded with an offer.
- Additional recent publicity, apparently inaccurate, surrounding the DCAA audit, has made the situation more problematical for KBR and has contributed to their conservative approach to the negotiations.

2) DESC is moving to take over fuel contracts. However, DESC will probably not be rapid enough to have a significant impact, and will also use limited competition contracts for a short period.

- DESC previously:
  - 1) Sent a team to evaluate the current fuel contracts with KBR,
  - 2) Sent a single individual to observe the CJTF-7/TF RIO Fuel Distribution Team.
- DESC currently has a single individual in Baghdad to make logistics preparations for a team to arrive in mid-January.

Keith - what about  
the option of creating  
a fuel dump inside  
the border and having  
Army trucks to  
transport?

Is that  
just not  
realistic?  
Dich.

- The DESC team arriving in mid-January plans to use 60-90 day sole source or limited competition bridge contracts until full and open source contracts are in place in mid-April. Mid-April fuel import requirements will be less than half of current requirements.

Note that CPA Oil and TF RIO are reviewing methods to gradually transfer all import purchasing and delivery to SOMO with a goal of having this complete end-April.

Mr. Ambassador  
Recommend you can report and say a  
mid January arrival is too late. Arrive at  
start of January for mid January bridge  
contracting - or, if possible, earlier.  
Kriol 1/4/02

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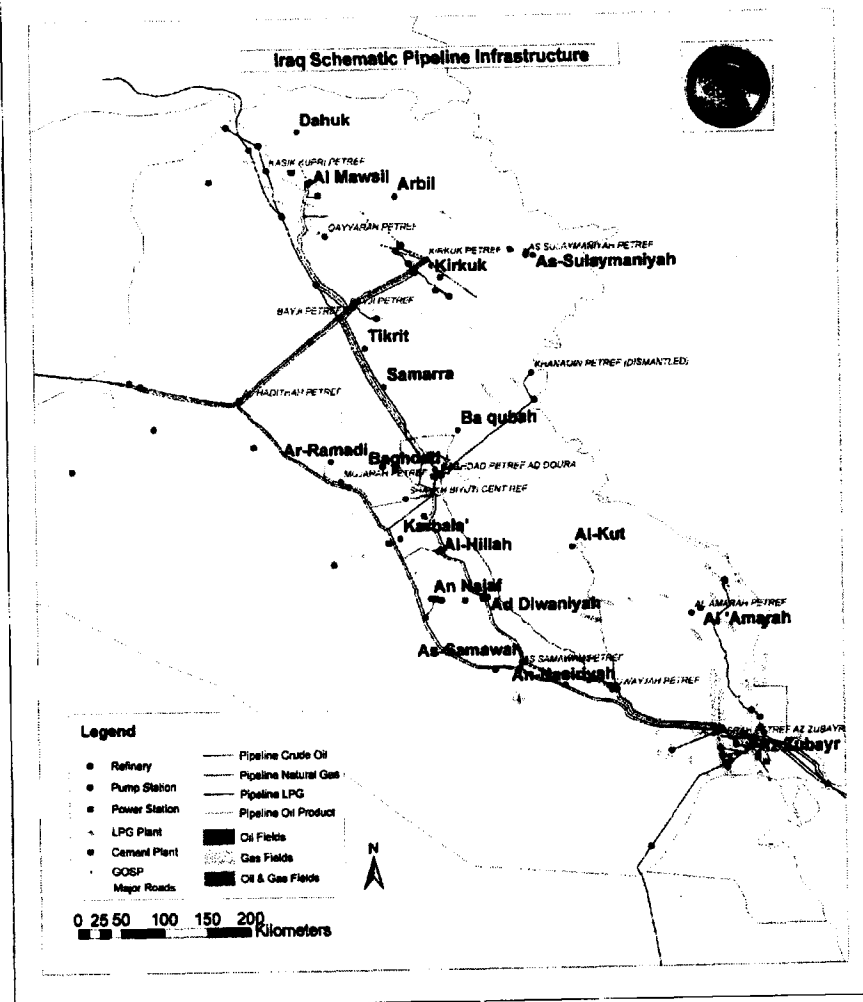
COALITION PROVISIONAL AUTHORITY  
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LPR HAS SEEN

December 17, 2003

To: The Administrator  
From: Ministry of Oil (Erik Nelson)  
Subject: Main Report Submission for Oil

Oil Infrastructure



FOIA 09-826 CPA 000349

**Project Code 50000:**  
**Infrastructure (Robert McKee)**

The Iraqi Oil Infrastructure was damaged in the beginning of the war and extensively looted soon afterwards. Oil is the most abundant natural resource in Iraq, and thus the mainstay of the Iraqi economy. It is extremely important that the capabilities of this sector be restored quickly to sustainable levels of production. Oil Infrastructure Restoration is unique in that it is the only sector in which every dollar invested, either directly or indirectly, provides a growing return on investment in the tangible form of direct revenue to the Iraqi people for future reconstruction.

The coalition has assisted the Iraq Ministry of Oil in making progress towards reestablishing pre-war production levels. However, more must be done to lay the foundation for the national economic recovery, and to ensure that Iraq has the revenue for a self-sustaining government. Factors that must be addressed include continued repair of war damage and repair of looting damage. At the same time, continued terrorist sabotage activity is hampering progress. The funds requested will be used to repair the infrastructure, counter the terrorist threat to protect the current investments, and to compensate for the losses that are a direct result of previous successful terrorist attacks. Once production has stabilized, funds will then be used to continue to improve the Iraqi petroleum production systems with the ultimate goal of restoring pre-war production levels.

FUNDS (US Fiscal Year)	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Appropriated	\$373M	\$827M	0	0

FUNDS	2003	2004	2005
Development Fund for Iraq	\$222M	0	0
Iraqi Budget	\$78M	0	0

Category	Projected Spending	Projected Start Date
Construction		
Initial Mobilization	\$50M	December, 2003
Actual Construction	\$759M	February, 2004
Procurement	\$323M	December, 2003
Security	\$68M	February, 2004
Total	\$1,200M	

*NOTE: See attached project descriptions for details.*

Oil Infrastructure Restoration projects fall generally into three categories: Construction, Procurement, and Security. All three categories, while distinct, complement and support each other in order to meet the goals of Public Law (PL) 108-106, to provide "security, relief, rehabilitation and reconstruction in Iraq[.]"

Security, one of the specific purposes stated in PL 108-106, is required to protect the current infrastructure, provide a safe working environment, and preserve the gains that are made in the restoration. This will be accomplished through the use of mainly Iraqi guard forces throughout the nation at key infrastructure locations.

Procurement of equipment will enable the Iraqi Ministry of Oil and its subordinate operating companies to rehabilitate the currently operational infrastructure, and to begin

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reconstruction of that which was damaged or destroyed. Procurement also includes petroleum product imports intended to avert a humanitarian crisis while the production infrastructure is brought to the point where it can keep pace with national consumption. To use the terms in PL 108-106, this will provide "relief" to the Iraqi people.

Given a secure environment to work in, the confidence that the work done will not be undone by criminal acts, and the tools to actually do the work, the final piece—Construction—will be the part which can mostly easily be shown to be a direct investment in the future of Iraq. Rehabilitation and restoration of the oil production and oil products production infrastructure is the only portion of the entire American investment that can be shown to have a direct, quantifiable rate of return, serving to restore to prewar conditions the main marketable resource on which the Iraqi economy is based.

The plurality of the supplemental funding will go towards procurement, both for equipment and for humanitarian fuel imports (next sub-section) that are necessary until the petroleum product production infrastructure is able to keep up with domestic demand. Construction makes up the second-largest component and security the third, although these expenditures are closely related. A more secure environment will reduce costs associated with construction, and at the same time, higher-than-normal construction costs which are due to the expense of operating in the environment as it exists today, are likely to be reduced.

- o The US Army Corps of Engineers is the executive agency for these projects

The next step in this project is to procure equipment required by the Ministry of Oil and its subordinate companies for the efficient operation, maintenance, and repair of the Iraqi Oil Infrastructure. Most equipment was rendered inoperable by looting (or was stolen) during or after the war. What little equipment that was recovered required significant repairs and has a severely limited remaining operating life. This list has been extensively coordinated with the Ministry of Oil, and detailed equipment specifications are completed and awaiting funding.

First quarter funds will also be used to award two follow-on construction contracts to allow contractors to mobilize and begin other initial preparations.

It is important to note that the funds in this supplemental are being used not to start new programs, but to continue the ongoing mission to Restore the Iraqi Oil infrastructure. Ongoing projects are being closely managed to ensure efficient use of funds. This process causes fluctuations in the scope of future projects, as progress brings new needs to light, and causes other requirements to drop in priority. As such, we require flexibility in making final adjustments to the projects undertaken with these funds.

Oil is the most abundant natural resource in Iraq, and thus the mainstay of the Iraqi economy. Speedy recovery of the oil infrastructure will provide the means for a speedy recover of all other Iraqi infrastructure and will allow the Iraqi economy to sustain itself without outside assistance. Success will be measured by increased exports of crude by at least 20%, and decreased petroleum product imports by at least 10%. With weekly income from crude exports topping \$200 million, and weekly outlay for imports averaging \$40 million, income will increase by \$40 million, and outlays will decrease by \$4 million, for a net of \$44 million weekly. Bottom line: this investment will pay for itself in approximately six months, reinforcing the statement that expenditures in this sector are a measurable investment in the future of Iraq.

FOIA 09-826 CPA 000351

**Project Code 51000**

**Emergency Supplies of refined petroleum (Robert McKee)**

War damage, looting, poor maintenance, and sabotage have caused interruptions to the flow of crude to the refineries. Difficulties due to outdated technology and poor maintenance at the refineries themselves, and interruptions to the flow of refined product to the cities, have created the need to import more petroleum products than originally projected. The main products required are Liquefied Petroleum Gas (LPG), used for cooking; kerosene, used for heating in the winter months; benzene, for auto fuel; and diesel, to fuel larger equipment and power generation. Failure to provide any of these will directly affect the quality of life of the average Iraqi citizen.

FUNDS (US Fiscal Year)	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
Appropriated	0	400	190	100

FUNDS	2003	2004	2005
Development Fund for Iraq	803	325	0

Funds will be used to cover the difference between Iraqi demand and refinery production, and to establish and maintain a 30-day reserve in all major products to ensure no interruptions in basic services due to future terrorist activity. \$400 million will be needed in the first quarter to compensate for the large difference between demand and production, and to build the 30-day reserve. \$290 million will be required for the remainder of the fiscal year to compensate for continued production shortfalls while maintaining the reserve.

- o Defense Energy Support Center is assuming responsibility for this mission from the current executor, the US Army Corps of Engineers.

The aim of this project is to cover the difference between Iraqi demand and refinery production, and to establish and maintain a 30-day reserve in all major products to ensure no interruptions in basic services due to future terrorist activity. Success will be measured by the achievement and maintenance of a 30-day reserve of refined petroleum products.

FOIA 09-826 CPA 000352



031215-10

COALITION PROVISIONAL AUTHORITY  
BAGHDAD

ACTION MEMORANDUM

December 30, 2003

FOR: THE ADMINISTRATOR

FROM:

(b)(6)

SUBJECT: PRB Allocation Request #50 Correction

**Correction: PRB#588** - Police Equipment for the City of Samarra - \$1,150,732 was approved by the Board. However, the PRB Allocation Request indicated that it was part of Rapid Regional Response Program instead of a stand alone PRB.

The Program Review Board met on December 14, 2003 and voted on funding requests for programs in support of the CPA mission priorities. The requests were thoroughly vetted by the Program Review Committee prior to presentation to the Board. The Board recommends a total allocation of \$118,669,192 for the projects described below.

**Summary of Proposed Allocation:**

**#585 - Rapid Regional Response Program Replenishment - \$80,000,000**

**Requestor:** (b)(6) CPA- Regional Program Manager

The request is to replenish the Rapid Regional Response Program

**#581 - DeMining - \$20,000,000**

**Requestor:** (b)(6) CPA- Ministry of Oil

This request is to fund the removal of mines in the Al Rumaylah North Oil Field. Task Force RIO removed mines around the oil wells that needed immediate emergency repair. Additional mines have to be removed for repair and maintenance work will have to be done on the rest areas in the oil field.

