

~~CONFIDENTIAL~~ PTQ2188

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ACTION IO-00

INFO	LOG-00	NP-00	AF-00	AID-00	ACQ-00	CIP-00	COME-00
	CTME-00	DOEE-00	WHA-00	SRPP-00	DS-00	EAP-00	EB-00
	EUR-00	VC-00	H-01	TEDE-00	INR-00	LAB-01	L-00
	VCE-00	AC-01	NEA-00	DCP-01	NSAE-00	OIC-02	OMB-01
	CAEX-01	PA-00	PM-00	PRS-00	ACE-00	P-00	SP-00
	SSO-00	SS-00	STR-00	TRSE-00	T-00	USIE-00	SA-00
	EPAE-00	PMB-00	DSCC-00	DRL-02	G-00	SAS-00	SWCI-00

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 FM USMISSION USUN NEW YORK
 TO SECSTATE WASHDC IMMEDIATE 5482
 INFO IRAQ COLLECTIVE IMMEDIATE
 UN SECURITY COUNCIL COLLECTIVE IMMEDIATE
 CJCS WASHDC IMMEDIATE
 CIA WASHDC IMMEDIATE
 NSC WASHDC IMMEDIATE
 SECDEF WASHDC IMMEDIATE
 WHITEHOUSE WASHDC IMMEDIATE

PARTIAL RELEASE

B1, 1.4 (d), B6

~~CONFIDENTIAL~~ SECTION 01 OF 03 USUN NEW YORK 002315

WHITE HOUSE FOR OVP

E.O. 12958: DECL: 09/24/2006
 TAGS: ETTTC, PREL, UNSC, IZ
 SUBJECT: UN/IRAQ: RUSSIA BLOCKS COUNCIL CONSENSUS ON

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PAGE 02 USUN N 02315 01 OF 03 250125Z
 15-DAY OIL PRICING DESPITE UN OIL OVERSEERS' CONFIRMATION
 OF NEGATIVE IMPACT OF OIL SURCHARGES

REF: USUN 2195

CLASSIFIED BY:



1.5 (B) AND (D)

B6 REASONS:



- (U) THIS IS AN ACTIONS REQUEST - PARA 10.
- ~~(S)~~ SUMMARY: ON SEPTEMBER 24, IN A CONTINUATION OF DISCUSSIONS BEGUN SEPTEMBER 13 (REFTEL), MEMBERS OF THE SECURITY COUNCIL RENEWED DEBATE OVER THE ISSUE OF IRAQ OIL PRICING, INCLUDING IRAQ'S IMPOSITION OF OIL SURCHARGES ON

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SHIPMENTS DESTINED FOR THE U.S. AND EUROPEAN MARKETS. THREE UN OIL OVERSEERS BRIEFED COUNCIL MEMBERS, POINTING OUT THAT SINCE DECEMBER 2000, A MINIMUM OF THIRTY CENTS PER BARREL PRICE PREMIUM HAS BEEN CHARGED ON SHIPMENTS FROM IRAQ TO THE U.S. AND EUROPE. WHILE UNABLE TO CONFIRM WHETHER CONTRACT BUYERS OR THE IRAQI GOVERNMENT, OR BOTH, WERE COLLECTING THE EXTRA FEES, THE OIL OVERSEERS MADE CLEAR THAT SUCH ADDITIONAL REVENUE WAS NOT GOING TO THE OIL-FOR-FOOD ESCROW ACCOUNT AS ORIGINALLY INTENDED FOR USE IN IMPROVING THE HUMANITARIAN SITUATION IN IRAQ. AMBASSADOR CUNNINGHAM AND MOST OTHER COUNCIL MEMBERS VOICED SERIOUS CONCERN OVER THE PROBLEM POSED BY ILLICIT OIL SURCHARGES, ARGUING THAT SHORTER PRICING PERIODS WOULD HELP LOWER PREMIUMS CURRENTLY IMPOSED. RUSSIA REFUSED TO ENDORSE A UK PROPOSAL ADVOCATING COUNCIL ACCEPTANCE OF A 15-DAY OIL PRICING SCHEME FOR OCTOBER. HOWEVER, COUNCIL MEMBERS DID AGREE ON A U.S. PROPOSAL FOR WEEKLY INFORMATION UPDATES PROVIDED BY THE UN OIL OVERSEERS

