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	EAP-00	EUR-00	OIGO-00	VC-00	H-01	TEDE-00	INR-00
	L-00	MCO-01	VCE-00	MOFM-04	MOF-03	M-00	AC-01
	NEA-00	NSAE-00	NSCE-00	OIC-02	OIG-03	OMB-01	PA-00
	PM-00	PRS-00	ACE-00	P-00	SCT-00	SP-00	IRM-00
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E.O. 12958: DECL: 11/22/2010

TAGS: IZ, PREL

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SUBJECT: POTENTIAL IRAQI OIL CUTOFF THREAT

REF: MOSCOW 20683

CLASSIFIED BY IO A/S DAVID WELCH FOR REASONS 1.5 (B), (D)

1. THIS IS ACTION REQUEST. SEE PARAGRAPHS 5 AND 6.
2. IRAQ HAS TAKEN ANOTHER STEP TO DISRUPT OIL MARKETS AND CHALLENGE UN SANCTIONS BY SUBMITTING TO THE UN PROPOSED BELOW-MARKET PRICES FOR IRAQI CRUDE SALES UNDER THE OIL-FOR-FOOD PROGRAM. IF THE UN DOES NOT AGREE TO THE NEW PRICING MECHANISM, IRAQ MIGHT INTERRUPT OR RESTRICT OIL SALES.
3. ~~(C)~~ AT REGULAR INTERVALS, AT LEAST MONTHLY, THE IRAQI STATE OIL COMPANY SOMO PROPOSES PRICES FOR IRAQI OIL SALES TO UN OIL OVERSEERS, WHO MUST APPROVE THE PRICE AND FORWARD THE PROPOSALS TO THE UN'S IRAQ SANCTIONS COMMITTEE FOR ITS

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APPROVAL. ON NOVEMBER 22, THE OVERSEERS INFORMED THE COMMITTEE THAT SOMO HAD SUBMITTED "BELOW MARKET LEVEL" PRICES FOR OIL LIFTINGS IN DECEMBER AND THEY CONCLUDED THAT THE PRICES "DO NOT REPRESENT FAIR MARKET VALUE". THE OVERSEERS DECLINED TO ENDORSE THE PRICING FORMULA, WHICH WOULD CREATE AN OPPORTUNITY FOR UNAUTHORIZED REBATES TO IRAQ BY UNSCRUPULOUS OPERATORS OUTSIDE THE OIL-FOR-FOOD PROGRAM. PRIVATELY, THE OVERSEERS HAVE INDICATED THAT THERE IS EVIDENCE IRAQ WILL THREATEN TO STOP OR SLOW OIL PRODUCTION IF IT DOES NOT GET THE PRICING IT WANTS. THIS MAY ALSO BE LINKED TO IRAQ'S THREAT TO OIL PURCHASERS THAT IT WILL CHARGE AN ADDITIONAL 50 CENTS PER BARREL BEGINNING DECEMBER 1, WITH THE PROCEEDS PAID DIRECTLY TO IRAQ INSTEAD OF INTO THE OIL FOR FOOD ESCROW ACCOUNT.

4. THE DEADLINE FOR MEMBERS OF IRAQ SANCTIONS COMMITTEE (SAME AS SECURITY COUNCIL) TO MAKE COMMENTS ON THE OVERSEERS COMMUNICATION ON THE PRICING MECHANISM IS MONDAY, SEPTEMBER 27 AND WE UNDERSTAND THERE MAY BE A COMMITTEE MEETING THAT DAY ON THIS ISSUE.

5. ACTION REQUESTED: EMBASSIES MOSCOW AND PARIS

EMBASSY IS REQUESTED TO APPROACH HOST GOVERNMENT AT APPROPRIATE SENIOR LEVEL AND MAKE POINTS BELOW.

-- AS YOU MAY KNOW, IRAQ HAS JUST SUBMITTED TO THE UN PROPOSED OIL PRICES FOR DECEMBER THAT DEVIATE FROM MARKET PRICES. THE UN OIL EXPERTS -- THE OVERSEERS -- HAVE DECLINED

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TO ENDORSE IRAQ'S PROPOSED PRICES.

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-- IRAQ'S PRICING WOULD CREATE AN OPPORTUNITY FOR UNAUTHORIZED REBATES TO IRAQ BY UNSCRUPULOUS OPERATORS OUTSIDE THE OIL-FOR-FOOD PROGRAM.

-- IRAQ HAS STRUCK AT THIS CORE ELEMENT OF THE UNSCR'S BECAUSE IT PERCEIVES THAT ITS EFFORTS TO CHIP AWAY AT SECONDARY ELEMENTS OF THE SANCTIONS REGIME IS SUCCEEDING.

-- WANT TO BE CLEAR THAT U.S. SEES ITS NATIONAL INTERESTS IMPLICATED IN THIS IRAQI BEHAVIOR. WE ARE WILLING TO WORK WITH YOU AND OTHERS TO PROTECT OUR COMMON INTERESTS.

-- THE ISSUE NOW MOVES TO THE IRAQ SANCTIONS COMMITTEE. IRAQ HAS GIVEN INDICATIONS THAT IF THE COMMITTEE DOES NOT AGREE ON A NEW PRICING MECHANISM, OIL LIFTINGS WOULD BE DISRUPTED.

-- BY THIS ACTION, IRAQ IS BLATANTLY THREATENING THE SECURITY COUNCIL AND SEEKING TO DISRUPT WORLD OIL MARKETS. IRAQ'S MESSAGE IS: DO AS WE WANT, NOW, OR WE WILL TURN OFF THE OIL.

-- THE U.S. IS DETERMINED TO SEE IRAQ FAIL IN THIS EFFORT.

-- THE SECURITY COUNCIL MUST STAND UNIFIED AGAINST THIS CHALLENGE TO THE COUNCIL'S AUTHORITY.

-- THERE MAY BE DIFFERENCES BETWEEN US ON OTHER AREAS OF IRAQI SANCTIONS POLICY, BUT YOU SHARE OUR INTEREST IN SEEING STABILITY IN WORLD OIL MARKETS AND SEEING THAT THE SECURITY COUNCIL NOT CAPITULATE TO THREATS LIKE THIS ONE.

-- URGE YOU TO INSTRUCT YOUR UN MISSION IN NEW YORK TO

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EXPRESS SUPPORT FOR THE OVERSEERS AND REJECTION OF IRAQ'S CHALLENGE. WE UNDERSTAND THERE WILL BE A MEETING OF THE 661 COMMITTEE ON THIS ISSUE MONDAY, NOVEMBER 27. IF THERE IS NOT, YOUR DELEGATION SHOULD EXPRESS ITS VIEWS TO THE CHAIRMAN OF THE 661 COMMITTEE BY THE COMMENT DEADLINE HE ESTABLISHED OF MONDAY, 10 AM.

-- HOPE WE CAN CONTINUE TO WORK TOGETHER TO COUNTER EXTREME CHALLENGES LIKE THIS ONE.

6. ACTION REQUESTED: EMBASSIES LONDON, THE HAGUE

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EMBASSIES ARE REQUESTED TO INFORM APPROPRIATE OFFICIALS THAT
WE ARE DELIVERING THIS DEMARCHE IN PARIS AND MOSCOW.
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