**#579 - Pilot Agricultural Credit Scheme - \$10,000,000**

**Requestor:** (b)(6) CPA - South

This request is to provide funds for an agricultural credit scheme that will be affordable and accessible to the farming and agricultural trade sectors. It is planned that the facilitation of the funds to the farmers and other borrowers will be done by the banks, for a small management fee retained from the interest charge on loans. Monies will be retained by CPA -South in a dedicated bank account. Farmers and traders will be expected to repay their loans on crop harvest or delivery of outputs to the market. Expected recovery rate will be 90-96%.

**#584 - Al Muthanna Cement Factory - \$4,500,000**

**Requestor: (b)(6) CPA - South**

This request is to fund the purchase of heavy excavating and transport equipment needed to operate the limestone and clay quarries near the cement plant. The plant is currently using the materials from the quarries that were excavated prior to the war. The Board recommends that this request be approved as a loan guarantee.

**#566 – Micro/SME Loan in Sunni Region - \$2,250,000**

**Requestor: Thomas C Foley, CPA – Private Sector Development Office**

This request is to provide funds for the immediate loan funding for micro and small to medium enterprises in Al-Anbar, Diyala, and Salah ad-Din. This program will advance the creation of jobs, improvement of economic infrastructure and generate good will.

**#588– Police Equipment for the City of Samarra - \$1,150,732**

**Requestor: (b)(6) CPA - North**

This request is to fund necessary equipment for the new police force being formed in Samarra. A new force is being reformed because persistent problems in the city. The new equipment will allow the police to communicate and travel to trouble spots. Radios, vehicles and uniforms will be purchase with these funds.

**#573 - Ministry of Water Resources Facility Protection Services - \$503,412**

**Requestor: (b)(6) Ministry of Water Resources**

This request is to fund the salaries for the Facility Protection Service for the last two months of 2003 and provide uniforms and jackets. The salaries for the prior months were paid from the ministry's Goods and Services account. The ministry's account been depleted.

**#582 – SOMO Audit - \$120,000**

**Requestor: (b)(6) Ministry of Oil**

This request is to fund an audit of the State Oil Marketing Organization (SOMO). An audit will be conducted by an independent public accounting firm to ensure that export sales of petroleum and petroleum products are consistent with prevailing international market best practices. The SOW will include reviewing internal controls systems, advising on best practices and reviewing measures to help detect fraud

**#589 – Indemnity Benefit - \$100,000**

**Requestor: (b)(6) CPA - Baghdad**

This request is to provide the family of the Vice Mayor of Baghdad, Faris Abduk Razzaq Khattar al-Asan, who was assassinated in October, 2003. In recognition of his service to the cause of freedom in Iraq and his courage and leadership with the Coalition

**#586 – Oil SME - \$42,048**

**Requestor: Robert McKee, Ministry of Oil**

This is to fund a contract with Native American Industrial Distributors to provide a Subject Material Expert (SME) who is an expert with Iraqi oil trading. The SME will

visit the SOMO headquarters and assess their trading practices, whether they are up to proper, modern standards that ensure clean practices and transparency.

**#587 – Government of Iraq - \$3,000**

**Requestor:** (b)(6) CPA – Facility Manager

This Request is for additional funds to the contract approved and funded with PRB#562. The funds will pay for the needed power outlets for the computer rooms that were not included in PRB#562.

Under the authority you have delegated to the Board under the Rapid Regional Response Program, on December 14, the Board approved two projects (Attachment 2).

**#561 – Public Safety Equipment - \$6,900,700**

**Requestor:** (b)(6) CPA – South Central

This request is to fund the purchase of equipment (Police cars, Border Patrol pickup trucks, Riot Gear and Dispatch Center) to the police and border patrol in the CPA – South Central region. This project will allow the police force to be more mobile to respond to calls for service.

**RECOMMENDED ACTION:**

The Administrator approves the attached Allocation Request #50 by signing Attachment 1 at the tab.

**ATTACHMENTS:** One Spreadsheet

**Allocation Req # 50 Correction  
PRB**

**15-Dec-03**

PRB	Name	Governorate	CPA Office	Funding Src	Program	Amt Rcmd	In Budget
585	Rapid Regional Response Program Replenishmen	Various	Program Review Board	DFI		\$80,000,000	No
581	Demining	Various	Ministry of Oil	DFI		\$20,000,000	No
579	Pilot Agricultural Credit Scheme	Al Basrah	CPA South	DFI		\$10,000,000	No
584	Al Muthanna Cement Factory	Al Muthanna	CPA South	DFI (Loan Guarantee)		\$4,500,000	No
566	Micro/SME Loans in Sunni Region	Al anbar	Private Section Development	DFI		\$2,250,000	No
588	Police Equipment for the City of Samarra	Salah Ad Din	CPA North	DFI		\$1,150,732	No
573	Ministry of Water Resources FPS	Various	Ministry of Water Resources	DFI		\$503,412	No
582	SOMO Audit	Baghdad	Ministry of Oil	DFI		\$120,000	No
589	Indemnity Benefit	Baghdad	Baghdad Central	Vested		\$100,000	No
586	Oil SME	Various	Ministry of Oil	DFI		\$42,048	No
587	Government of Iraq Building	Baghdad	Facility Management	DFI		\$3,000	No

**Total Amt  
Rcmd \$118,669,192**

Approved: \_\_\_\_\_

  
L. PAUL BREMER  
CPA Administrator



Allocation Req # 50 Correction  
PRB  
Rapid Regional Response Program  
15-Dec-03

PRB Name	Governorate	CPA Office	Funding SRC	Program	Authority Approved	In Budget
561 Public Safety Equipment	Various	CPA South Central	DFI	R3P	\$6,900,700	Yes
Total Authority Approved					\$6,900,700	

 12/30/03



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

040131-13

INFO MEMO

January 29, 2004

FOR: THE ADMINISTRATOR  
FROM: Thomas C. Foley, Director, Private Sector Development  
SUBJECT: Update for Meeting with Minister of Oil

In preparation for your upcoming Meeting with the Minister of Oil, we offer the following update and suggested discussion points:

Background: Tom Foley and (b)(6) met with Minister Al-Uloun on Thursday, January 15, 2004 to discuss fuel price adjustments. Minister Al-Uloun said he had a task force that was preparing a comprehensive recommendation on energy subsidy reform that would be completed within three weeks (Thursday, February 5). Tom and (b)(6) asked if they could contribute to the task force's effort, but the Minister declined saying that CPA input would be more appropriate after receiving the task force's recommendation. Tom and (b)(6) said they would provide to him, for the task force's use, a set of energy subsidy reform recommendations that were put together by an outside source. These recommendations were the product of the CPA energy subsidy reform task force, but have been recast so as not to appear as a CPA recommendation. This document was given to Rob McKee to give to the Minister at your upcoming meeting.

where is  
it?  
attached

As an aside at the close of the meeting two weeks ago, Tom and (b)(6) brought up the idea of an oil trust. The Minister seemed supportive of the concept, but was not in favor of the Heritage Trust proposal he had seen last fall because the assets were being used for pensions which he said people do not care about. He said he was receptive to learning about the other ideas for a trust, particularly if they provided a dividend. Tom and (b)(6) offered to pull something together on this topic. This material (a memo and presentation) was prepared and sent to the Minister for his review.

where is  
it?  
attached

Primary Objective: We are becoming increasingly more convinced of the importance and urgency of addressing fuel price liberalization as soon as possible, and certainly prior to the transfer of sovereignty to the Government of Iraq. Our primary objective from this meeting would be:

- To have the Minister meet the deadline for the recommendation from his task force and to agree to a subsequent deadline for a decision and start date for implementing a plan for adjusting fuel prices.

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Points of leverage: We have some, but not much leverage over the Minister. In increasing order of aggressiveness, they are:

- If he fails to act, future problems with lines at gas stations will be a political embarrassment to him.
- This is the second time Iraq and the Ministry have been faced with the gasoline shortage. If no action is taken, and gas lines develop in the future, the CPA may not provide U.S. Army personnel to provide security at the gas stations or convoys to escort tankers to the appropriate distribution points.
- CPA is currently withholding most of the money allocated to the Ministry for oil sector capital projects. If the Minister is anxious to have this money (not known to us), continuing to withhold it may represent leverage.
- CPA may be providing the Minister's personal protection which could be withdrawn (though this may worsen the issue of his frequent absence from the country).
- The Minister has not been receptive to CPA initiatives and continues to be a bottleneck in addressing areas of significant concern for the Iraqi people and the Coalition military who must deal with the ramifications of his inaction. This is due to a lack of decision-making ability and frequent absence from his post in Iraq. Unless there is a sudden shift in attitude and initiative from the Minister, there is likely to be no alleviation of the ongoing problems in the oil sector. Termination from his position and installation of a new Minister may be the most effective way of ensuring that these issues get addressed.

Suggested talking points:

Energy subsidy reforms:

- Mention January 15 meeting with Tom and (b)(6) and expectation of task force recommendations on energy subsidy reforms on February 5.
- Emphasize need for fuel price adjustments to avoid future problems with gas lines. Mention risk of political backlash against Ministry and potential loss of Coalition lives.
- Mention cost that subsidy and smuggling place on the Treasury which will be a burden to the future government.
- Weave in comments, as appropriate, related to points of leverage listed above.

Iraqi Oil Trust:

- Gauge response to materials on the Trust.

ATTACHMENTS: NONE

COORDINATION: (b)(6) Private Sector Development  
Rob McKee, CPA Senior Advisor, Ministry of Oil

UNCLASSIFIED

FOIA 09-826 CPA 000359

**McKee, Robert E. (SES)**

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

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

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

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

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

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

Rob

+

1/28/2004

FOIA 09-826 CPA 000361

Minister:

The following is a draft proposal of a message that we believe you could and should make to your employees at the Ministry of Oil, your fellow Ministers, the Governing Council, the Iraqi public and to the world-at-large. It allows the Ministry of Oil (the most important of all of them) to take the first, public stance towards a model of what Iraq will become under the current and future leadership. Just as important, it establishes you firmly as a progressive and aggressive leader who is determined to move Iraq's oil industry forward. It provides a framework in which all of your various stakeholders can begin to pattern their own behavior, planning and actions. Our prediction is that it will be well-received by all the various audiences.

We have arrived at yet another historic day. Since the liberation, we in the Oil Ministry have worked closely with the Coalition to restore our great Iraqi oil industry. At this point, we are producing well over two million barrels of oil per day and exporting over 1.5 million barrels a day, all for the benefit of Iraq. We have worked in cooperation with our neighbors, our contractors and the Coalition to provide adequate fuel products to all of you for your driving, cooking, heating and lighting needs. We are continuing to make improvements to our oil industry to ensure that the future will be bright for it and all Iraqis. Our people are to be commended for their great progress in the oil sector as our country is reborn.

It is now important for me to tell you some important things that will define the Oil Ministry and Iraq's oil industry for the coming years. Our country has one of the world's largest petroleum reserves and it has almost unlimited potential to benefit us. Every day, the Oil Ministry will be guided by this knowledge and our purpose will be to ensure these principles are fulfilled.

Deleted: our

- 1) Our country's oil and gas will be owned by the people of Iraq on a national basis, protected under Iraqi constitutional law. Our mission in the Ministry will be to manage, protect and preserve these resources in a way that benefits Iraq now and in the future and in a way that creates a secure, stable and independent economy.
- 2) Our goal will be to accomplish the objectives assigned to us by our new government relative to oil production, use of our abundant natural gas resources, and the supply of domestic fuel products for our population.
- 3) We will accomplish these goals through the leadership of a strong and visionary Ministry of Oil. We will re-create a modern national oil company to carry out petroleum operations. We will ensure that this national oil company is run for the benefit of the Iraqi people and is divorced from the political process to the extent required. Thus, our Ministry will have a distinct separation of duties within it—from actual petroleum operations to policy planning to compliance monitoring.

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FOIA 09-826 CPA 000362

- 4) Our Ministry will implement a Code of Conduct that allows Iraqi oil to operate competitively in the worldwide petroleum industry. This Code will be based on nondiscrimination; ethics; lawfulness; international best practices for contracting and accounting transparency; and good corporate governance. It will be in every way compatible with our country's various faiths. We will endeavor that our people and contractors are not hurt or killed on our properties and that we have a regard for our environment.
- 5) We will implement strong standards to ensure that managers or employees do not have conflicts-of-interest that would work contrary to the Ministry's stated goals. We also will ensure there are strong behavioral standards for all Ministry employees and managers.
- 6) We have a large job to do, which will take a large amount of investment to accomplish properly. We thus will welcome outside investors to our country, in a way that satisfies our Code of Conduct, protects our rights to our petroleum resources, and enhances our own internal needs. This is very possible and has been accomplished successfully in various other countries around the world (including some of our closest neighbors).

We have the opportunity to become one of the most important participants in the world's petroleum industry, and to do it in a way that provides significant added benefits to the Iraqi people. We in the Ministry of Oil are laying this foundation and I will keep you informed as progress is made.

Dr. Ibrahim M. Bahar Al-Oloum  
Minister of Oil

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Rob McKee  
Sr. Oil Advisor

FOIA 09-826 CPA 000363



**DEPARTMENT OF THE ARMY**  
U.S. ARMY CORPS OF ENGINEERS  
GULF REGION DIVISION  
RESTORE IRAQI OIL DIRECTORATE  
BAGHDAD, IRAQ

CEGRD-RIO-DESC

12 February 2004

Memorandum for Mr. Robert McKee, Senior Advisor, CPA-Oil

Subject: Ministry of Oil (MoO) Fuel Importation Mission Responsibilities

1. The Defense Energy Support Center (DESC) is currently positioned to provide the necessary expertise and support to the Restore Iraqi Oil (RIO) Directorate mission for the importation and distribution of identified petroleum products (benzene, diesel, liquefied petroleum gas [LPG], and kerosene) in support of the Iraqi civilian populace.
2. DESC is currently working on a seamless transition with the US Army Corps of Engineers to award new contracts through competitive procedures for petroleum products that will include the movement of products to specific wholesale distribution depots within Iraq as well as the mechanisms to perform the necessary management and oversight controls for the mission. DESC is reimbursed for all costs incurred for work performed in support of the RIO mission by the CPA or suitably recognized governing entity via our Defense Working Capital Fund. DESC contracts will begin 1 April 2004 and are scheduled to end 30 June 2004.
3. Chief among all other concerns is that the newly elected Iraqi Government will be required to take over the complete responsibility for importing and distributing all petroleum products within Iraq beginning 1 July 2004 unless an international agreement is negotiated and concluded between the two governments. This international agreement would include the process by which DESC and a post-CPA recognized entity will ensure continuous fuel supply and reimbursement of funds.
4. As background, DESC has received obligation authority for fuel importation costs through 30 June 2004, and since DESC operates from a Working Capital Fund, products sold in execution of a program must have a corresponding credit paid into the fund for reimbursement. Further, in order to conduct these procurements beyond 30 June 2004, DESC must have a designated customer to charge for the fuel sales.
5. Under the Defense Working Capital Fund, DESC cannot provide fuel under its contracts to customers without an agreement from the customer to pay for the fuel with appropriate procedures to transfer funds to DESC. It is important to note that DESC does not have the statutory authority to provide fuel without reimbursement. Any deviation from the reimbursement requirements of the Defense Working Capital Fund could limit DESC's ability to procure fuel for its military customers and might result in an Anti-Deficiency Act violation, which is a punishable felony in American statutory law.
6. In order for DESC to continue its contracts to import and distribute petroleum products into Iraq, DESC must receive adequate written assurances, from the responsible entity after the CPA dissolves 30 June 2004, that any future fuel importation requirement is valid (by each petroleum product) and that funding will be made available to reimburse DESC for its procurement purchases. Short of this commitment, funding and performance by DESC under the supply contracts will end 30 June 2004.



CEGRD-RIO

12 February 2004

Subject: Ministry of Oil Fuel Importation Mission Responsibilities

7. DESC recommends that the MoO and Ministry of Finance confirm its understanding, in writing to the undersigned, that unless the critical path milestone referenced below is completed, the MoO will become solely responsible to procure petroleum product imports and to distribute those products to the Iraqi civilian populace beginning 1 July 2004.

CRITICAL MILESTONE	REQUIREMENTS	DUE DATE	PROGRAM RESULT
Decide on MoO need for continued DESC Fuel Importation and wholesale distribution support	If yes, then need the following: - Funding Mechanism - International Agreement	31 May 2004	DESC Fuel Importation Contract Support will continue for duration of the funding and international agreement
	If no, then the following will take place:  - DESC will notify MoO in writing that the following result will take place		DESC Fuel Importation Contract Support will complete on June 30, 2004.

Through:

(b)(6)

COL, EN  
Director, RIO

(b)(6)

By:

Team Chief  
Defense Energy Support Center – IRAQ

cc: Ministry of Electricity  
Ministry of Finance



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

ACTION MEMO

February 15, 2004

FOR: THE ADMINISTRATOR *15/2*  
FROM: Joseph K. Kellogg, Jr., Deputy Administrator and Chief Operating Officer  
SUBJECT: Nominations for the Office of the Secretary of Defense Medal for Exceptional Public Service

Enclosed are five requests for approval for the award of the Office of the Secretary of Defense Medal for Exceptional Public Service:

1. Lewis W. Lucke for his actions as the Mission Director for the United States Agency for International Development.
2. Rodney Bent for his actions as the Senior Advisor to the Ministry of Finance, Ministry of Planning & Development Cooperation, and to the Iraqi Supreme Board of Audit; and as the Fiscal Advisor and Director of the Office of Management & Budget.
3. Robert McKee for his actions as the Senior Advisor to the Ministry of Oil.
4. Major General (Retired) James T. Jackson for his actions as my Deputy.
5. (b)(6) for his actions as my Counselor and Senior Advisor.

Since I became your Chief Operating Officer, these gentlemen have made an immediate and direct impact for our organization and this recognition would best depict our gratitude for their outstanding efforts.

**RECOMMENDATION:** Approve the award requests.

Approve: \_\_\_\_\_ Disapprove: \_\_\_\_\_ Approve with modification: \_\_\_\_\_

ATTACHMENTS: 5 x Award Packets

COORDINATION: None

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COALITION PROVISIONAL AUTHORITY  
BAGHDAD

ACTION MEMO

February 15, 2004

FOR: THE ADMINISTRATOR   
FROM: Joseph K. Kellogg, Jr., Deputy Administrator and Chief Operating Officer  
SUBJECT: Nomination for the Office of the Secretary of Defense Medal for Exceptional Public Service

In accordance with OSD Administrative Instruction 29, we are requesting approval for the award of the Office of the Secretary of Defense Medal for Exceptional Public Service to Robert McKee. The basis for this award and the citation are provided in the attachment.

Name: Robert McKee  
Title and Grade: Senior Advisor to the Ministry of Oil for the Coalition Provisional Authority – Baghdad; SES-6 equivalent  
Organization And Location: Coalition Provisional Authority, Baghdad, Iraq, APO AE 09335  
Length of Time With Organization: October 2003 to March 2004  
Significant Prior Awards Received: None. No other award for this individual is pending and no other previous award had been made for service described herein.  
Basis for Award: See attached narrative

RECOMMENDATION: Approve the award request.

Approve: \_\_\_\_\_ Disapprove: \_\_\_\_\_ Approve with modification: \_\_\_\_\_

ATTACHMENTS: Narrative and Citation

COORDINATION: None

UNCLASSIFIED

FOIA 09-826 CPA 000367

NARRATIVE FOR  
OFFICE OF THE SECRETARY OF DEFENSE MEDAL FOR  
EXCEPTIONAL PUBLIC SERVICE AWARD  
FOR  
Robert McKee

Robert McKee distinguished himself by exceptional meritorious service and devotion to duty while serving as the Senior Advisor to the Ministry of Oil for the Coalition Provisional Authority – Baghdad, from October, 2003 to March, 2004. He was responsible for supervising the largest oilfield reconstruction effort ever attempted while located within the second most oil rich nation in the world. Robert McKee forged a strong partnership built on trust and confidence with the Iraqi Minister of Oil as well as other senior members in the ministry. These relationships are providing the catalyst for Iraq's oil industry, responsible for nearly its entire gross domestic product, and serving as the true engine to drive and sustain Iraq's economy and reconstruction for decades to come. Additionally, Robert McKee's acumen within the contracting and financial areas of the ministry, are building the foundation to facilitate Iraq's emergence as a world class, oil producing nation and provide the leverage for success at the international level. This success will improve domestic growth, thus reducing the requirements for financial support and have a direct bearing on all economies, worldwide. Robert McKee also played an integral part in resurrecting the Iraqi-Turkey fuel pipeline in order to further maximize the capacity to exploit Iraq's vast oil reserves. He clearly established himself as the subject matter expert throughout the Coalition Provisional Authority on the intricacies involved with oil production. Robert McKee took great pleasure educating everyone within the Coalition on oil matters, providing the awareness needed to make proper decisions pertaining to one of its most vital national assets. All of these actions are critical components towards Iraq's stabilization and transition to a free market economy which is going to result in enjoyed prosperity that will be shared by all of its citizens.

FOIA 09-826 CPA 000368

CITATION  
TO ACCOMPANY THE AWARD OF  
THE OFFICE OF THE SECRETARY OF DEFENSE  
MEDAL FOR EXCEPTIONAL PUBLIC SERVICE  
TO  
Robert McKee

For exceptional meritorious service and devotion to duty while serving as the Senior Advisor to the Ministry of Oil for the Coalition Provisional Authority – Baghdad, from October, 2003 to March, 2004. Robert McKee was responsible for supervising the largest oilfield reconstruction effort ever attempted while located within the second most oil rich nation in the world. His expertise is responsible for building the foundation to facilitate Iraq's emergence as a world class, oil producing nation and provide the leverage for success at the international level. The distinctive accomplishments of Robert McKee reflect credit upon himself, the Coalition Provisional Authority, and the Department of Defense.



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

ACTION MEMO

February 17, 2004

FOR: THE ADMINISTRATOR  
FROM: David Kirk, OPPIA  
COPIES TO: Ambassador Jones, Lt Gen (Rtd) Kellogg  
SUBJECT: Appointment of First Inspectors General

Attached are the letters, in Arabic, to the three nominated Inspectors General and their respective Ministers. (English versions accompany). These came up as part of a larger package on February 14.

We expect to recommend further appointments, with similar draft letters in the next few days.

RECOMMENDATION:

That you sign the attached letters to the nominated Inspectors General and respective Ministers.

Approve: ☒ Disapprove: ☐ Approve with modification: ☐

ATTACHMENTS: Six letters in Arabic to IG nominees and their respective Ministers.

1. Oil-Appointee: Mr. Ali Muhsin Ismail Al-Allaq
2. Oil-Minister: Dr. Ibrahim Bahar al-Uloun
3. Labor & Social Affairs-Appointee: Ms. Zakia Hakki
4. Labor & Social Affairs-Minister: Mr. Sami Azara al-Ma'jun
5. Municipalities & Public Works-Appointee: Mr. Musa Farage Radhi
6. Municipalities & Public Works-Minister: Mrs. Nasreen Mustafa Sadiq Barwari

COORDINATION: Giles Denham  
Robert Dawes, CPA IG  
Scott Castle, OGC  
Mike Mutter, MMPW  
Jim Otwell, MOLSA  
Rob McKee, Ministry of Oil

UNCLASSIFIED

FOIA 09-826 CPA 000370



COALITION PROVISIONAL AUTHORITY  
BAGHDAD

FOR: THE ADMINISTRATOR

FROM: Robert McKee, Senior Adviser, CPA Oil

SUBJECT: Bartering of Petroleum Products

Your agreement is sought to allow the Iraqi Ministry of Oil to access funds From the Development Fund for Iraq (DFI) up to a limit of the revenues generated from the export of petroleum products (e.g. fuel oil, but excluding crude oil).

The State Oil Marketing Organization (SOMO) has sole authority for the export of petroleum from Iraq. SOMO currently facilitates the export of crude oil under normal commercial terms and fuel oil under barter arrangements. Current fuel oil barter contracts are worth about \$350 million and SOMO has contracted to receive about 900 million liters of gasoline, diesel and kerosene.

Barter sales of petroleum products are rare in international markets. They are an inefficient means for trading most products. They typically involve higher costs, less flexibility, and a smaller range of potential buyers/sellers compared with normal commercial sales. They may also result in lower financial benefits to Iraq. SOMO is experiencing difficulties with its barter contractors and would prefer to be able to operate under normal commercial terms.

The UNSCR requires all sales contracts to be "made consistent with prevailing international market best practices". The proposed arrangements are fully consistent with this requirement.

I recommend you allow the IMO to access funds from the DFI up to a limit of the revenues generated by SOMO from the export of petroleum products, with the necessary reporting and monitoring arrangements to be negotiated between the IMO, Ministry of Finance and CPA.

Approve:

Disapprove:

Approve with modification:

UNCLASSIFIED

***Program Review Board (PRB) Minutes – Nov. 29, 2003***

**Attendees:**

\*Sherri Kraham Acting Chair/Program Review Board, Director  
\*Frederick C. Smith Acting Senior Advisor for the Office of Security Affairs  
\*COL Mike Kirsch Representative of Office of Operations & Infrastructure (Designee)  
\*Judy Van Rest Representative of Governance (Designee)  
\*LTC Terry Ross Coalition Joint Task Force -7, Deputy Comptroller  
\*Heidi Venamore Representative of the Australian Government  
\*Andrew Golednizowski Council of International Coordination (Designee)  
\*Yusaf Samiullah Representative of the United Kingdom  
Greg Buckley CPA – General Counsel  
COL James Behring CPA Comptroller  
COL Tony Bell CPA – Head of Contracting Activities  
Patricia Hatcher Representative of CPA Management Liaison Cell  
Don Fithian Program Management Office – Comptroller  
Mary Beal Program Management Office – Budget Officer  
Jesse Pruett Program Review Board, Regional Programs Manager  
Bob McKee CPA – Senior Advisor Ministry of Oil  
Larry Rogers Task Force Restore Iraqi Oil  
MAJ Erik Nelson Task Force Restore Iraqi Oil  
Jeff Haberman CPA – South Central  
COL Tom O'Donnell Task Force – Shield  
CPT Jacyn Dembrosky CPA – Comptroller Office

**\*Voting Members**

The November 22, 2003 minutes were approved with small modifications\*

The following Funding Requests were considered by the Board for recommendation to the Administrator:

#568 – Fuel Imports - \$425,000,000 – Funds were approved for the emergency import of LPG, Benzene, Kerosene and Diesel to help meet the domestic daily needs of these fuels. This request is to fund fuel import requirements through the end of January 2004. Task Force Restore Iraqi Oil (TF RIO) is working with Defense Energy Support Center (DESC) and SOMO (Southern Oil Marketing Organization) to fulfill the Iraqis fuel imports requirements until a new contract could be competitively awarded. DESC was out to Iraq to study the requirements and will get back with TF RIO shortly on their procurement capabilities. SOMO will likely purchase up to \$100 M.



#570 – Oil Infrastructure & Security - † Funds were approved for the contracting of air surveillance security of the oil pipelines in Iraq. The contractor will provide two aircrafts with the Air Scan system for night patrolling of the pipelines. The equipment will be link with a ground station in order to provide a quick reaction to any threat identified by the low-light television sensors mounted on the craft.

#456 – Replenishment of Rapid Regional Response Program - \$10,000,000 – Funds were approved to provide \$10M more to CPA – South Central's Rapid Regional Response Program as was committed to them by Ambassador Bremer earlier.

#417– CPA Rewards - \$310,200 – Funds were approved to pay for the printing of poster-sized stickers, handbill and small (bumper) stickers listing rewards being offer by CPA for information and the capture of Saddam and his sons, soliciting of info on anti-Coalition activities, and soliciting info on damaging of Iraqi infrastructure. The materials were contracted for in August but the bill was never paid.

The Board was informed in regard to PRB#559 & PRB#560 that the ministries will be able to sustain the operating & recurring costs on the trucks. The Board was also informed that the Regional Program Manager was still waiting for an answer from one of the donors' representatives on whether or not these trucks can be part of their donor program.

† Where the publication of approved funding levels may prejudice the competitive contracting processes, these amounts will be redacted.

NOTES ON

MARCH  
MEETINGS  
IN TURKEY

Attended five meetings on the 10<sup>th</sup> and 11<sup>th</sup> of March where the issue of Production Sharing Agreements in the Northern area of Iraq came up in the meetings.

**Meeting one, morning of the 10th.** Alev Kilic, Turkish Deputy Under Secretary of the Ministry of Foreign Affairs, discussed this in the opening meeting with the CPA and Iraqi Trade delegations. During this meeting I emphasized that neither CPA, nor could the current Iraqi Governing Council enter into Production Sharing Agreements and that only a legitimate Iraqi Government could. Any Agreements signed prior to the war with the past Iraqi Government would have to be addressed when a legitimate Government was in place. CPA encouraged all companies having a claim to stay in touch with the current Iraqi Ministry of Oil.

**Meeting two, afternoon of the 10th.** Met with members of the Turkish National Oil Company, U.S. Embassy Turkey, and members of the Turkish Government Foreign Affairs Department. I was questioned on the validity of the Production Sharing Agreements. I answered as noted above. I had the distinct feeling that the National Oil Company was party to the existing agreements in one form or another and possibly looking at fields for its self. Some of the various groups within the National Oil Company do both surface and subsurface work as well as transport oil products. Mr. Hakki Akil, Deputy Director General for Energy, Water, and Environment - Ministry of Foreign Affairs, said he would like me to meet with the companies who had Production Sharing Agreements with the Kurdish Government the following day. I accepted.

**Meeting three, morning of the 11th.** Met with Mr. Murat Yazici of Yazici Law Offices, Mr. Hakki Akil, and a member of his staff. Mr. Yazici was representing Genel Enerji A.S..

Genel Enerji A.S. had entered into a Production sharing Agreement with the Kurdistan Regional Government, January 19, 2004 for the Tac Tac field. Mr. Yazici stated that he had worked with Mr. Peter Galbraith (believe he is a lawyer in Wash. D.C.) and Johnathon Morrow (believe he is out of the United Kingdom, may be in Afghanistan at this time). A hard copy of this Agreement was supplied at the end of our meeting.

Mr. Yazici repeatedly brought up Mr. Talabani's name. Mr. Yazici said that Mr. Talabani was going to address the Production Sharing Agreement with the Governing Council in the next several weeks. Mr. Yazici said the U.S. Government was aware of this Agreement, indicating the U.S. was briefed by the Turkish Prime Minister during his recent visit. Mr. Akil confirmed this. Mr. Yazici said that the U. S. Government had agreed in the past with the Kurdish Government that they had certain rights which included the development of minerals. (I believe this is the Agreement dated Sept. 17, 1998 cited in the Production Sharing Agreement. I have requested a copy of this Agreement from Mr. Yazici by email March 13<sup>th</sup>). Mr. Yazici said the Kurdish Regional Government did not require the authority of the CPA or Central Government to enter into such Agreements.

I told him that other companies such as Parker Drilling and BHP have come forward claiming to have agreements with the Kurdish Government. He said that he had heard of such claims, but Genel Enerji A.S. was the only one with the rights to Tac Tac. He offered no more in this area. Mr. Yazici told me that Mr. Adel Qazaz, Director General Northern Oil Company was aware of the contract between Genel Enerji A.S. and the Kurdish Regional Government. No other names were offered.

From what Mr. Yazici indicated, he was planning along with members of Genel Enerji A.S. to be traveling to Baghdad in the forth coming weeks to discuss their claims with the Governing Council along with Mr. Talabani. I requested that he and the others postpone their trip until CPA has had a chance to review their claims.

**Meeting four, morning of the 11th.** Following the before mentioned meeting, Mr. Guntekin Koksak, Principal of Pet Holding and Dr. M. Ali Ak, General Manager of Petoil joined myself, Mr. Hakki Akil, and his staff assistant. Petoil has entered into a similar (terms) Production Sharing Agreement with the Regional Kurdish Government. This agreement covered a much larger area than the previous Agreement. It covers the Pulkhana (Kifri), Anfal (Kormor), Chemchemal, and Chia Surkh fields. The later of the fields straddles the Iranian border. A copy of the Agreement was brought to the hotel I was staying in, later that day.

Petoil made similar claims as Genel Enerji A.S. that the U.S. Government recognized the Kurdish Government as having the power to enter into Production Sharing Agreements. They told me that Mr. Colin Powell was made aware of their Production Sharing Agreement in August 2003 during a visit with the Turkish Government. Mr. Hakki Akil acknowledged this point. They also mentioned the recent visit to the U.S. by the Turkish Prime Minister. I learned at this time that Mr. Murat Yazici also represented their company in negotiations with the Regional Kurdish Government. When asked if anyone in the Iraqi Ministry of Oil was aware of this Agreement, they replied that Mr. Adel Qazaz, knew unofficially. Mr. Talabani's name was continually mentioned throughout the meeting.

They said that several weeks ago that Prime Natural Resources, a U.S. based company entered into a 50% share basis with them after talking to Mr. Robert McKee; past Sr. Advisor for CPA Oil. Petoil interpreted this as a positive sign that the subject Agreement was valid in the eyes of the U.S.. I asked them if they knew of any other companies that were entering into Agreements. Outside BHP and Genel Enerji A.S. they were not aware of any serious companies. I asked if they had heard of any Israeli companies being involved. They said that Prime Natural Resources had asked the same question. They indicated that they had heard that Genel Enerji A.S. was possibly connected with an Israeli company. Rob McKee had taken several phone calls from an Israeli company interested in developing fields in the Northern area of Iraq.

Petoil told me they had a good number of individuals already in Iraq and was planning to start physical work in the near future. Geological and Reservoir engineering work had already started.

## Ministry of Oil

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

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

RS file: People - General

**CURRENT CPA STAFF PERSONNEL  
WITH POST-IRAQ SERVICE POTENTIAL FOR DOD**

**1. James Haveman, Senior Advisor to the Ministry of Health**

(b)(5)

- His ministry is the first to be ready on April 1st for turnover to Iraqi control
- Ran the State health system in Michigan for 12 years under John Engler
- Service under secretary potential

**2. Thomas Foley, Director of Private Sector Development**

- Former McKinsey consultant

(b)(5)

- Service secretary potential

**3. Rob McKee, Senior Advisor to the Oil Ministry**

- Former Chief Operating Officer of Conoco

(b)(5)

- His ministry is surpassing expectations
- Service secretary potential

← among the most effective

**4. Daniel Sudnick, Senior Advisor to the Ministry of Communications**

(b)(5)

- Superb technical expertise
- Excellent management skills
- Managed a huge, complicated communications portfolio almost single handedly
- Service under secretary potential

**5. Leslie Arsht, Senior Advisor to the Ministry of Education**

(b)(5)

(b)(5)

- Former White House staffer from early Nixon days
- Consummate educational professional
- Service assistant secretary potential

**6. Molly Wilkerson, Chief of Staff, Ministry of Interior**

(b)(5)

- Lawyer with substantial high-level state government service in New York

(b)(5)

- Service assistant secretary potential

\* Ask her about her location and rescue of the missing \$64 million dollars for her ministry.

**7. Mounzer Fatfat, Senior Advisor Youth & Sports**

- Specialized executive

(b)(5)

- Deputy assistant secretary of defense potential

\* Will have Iraqi Olympic wrestling team standing by to meet you, if your schedule permits.

**8. Steve Casteel, Senior Advisor to the Ministry of the Interior**

(b)(5)

- Former No. 2 in the Drug Enforcement Agency (DEA)
- Service assistant secretary or OSD deputy assistant secretary potential

(b)(5)

(b)(5)

**9. Victoria Wayne (Vici) Deputy Senior Advisor, Ministry of Transportation**

- Splendid success in organizing one of the most diverse advisory operations

(b)(5)

- Successful former executive search professional
- Service assistant secretary potential

**10. Olin Wethington, Senior Advisor to the Iraqi Central Bank**

- Highly accomplished financier
- Former successful Treasury official
- Expert in the management of financial portfolios
- Service assistant secretary potential

(b)(5)

~~SECRET~~

Summary of Conclusions for  
Meeting of the Iraq Stabilization Group Economic Cell  
February 26, 2003, 3:30 - 5:00 P.M.  
Room 208, Eisenhower Building

PARTICIPANTS:

Chair  
Gary Edson

State  
Tony Wayne

Treasury  
Randy Quarles  
Anne Wallwork  
Karen Mathiasen

Defense  
Dov Zakheim  
David Norquist  
Cassie Strom

Commerce  
Bill Lash  
Susan Hamrock

OMB  
Lea Bouzis  
Jackee Strasser

Vice President  
Steve Claeys

CEA  
Therese Scharlemann

CIA  
(b)(3):50 USC §403  
(g) Section 6

OPIC  
Alan Villabroza

USAID  
Gordon West  
Leslie Curtain

CPA  
Joseph Benkert  
Chris Spear  
Dayna Hutchings  
Olin Wethington (via phone)  
Michael Fleischer (via phone)  
Rodney Bent (via phone)

NSC  
John Simon  
Rick Karp  
Jonathan Dworken  
Gary Peters  
Cathy Taylor

Summary of Conclusions

**I. Create sound Fiscal, Monetary, and Exchange Rate Policies**

Data Issues

- CPA (B) still needs two people to assist with the real economy statistics. CPA (B) will decide whether to use two people from Booz-Allen or one person from Bearing Point and one


Classified by: John Simon


Reasons: 1.5 (b) (d) (e)

Declassify on: 2/26/14

person from Treasury. CPA (B) will inform the Econ Cell if additional assistance is required. (Action: CPA (B). Timing: February 27)

#### 11. Repatriate Assets

- (b)(1) 
- State will follow-up with the Minister to ensure Jordan provides the information on Iraqi counterparties. (Action: State. Timing: March 2)
- CPA (B) will provide a date certain for the Iraqi team to travel to Amman. (Action: CPA (B). Timing: March 3)
- Kuwait: State and Treasury will discuss legal issues related to the Kuwaiti transfer of \$85 million to the DFI. (Action: State, Treasury. Timing: March 2)

- (b)(1) 

#### 111. Mobilize External Financing and Reintegrate into the World Economy

##### Abu Dhabi Donor Meeting

- The most important point of the Donor Meeting is that it signifies the U.N. and World Bank are open for business in Iraq. NSC will work with the Communications Cell to fashion this point as the main public message emanating from the event. (Action: NSC. Timing: February 27)



#### IV. Establish Framework to Facilitate **Job** Creation and Free Market Economy

##### Fuel Price Liberalization

- CPA (B), with assistance from the Econ Cell as necessary, will determine the potential revenue that can be raised from both a gradual and a sudden increase in fuel prices to regional benchmarks. (Action: CPA (B). Timing: March 3)
- Rodney Bent will report on the outcome of the Finance Committee discussion of the Chalabi/ Gailani plan for pension increases funded by fuel price increases and/or a reduction in imports of refined product. (Action: CPA (B). Timing: March 1)
- CPA (B) will determine the amount pensioners received before the war. (Action: CPA (B). Timing: March 2)
- Rick Karp and Chris Spear will work with Rodney Bent and Rob McKee to assess the dynamics, risks, and opportunities of the proposal to fund pension increases with fuel price increases/ import reductions and send a report to the Econ Cell. (Action: CPA (B & W), NSC. Timing: March 3)

#### V. Enable Iraqis to Manage their Oil Revenue for the Greatest Benefit of All Citizens

##### Ex-Im Proposals

- The Export Import Bank will attend the next Econ Cell to discuss their Oilfield Workover Financing Facility proposal, as well as their Subcontractor Equipment Financing Facility proposal and the potential for providing export credits through the Trade Bank of Iraq. (Action: EXIM. Timing: March 4)
- NSC, State, and OMB will review the Ex-Im proposals prior to the Econ Cell meeting. (Action: NSC, State, OMB with EXIM. Timing: March 2)

#### VI. Restore and Improve Essential Services

##### Oil-for-Food Transition

- The Coordination Center will prioritize the 250 most important non-food contracts. (Action: CPA (B). Timing: March 1)

- CPA (B) will work with Bearing Point to fill four positions in the Coordination Center. (Action: CPA (B). Timing: March 2)
- CPA (W) will discuss with Ex-Im the possibility that Ex-Im can provide people with the necessary expertise in contracting and Letters of Credit to the Coordination Center in Baghdad. (Action: CPA (W). Timing: March 2)
- CPA (W) will explore with State the possibility of sending people to the U.N. to assist in scanning documents to transport to Baghdad. (Action: CPA (W), State. Timing: March 2)
- State has learned that rehabilitation of the four evacuators at Um Qasr will not provide enough capacity to meet the 12,000 metric ton per day target by April 1. The Ministry of Trade is soliciting proposals to lease a to be determined number of portable evacuators. State will determine how many evacuators can realistically be leased and when they could be operational. (Action: State. Timing: March 3)
- State will determine: 1) the necessary capacity at Um Qasr for the Public Distribution System, 2) the expected capacity once existing evacuators are rehabilitated and additional evacuators are leased, 3) the timeline for achieving the expected capacity, 4) the options for bridging any gap in capacity that remains. (Action: State. Timing: March 3)

**COO Daily Summary Report – 25 Feb 04**

**Office of the Chief Operating Officer** – LTG Kellogg and MG Jackson departed Iraq today. VADM Redd and LtGen Oster assumed duties as COO and D/COO respectively. VADM Redd participated in the ribbon cutting ceremony for the start of a new generator at the Baiji Power Plant.

**Interior – Senior Advisor:** Mr. Casteel met with a Japanese Delegation concerning equipment donations for Internal Security. He also met with the Internal Security Assessment team to discuss the new construct for MOI and CJTF7. CENTCOM SVTC is scheduled to discuss the ways the command can work with MOI to enhance internal security operations. **Fire:** Program Managers from Fire are meeting with COL Davis on providing our vehicle distribution plan by percentage delivered as well as meeting with Civil Affairs Unit on how they can help MOI Fire Civil Defense Directorate in Baghdad area. Program Managers continued development of the training needs, timelines, and plan for Iraq. Also made progress on the Fire Prevention and Public Safety needs plan for Iraq; and worked on planning a National Conference of the Civil Defense Directorate leadership to be held in Baghdad on 22 Mar. Fire Division staff members are working to complete the Motorola antenna project for Baghdad Civil Defense stations as well as completing the strategic plan. **C-MIAT:** C-MIAT has prepared package for the Program Review Board, PRB, to request funding for the Logistics Distribution and Operations Concept. A meeting is scheduled with the Iraqi Police Chief on Thursday, 26 Feb 04. **Policy:** Policy team members will present a briefing on the Joint Coordination Command structure. The Policy Team also continues analyzing the strategic plan of the Fire division.

**IAF – CMATT** - 40 RFF personnel arrived at BIAP today from Kuwait. 1<sup>st</sup> Bn today continued operations in the Freedom Bn AO while 4<sup>th</sup> Bn rehearsed for their graduation on 26 Feb. The 3<sup>rd</sup> company, 2<sup>nd</sup> Bn remains on leave while the remainder of the Bn continues training at TMBT. 3<sup>rd</sup> Bn remains at Tal'Arar.

**OMB** - Attended the Iraqi Strategic Review Board (ISRB). The ISRB continues to refine the list of projects for donor consideration. At this time they have a list of \$4.1B worth of projects to take to the donor coordination meeting in Abu Dhabi on the 28th of Feb.

**OIL** – Mr. Mike Stinson has arrived on site. He will be replacing Mr. Rob McKee as the Sr. Advisor for the CPA Oil group. The Baiji refinery is experiencing electricity problems. Fuel production has been affected. Bad weather at the Turkish border is slowing imports. Right now there is a 35KM line waiting to cross thru Harbur Gate. An estimated 33Million Liters of light fuels (Diesel, Benzene, Kerosene) and 5900 MT of LPG is waiting in the line. The border is open, but slow. Current stocks in the north are sufficient to meet demands while weather improves.

**Regional Operations** - Briefing with the new COO, Admiral Redd was postponed – look forward to the opportunity to meet him. Four new personnel arrived for Regional and Governorate staff – after in processing they will move to their posts in the Regions. Another very quiet day in the CPA Regions and Governorates sites.

**Communications** - Senior Advisor staff met with Minister of Communications to discuss Facilities Protection Service. MoC finance staff met with ITPC finances and

FOIA 09-826 CPA 000383

budgeting. Staff reviewed the customer care contract for dedicated resources for ministries and private business – seeking to develop human resources for engagement. Staff also met with head of ITPC Microwave team to discuss microwave tender. MoC staff developing accelerated timelines for Force Responder Capabilities.

**Construction and Housing** – Senior Advisor, Mr. Michael Karem, has meeting with Minister of Housing and Construction and German AMB at request of German AMB. Still working MoHC presence at Abu Dhabi.

**Electricity** – For 25 Feb, the daily system peak was 4292Mw, the estimated daily system demand was 6174Mw (4292 Actual Generation, + 1600 Load Shed, + 282 Corrected Frequency, = 6174), and imported power from Syria (60Mw) and Turkey (53Mw) included in System Peak.

**Transportation** – **BIAP Building Transition.** MoT staff met with Iraqi Airways' Technical Assistant Director-General Mr. Al-Aris to receive the list of buildings which are occupied by the 1AD and other units, and the number of Iraqi personnel required to secure each building by the transition date. **BIAP Nortel Switch.** MoT staff is working with Iraqi technicians and Bechtel to ensure all parties understand the telecommunications' installation blueprint, for turning over to CPA and Iraqi technicians. Technicians have been unable to program the switch to install fiber-optic remotes at other buildings, and phones at BIAP's terminal C. While Bechtel needs to close out work orders, MoT staff is ensuring the system is ready for turnover. **VSAT Installation.** Trucks were loaded for the Ar Rutbah installation of the Very Small Aperture Terminal (VSAT) system to improve voice and data linkage between air traffic control and aircraft. Drivers and installation crew are briefed, and ready to depart Feb. 25. Installation should be completed by March 1 to meet the strategic plan timeline.

**Water Resources** – Ministry of Water Resources is working hard with the delegation from Italy to establish proper feasibility and environmental studies for dams in Iraq. In the past feasibility studies in Iraq did not include environmental impact statements or detailed economic analyses. Future of proper cooperation and allocation of water resources in Iraq is dependant on the knowledge of properly doing these analyses.

**USAID - Agriculture and Income Generation.** The agricultural team from USAID's Community Action Program (CAP) partner ACDI/VOCA is traveling throughout northern Iraq, talking to farmers and community experts and developing project ideas. The team is helping to set up co-operative enterprises that will help farmers acquire inputs like seeds, develop farmers' skills, and generate additional farm income. One important income generation program is the improvement of livestock productivity. Faster growing, disease resistant animals can be produced through artificial insemination. **Providing Clean Water to Baghdad Residents.** The Kerkh wastewater treatment plant, one of three Baghdad plants being rehabilitated by USAID partner Bechtel, is expected to be brought back online March 1, greatly improving water quality and fisheries in the area.

**PMO** – no report received

**Municipalities and Public Works** – no report received

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5. Preparing a spread sheet comparing the results of the evaluation process.
  6. Making a recommendation for awarding the contract to the best bidder.
  7. The recommendation once approved by the director general of the company is presented to the Minister of Oil for approval prior to signature of a contract.
- B. The technical committee which is headed by the design office top manager includes the managers of the various design departments.

The committee carries out a complete evaluation of the technical offers and prepare a list of notes on each offer. These notes are transmitted to the bidders to receive their clarifications and to iron-out any ambiguities or misconceptions. Meetings may be held if deemed necessary.

At the end of its work, the committee prepare a spread sheet outlining the status of the technical parts of the offers. The spread sheet is sent to the main committee.

**Office of the Chief Operating Officer** – The COO met with AMB Bremer and reviewed the CPA Transition Plan. The COO met with AMB Ricciardoni and LTG(Ret) Kicklighter. BG Vines visited al Najaf with Douglas Brand in MOI to assess the situation on the ground – later reported observations to AMB Bremer. Lastly COO efforts helped solve the al Najaf fuel problems through self-healing pipelines (a non-problem).

**Interior** – Mr. Doug Brand, Senior Advisor to the Iraqi Police, flew to NAJAF to review the security situation; report pending. IP Division met with project officer for the upcoming visit by dignitary to determine suitable site for review. CoS is arranging static site security for Adnan Palace to replace the departing MP Battalion. Policy division prepared briefing for the Riccardone/Kicklighter visit on Sunday. The brief centers on the "security landscape" for MOI. Policy Division has also developed Strategic Review Plan for the COO. CoS met w/MOJ to discuss private security contracting. New draft being prepared based on their guidance. DBE and Iraqi customs have agreed on the documentation to allow the levy to be collected. \$2.6M for reconstruction of border points has been secured.

**PMO** - Acquisition Assessment team arrived from Washington D.C. **Finance**. PMO released tasking to the Department of Army and Army Corps of Engineers for \$248 Million for work in the electrical sector. Army is to request apportionment of these dollars immediately against the \$6.6 Billion notification sent to the Office of Management Budget (OMB) on Tuesday, 27 Jan 04. **Construction**. Team visited Victory Base with representatives of the Gulf Region Division to secure Thuraya telephones, lap top computers, and printers for use in construction field offices. While at Victory they toured the Joint Operations Center construction project. Construction is by a Kuwaiti contractor. The project was designed by the Corps of Engineers. Finishes are being installed including modular office furniture. **Non-Construction**. Staff held meeting to redistribute work load following completion of several acquisition packages; continued metrics development; created graphs and charts to illustrate acquisition progress. **Programming, Buildings and Health Sector**. Staff incorporated PMO review comments on the draft Task Order for design of the Basrah Hospital and submitted it to the CPA Ministry of Health for review. Staff met with Contracting and CPA Ministry of Health to discuss approach for the equipment funds. Staff moved into Room 106A. **Justice Sector**. Staff met with the Ministry of Justice financial person to start to work out budgetary figures for the revised prison projects. Staff met with the engineer for the Ministry of Justice who will be helping to provide information for the Task Orders. Staff met with John Armstrong to start review of new PIF's; made site visit to Rasafa Prison Complex.

**IA - CMATT** - 1<sup>st</sup> Bn has secured their operational schedule today until 8 Feb 04 for a training holiday. 2<sup>nd</sup> Bn continues their training schedule with CJTF-7 forces which today included basic land navigation. 3<sup>rd</sup> Bn and 1<sup>st</sup> CDF regiment remain on leave in Tadjil while 4<sup>th</sup> Bn continues with qualification training at KMTB.

**OIL** – Meeting on Jan. 31, with the Finance Manager for the Ministry of Oil to prevent the walkout of South Distribution and Pipeline company's employees. Employees contend that the management of the South Oil and Refinery paid their employees more money than what was allowed under the new 11 tier system, therefore they want equivalent salaries. Khor Az Zhubayr Port workers on strike due to new pay scale. Strike prevents the unloading of fuel, potentially causing a fuel shortage within the country. The 40" IT pipeline between Kirkuk and Baiji was sabotaged. Pipeline will be assessed once fire is put out. Deliveries of crude to Baiji will be impacted. Working with the U.S. Treasury Department to recover Iraqi assets in foreign countries. Sr. Advisor Rob McKee and Ambassador Bremer visited the Minister of Oil Ibrahim Bahr al-Uloom.

**Regional Operations** - Welcomed Mr. Bill Grant, GC, Sulaminiyah; Mr. Kevin Brady (vice George Farag), PAO, Najaf; and Diane Sovereign, PAO, Ninewa. Will follow in processing and briefing agenda and then move forward. Tracking car bomb in Mosul – awaiting accountability report from GC, Ninawa. SAT in Basra today, will visit Erbil and Mosul starting tomorrow – no issues. Working with CJTF7 to coordinate security (FRAGO directed) to be provided by MND (CS) upon withdrawal of MPs. Current conditions in Najaf – stable. Coordinating support for visit of Amb Ricciardoni to MND (CS) to visit Filipino soldiers. Awarded contract for body armor iso GT/RT.

**Communications** - Senior Advisor met with Ministry of Oil to discuss potential participation in the First Responder Network. MoC staff continues to verify data requirements for each of the private banks. In meeting with Director of the ITPC Savings Branch, senior advisor staff was apprised of a problem involving the downward adjustment of savings rates for Iraqi pensioners from 10 percent to 6 percent because of a decision by the Central Bank of Iraq. The ITPC savings staff related that this decision has resulted in some unrest in the South. MoC staff has raised this issue with Ministry of Finance.

**Electricity** - For 30 Jan, the daily system peak was 4306Mw, the estimated daily system demand was 5,990Mw (4306 Actual Generation, + 1400 Load Shed, + 284 Corrected Frequency, = 5990), and the imported power from Syria (60Mw) and Turkey (80Mw), included in system peak. Countrywide, Iraq's electrical output continues to be constrained by damaged transmission and distribution lines. The lines have come down due to sabotage and bad weather. Downed transmission lines increase the probability for complete nationwide blackout by reducing system contingency and causing mechanical damage at power plants. This may cause further temporary blackouts, which have already directly resulted in 1) impacted refineries causing reduced fuel flow to power plants and a subsequent reduction in power supply, and 2) damages in the power plants due to undercurrent causing units to come off-line for unscheduled maintenance. Conclusion: The Ministry of Electricity continues to make necessary repairs and conduct required maintenance on generation and transmission equipment.

**Transportation - Airport Property During Transition.** The MoT aviation team is evaluating the effect of CPA Order 9 (ruling on management and use of Iraq public property) on airport transition to civilian control, and US military movement out of airport facilities. **Meteorological Services Building.** The MoT aviation team is continuing to supervise work on restoring meteorological facilities located in one building, which was previously looted, for aviation transition. **Port Task Force trip to Basrah.** Certain members of the Port Task force, including Ambassador Trent, visited the port of Umm Qasr to oversee the creation of a Port Operations Center, establish a new Iraqi executive committee to help organize reconstruction efforts, and ensure that all parties concerned (SSA, USAID, MoT) had communicated their concerns and consolidated reconstruction efforts and goals.

**Water Resources** - The Senior Advisor is in the process of completely redoing the Ministry's strategic plan and milestone chart to fit with the new reorganization of the Ministry.

**USAID** - USAID's Community Action Program will expand its activities into the traditionally conflictive, non-permissive Al Anbar Governorate this month. Under CAP, ACDI/VOCA has been implementing projects in Salah ad Din, Diyala', As Sulaymaniyah, At Tamim, Ninawa', Arbil, and Dahuk Governorates that focus on conflict mitigation. ACDI/VOCA also seeks to establish community groups in neglected areas or regions with rising ethnic tensions, especially Mosul, Kirkuk, and Iran-Iraq border towns. Over 100 women gathered on January 27 for a discussion entitled, "Iraqi Women: The Law and Constitution," which featured three female scholars talking about the impact of law on women's lives in Iraq. The discussions, organized by USAID's Local Governance Program (LGP), centered around the idea of using civilian courts for personal issues such as marriage and divorce, rather than relying only on religious institutions. LGP facilitates a women's panel discussion every two weeks in the convention center in Baghdad.

**Construction and Housing** - Minister submitted CV for IG candidate. Accepted contract for ONSA Building, and received restart order for Scooby Building SOE's submitted draft business plans. 5 contracts of the 13 Housing projects under review, (100 million) are in the preliminary renegotiation stage.

**Municipalities and Public Works** - The Senior Advisor updated his Strategic Plan and is prepared to brief the COO tomorrow.

**OMB** - no report received

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**Meeting of 3 November 2003  
Ambassador Bremer and Ibrahim Bahr al Uloom**

**Objectives of the Meeting**

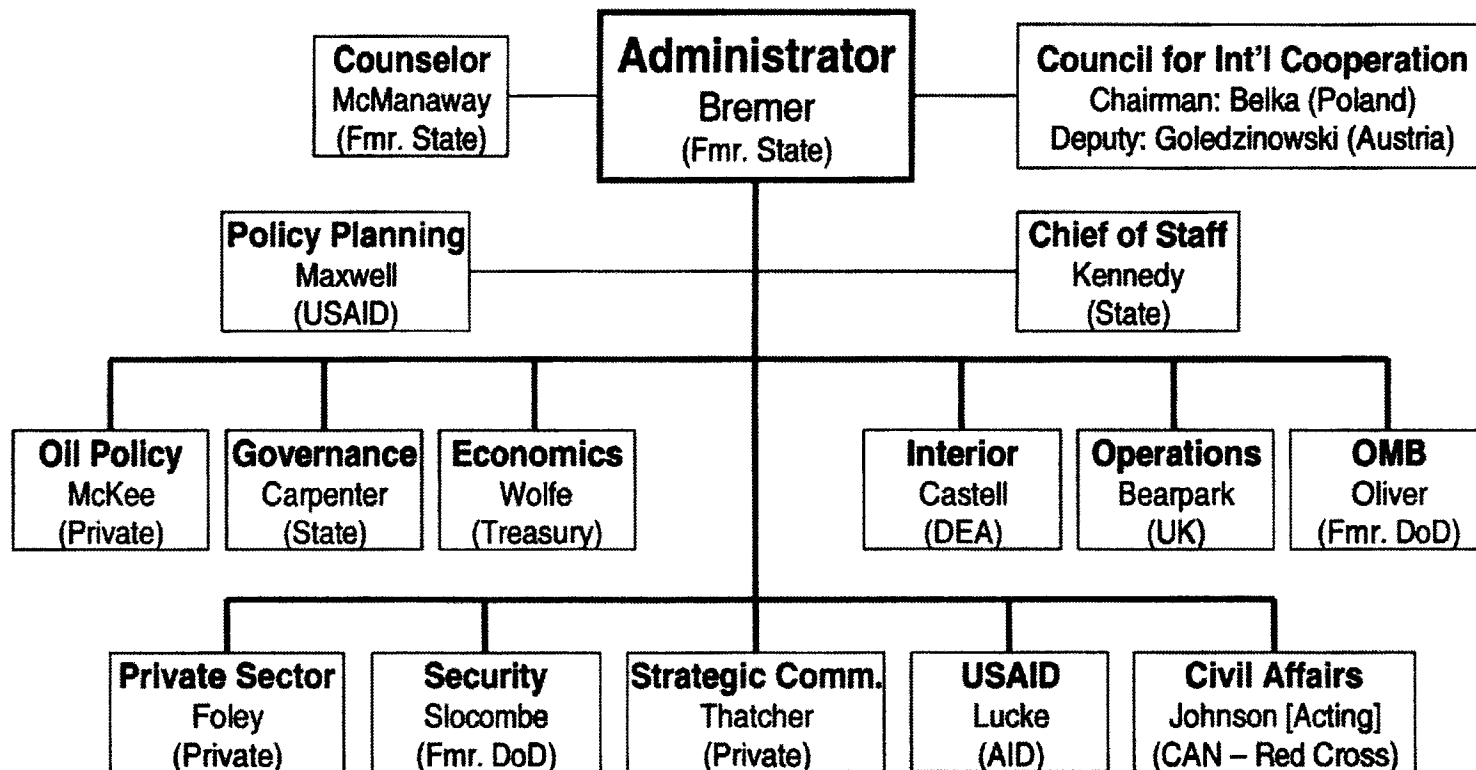
1. Continue discussions from our last meeting together---re-emphasize how important it is for us to separate the Ministry and the oil company and to ensure the company side, including personnel decisions, is de-polititized.
2. Get commitment that the end-state organization includes INOC---re-emphasize how important it is to get this done as soon as possible.
3. Inform him that McKee and his office are doing much work that will be most helpful to, and the backbone of, coming decisions regarding petroleum policy and oil company functionality---emphasize the need for the Ministry to consult with CPA Oil before ALL decisions impacting these areas are made.
4. Reiterate our request made last meeting to develop plans around possible approaches to Iran, Kuwait and Saudi Arabia for product importation and/or crude exportation.

**Questions for Amb Bremer to Ask**

1. What do you see as your major challenges as Minister over the next 90 days?
2. How will the proposed organization change assist you with addressing these challenges?
3. What is your selection process for identifying your senior advisors? How have they been vetted?
4. Achieving adequate supplies of kerosene for the winter months is a major problem. How will an organization change now impact the efforts being made to address the kerosene issue?
5. Why not have a single point of contact for oil operations?
6. How do you see an INOC structure being different from the existing structure?
7. When do you see the establishment of an INOC?
8. Allegations of improprieties at SOMO in a recent issue of an INC publication are very serious. Can you share with me what you have done and what you learned?
9. You have been able to meet dignitaries from foreign countries and I understand you are planning a trip to Russia. What messages are you delivering concerning business relationships with Iraq?
10. Relative to the Governing Council, how do you see the process for going forward with INOC?
11. Enquire whether he has formulated plans to approach Saudi Arabia, Kuwait or Iran regarding product/crude importation/exportation.

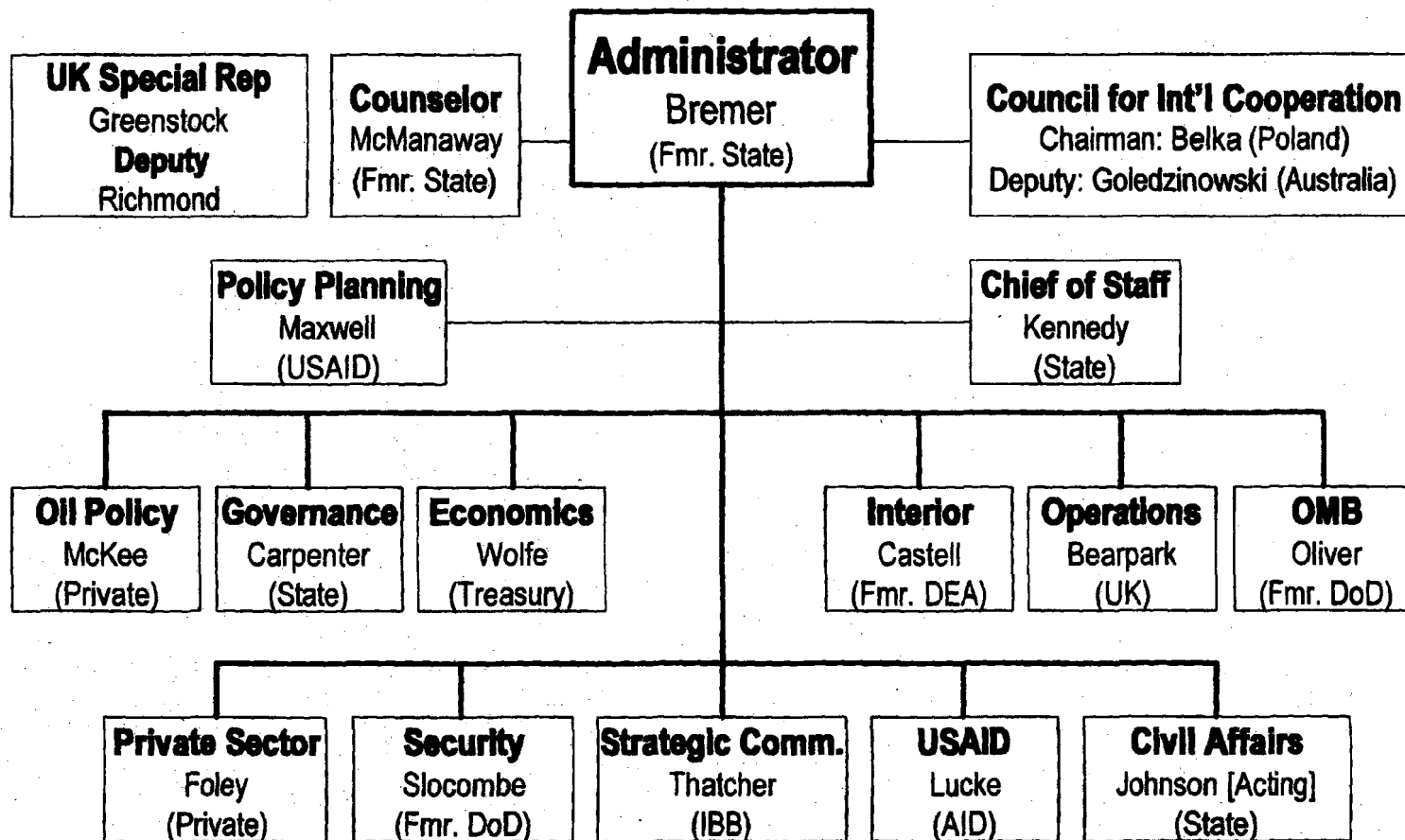


# Coalition Provisional Authority



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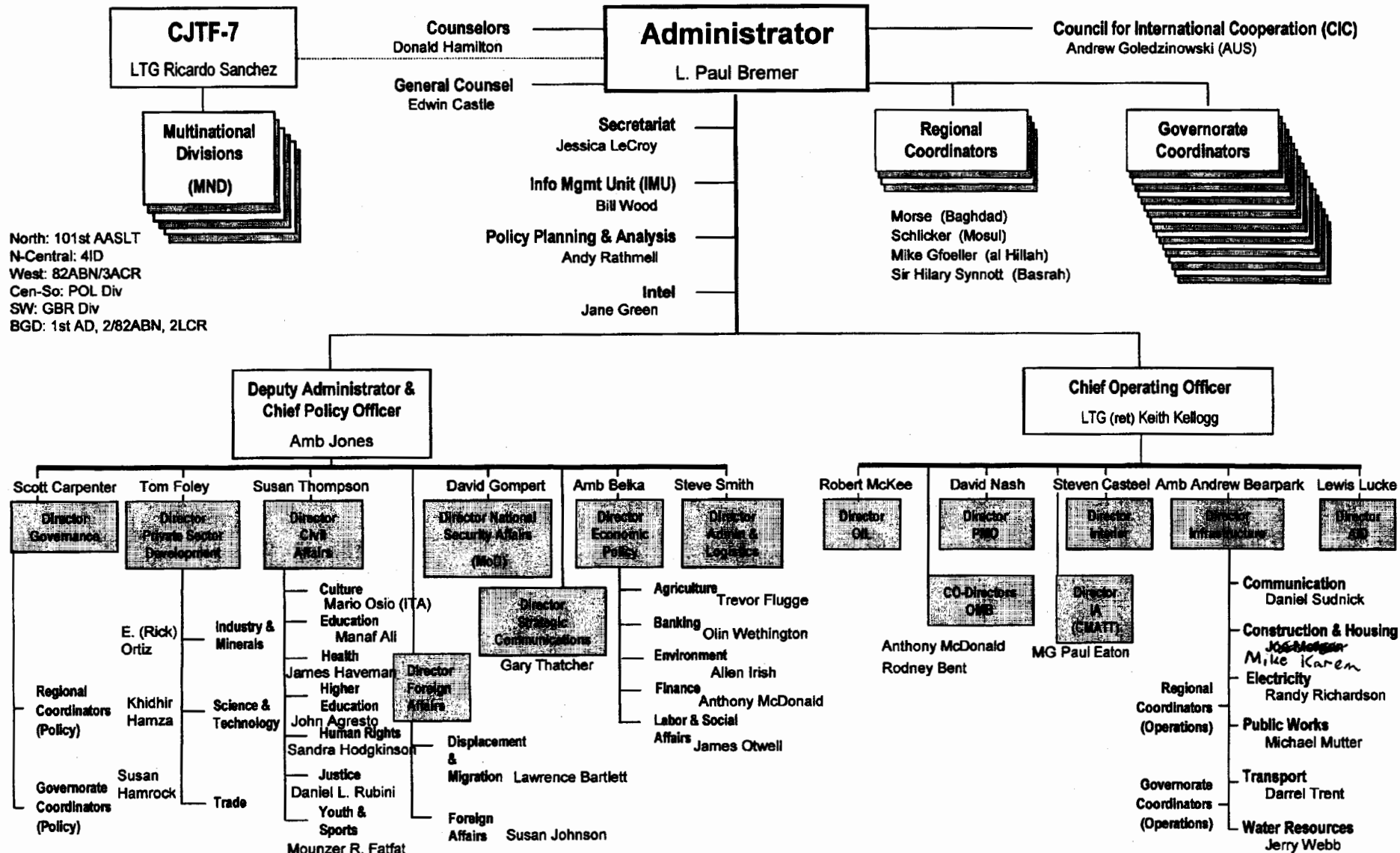
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# COALITION PROVISIONAL AUTHORITY

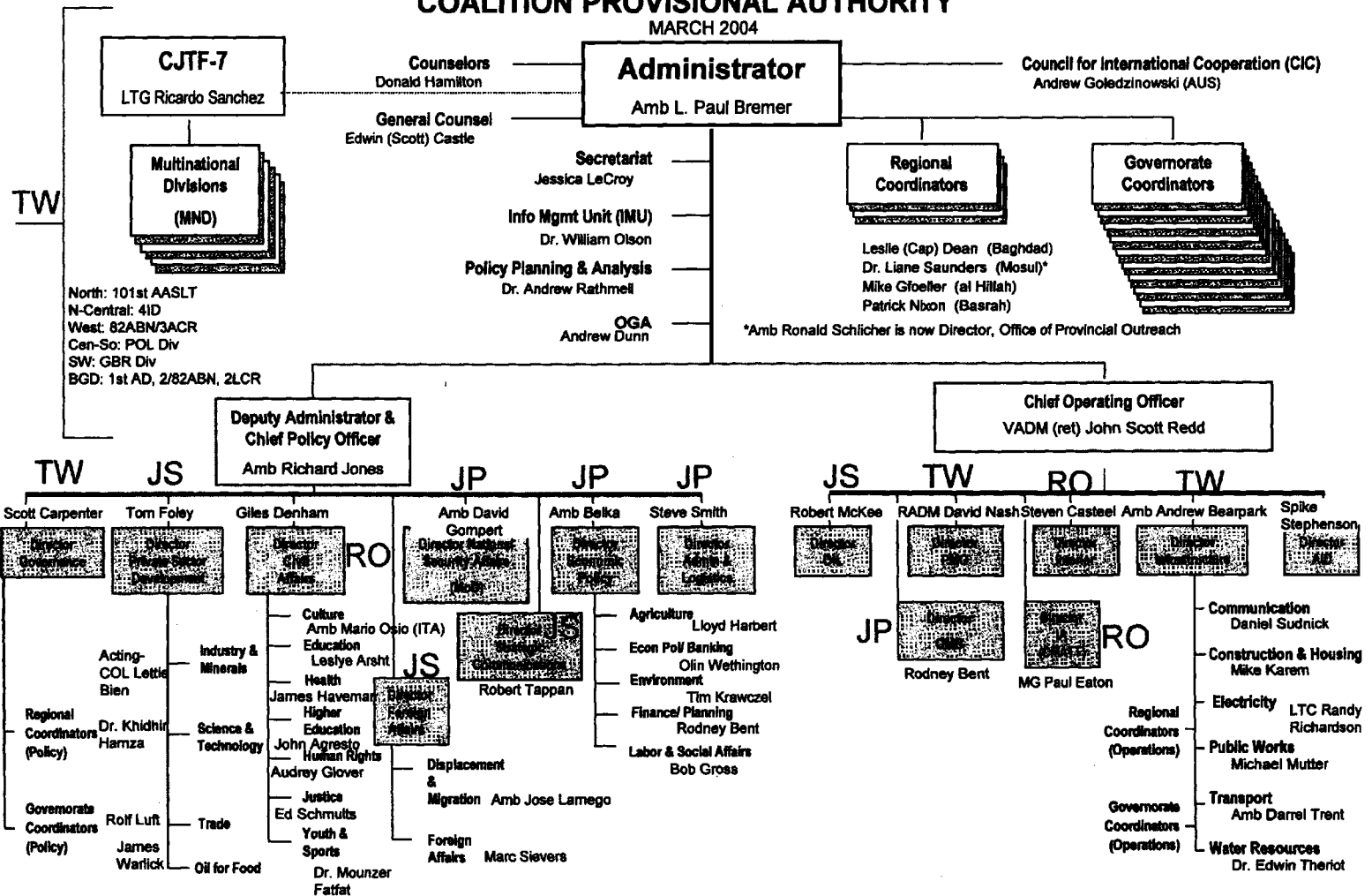
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# COALITION PROVISIONAL AUTHORITY

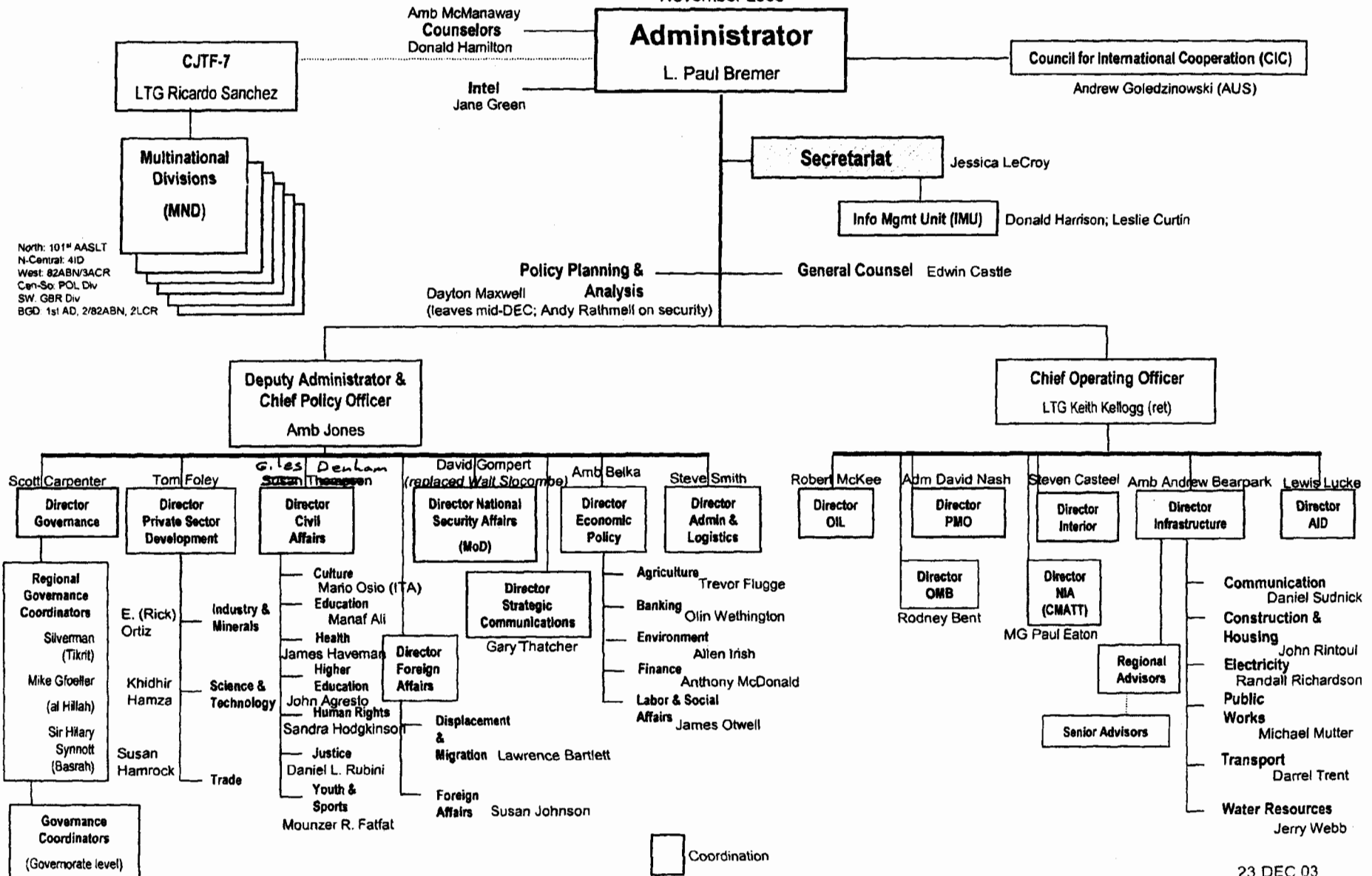
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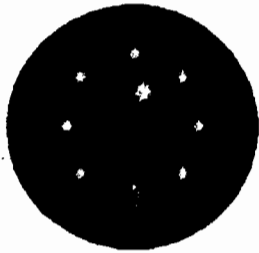
CPA-HRM altered / 1-Mar-04/ JP

# COALITION PROVISIONAL AUTHORITY

November 2003



23 DEC 03



## Summary of non-CA support to CPA for OIF 2

- There are 24 positions identified to be filled by non-CA military personnel
- These personnel fills may be selected from incoming forces or may be requested by a special RFF

## CPA OIF 2 REQUIREMENTS

The original listing of positions from CPA for CA forces identified 72 positions. A review of those positions by the C9 and the CPA civilian personnel director resulted in the changes reflected below.

### Agriculture

Talked to (b)(6) senior advisor, about TOA requirements for his ministry. He was not aware of the three billets proposed on the requirements sheet. He further advised he did not need the three slots county extension officer, legal agriculture officer and agricultural advisor. He did say he needed an LNO to facilitate interaction between the military, CPA, the ministry and the advisor.

Agriculture	County ext agriculture officer	No requirement
Agriculture	Legal agriculture officer	No requirement
Agriculture	Agriculture advisor	No requirement
Agriculture	Military LNO	1 O-3 Branch immaterial

### Communication

Talked to (b)(6) senior advisor, about TOA requirements for this ministry. He also seemed unaware of these requirements. He advised he need four personnel to do spectrum management.

Commo	Commo Advisor	1 O-4 Signal
Commo	Commo Advisor	1 E-8 Signal
Commo	Commo Advisor	1 E-6 Signal
Commo	Commo Advisor	1 E-5 Signal

ADDITIONAL REQ

### Culture

Talked to the deputy senior advisor, (b)(6) about TOA. He provided a paper which provides a brief job description. Based on his general job description, the following billet recommendations are provided.

Culture	Advisor	O-3 CA
Culture	Advisor	Will hire civilians
Culture	Advisor	Will hire civilians
Culture	Advisor	Will hire civilians
Culture	Advisor	Will hire civilians

### Education

Talked to (b)(6) one of three senior advisors (?) about TOA for her ministry.

She was aware of the issue and requirement on the staffing sheet. She advised she needed the two positions requested.

Education	Admin Assistant	Will hire civilians
Education	School Infrastructure	1 O-3 CA

#### Electricity

Talked to (b)(6) COS, about TOA for his ministry. He advised that he has advised CPA personnel that these personnel don't need to be CA. The COS is a project coordinator and the other two positions are contract expeditors.

Electricity	Executive Officer	1 O-5 Branch Immaterial
Electricity	UNDP Contract Coord	1 O-4 Logistics
Electricity	Materials/UNDP expeditor	1 Will hire civilians

#### Higher Ed

Talked to senior advisor, (b)(6) about TOA for his ministry. He advised he needs help now. He advised he requires a legal or education background. The project, in addition to doing operations functions, will work a criminal justice curriculum for the Iraqi higher education system.

Higher ED	Advisor	1 O-4 CA
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#### Housing

Housing	Deputy Sr. Advisor	1 O-5 CA
Housing	Prog Mangr road/bridge	1 O-4 EN

#### Indust/Minrls

Indust/minrls	Advisor	CA O-3 w/finance exp
Indust/minrls	Advisor	CA O-3 w/finance exp
Indust/minrls	State owned enterprise	CA O-4 w/finance-bussiness exp

#### Public works

Talked to (b)(6) about TOA for his ministry. (b)(6) has requested extension in this slot. Recommend he remain in the billet for institutional memory.

Public Works	Civil military Liaison	<u>Extended</u>	1 O-5 CA
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#### Water & Irragation



Talked to (b)(6) about TOA for his ministry. The senior advisor and deputy are out of town. To the best of (b)(6) understanding, they require an engineer/LNO billet.

Water/Irrigat Reconstruction

1 O-4 Engineer officer

### Justice

Talked to (b)(6) deputy senior advisor, about TOA for his ministry. He advised he needs people to set up and monitor the judicial systems in the provinces. His need is for JA personnel or people with judicial experience. Talked to (b)(6) senior advisor, for prisons about TOA for his ministry. He advised he has an augmentation of about 7 MP's and had three CA personnel. He is unsure why the CPA list has only three personnel. He advised one MP officer and two CA soldiers would be the best mix of three soldiers.

Justice	Justice advisor	1 O3-5 JA
Justice	Justice advisor	1 O3-5 JA
Justice	Justice advisor	1 O3-5 JA
Prisons	Prison advisor	1 O-3 MP
Prisons	Prison advisor	1 E-7 CA w/some training exp
Prisons	Prison advisor	1 E-7 CA w/some admin/budget exp
Prisons	Prison advisor	O-5 CA Prison experience
Prisons	Prison advisor	O-3 CA
Prison	Prison advisor	O-2 CA

### National Security

Talked to (b)(6) senior advisor, about TOA for his ministry. He advised this position has been filled by (b)(6) who just arrived.

Nat Sec	COS/Mil Asst-def ministry	Not required
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### Oil

Talked to Rob McKee, senior advisor, about TOA for his ministry. He advised he needed a finance/payroll guy and a COS.

Oil	Task Force Shield	O-4 CA
Oil	Military asst. oil	O-4 Finance
Oil	Military asst. oil	O-5 COS Branch Immaterial

### Trade

Talked to (b)(6) acting senior advisor, about TOA for his ministry. He advised that a couple of these positions were civilianized.

Trade	Asst III Corp LNO	1 O-3 Branch Immaterial
Trade	Database manage Off	Civilianized
Trade	OFF contracts	Civilianized
Trade	Standards	Position moved

#### Transportation

Talked to (b)(6) COS, about TOA for his ministry.

Trans	Airport Admin	Will hire civilian
Trans	CFACC	Air Force Billet, replacement projected
Trans	Ports	O-4 QM
Trans	Security adv	O-4 TC
Trans	Transcom Aviation	Air Force Billet, replacement projected

#### Youth Sports

Talked to (b)(6) military LNO in the orffice. The minister, Dr Mounzer Fatfat, is out of town. (b)(6) advised that (b)(6) is also working in the office and has requested extension till 1 July 04.

Youth Sports    Military LNO    Extended    1 O-4 CA

#### Finance

Talked to (b)(6) new executive assistant (senior advisor and deputy were unavailable), about TOA in his ministry.

Finance	Budget analyst	1 O-5 FI
Finance	Mil assist Econ Policy HQ	1 O-5 CA w/econ exp
Finance	Dev/Bur of supreme audit	1 O-4 FI
Finance	Dev/Bur of supreme audit	1 O-4 FI
Finance	Stock market analyst	1 O-4 CA w/ stock market exp

#### Health

Unable to link up with health ministry. Anticipate the following

Health	Disease surveillance	O-3 CA w/ med exp
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### Interior

Interior	Fire & rescue Adv	O-3 CA w/ firefighting exp
Interior	Sr policy Adv border enforcement	O-3 CA w/border exp
Interior	Sr policy adv police	O-3 CA w law enforcement exp

### Labor & social services

Senior advisor and deputy were both unavailable. Discussed the position with two employees. Position has ops element and much interaction with civilians

Labor	Ops & log interim adv	O-4 CA
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### Program Manager Office

Talked to (b)(6) about his organization. He advised that this position has been resolved in that someone is on the way to fill the position.

Pro mang off	IT manager	Not required
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### Regional Offices

Per information provided by Regional personnel.

Regn off Baghdad	Regn CA advisor	O-5 CA Ops off/ COS O-4 CA Proj manage off O-4 CA Ops off
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Extended

Regn off North	Regn CA advisor	O-5 CA Ops off/COS O-4 CA Proj manage off O-4 CA Ops off
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Regn off Central South	Regn CA advisor	Not required
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Regn off South	Regn CA advisor	O-5 CA Ops off/COS O-4 CA Proj manage off O-4 CA Ops off
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### Science & Technology

Talked to (b)(6) COS, about TOA for his ministry. He felt he does not need two positions. He requested an O-4/5 operations officer. This job would do some contracting, FPS coordination, PDS coordination for the minister.

Scie/Tech     Advisor  
Scie/Tech     Advisor

O4 Branch Immaterial  
Not required

**CPA Baghdad**

Talked to (b)(6) government coordinator, about TOA for his organization. He needs CA personnel with government experience. These personnel are in addition to the three in one of the Regional teams above due to the 1 CAV not having a BDE headquarters.

CPA Bagh     CA asst  
CPA Bagh     CA asst  
CPA Bagh     CA asst  
CPA Bagh     CA asst  
CPA Bagh     CA asst  
CPA Bagh     Ops  
CPA Bahg     Ops

O-5 CA  
O-4 CA  
O-2 CA  
O-2 CA  
E-5 CA  
O-4 branch immaterial  
E-6 branch immaterial

**CPA North**

Per the CPA Personnel Office, additional CPA North support beyond the regional office personnel listed above.

CPA North     CA asst  
CPA North     CA asst  
CPA North     CA asst  
CPA North     CA asst

O-4 CA  
O-3 CA  
E-7 CA  
E-5 CA

Soldiers required per the above paper:     64 = 40 CA + 24 Other US Army