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TO THE IRAQ SANCTIONS 661 COMMITTEE CONCERNING OIL PREMIUMS. COUNCIL PRESIDENT LEVITTE (FRANCE) PROPOSED MODIFYING 661 COMMITTEE PRACTICE BY RELYING ON MAJORITY VOTING VICE CONSENSUS ON PROCEDURAL ISSUES, A CHANGE SUPPORTED ONLY BY JAMAICA.

END SUMMARY.

3. ~~(S)~~ SECURITY COUNCIL PRESIDENT LEVITTE SUGGESTED THAT COUNCIL MEMBERS NEEDED TO DECIDE BOTH ON THE SUBSTANTIVE ISSUE OF PRICING AND TIMEFRAMES FOR IRAQI CRUDE OIL EXPORTS AND THE PROCEDURAL ISSUE OF WHETHER TO SWITCH FROM CONSENSUS TO MAJORITY VOTING ON PROCEDURAL ISSUES ADDRESSED BY THE IRAQ SANCTIONS 661 COMMITTEE. UN OIL OVERSEERS ALEXANDER KRAMAR, MICHEL TELLINGS AND MORT JENSEN BRIEFED COUNCIL MEMBERS AND SUBSEQUENTLY ANSWERED QUESTIONS ON THE IMPACT OF OIL PREMIUMS/SURCHARGES ON THE UN OIL-FOR-FOOD PROGRAM. KRAMAR, THE LONGEST-SERVING OVERSEER, PRESENTED PRELIMINARY REMARKS IN WHICH HE NOTED THAT SINCE DECEMBER 2000, CONTRACT BUYER MIDDLEMEN WHO PURCHASED IRAQI CRUDE OIL WERE PAYING, ON AVERAGE, THIRTY CENTS PER BARREL PREMIUMS ON SHIPMENTS TO THE U.S. AND EUROPEAN MARKETS. IN SOME CASES, THE FEES WERE AS HIGH AS SIXTY-SEVENTY CENTS PER BARREL. KRAMAR SAID THE "CONTRACT BUYERS" WERE A GROUP OF 900-PLUS APPROVED COMPANIES, SOME WITH AS RUDIMENTARY AN ORGANIZATION AS A COMPUTER AND FAX MACHINE, WHO IN OTHER MARKETS WOULD BE CONTENT TO EARN NO MORE THAN FIVE CENTS PER BARREL.

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4. ~~(S)~~ KRAMAR EXPLAINED THAT THE OIL OVERSEERS' ENDORSEMENT OF PRICES SUBMITTED BY THE IRAQ STATE OIL MARKETING ORGANIZATION (SOMO) WAS BASED ON THE ASSUMPTION THAT SOMO WOULD ADJUST THE OFFICIAL SELLING PRICE (OSP) OF IRAQI CRUDE OIL "WITH THE SAME PROPENSITY FOR PRICE INCREASES AS FOR PRICE DECREASES." HOWEVER, DURING PHASE IX OF THE OIL-FOR-FOOD PROGRAM, KRAMAR SAID THIS OBJECTIVE HAD NOT BEEN MET. KRAMAR SAID SOMO WAS FAR MORE LIKELY TO SEEK A DOWNWARD PRICE ADJUSTMENT TO MAXIMIZE THE DIFFERENTIAL BETWEEN THE OFFICIAL SELLING PRICE (OSP) AND THE FLUCTUATING MARKET PRICE, THUS PERMITTING IMPOSITION OF A PRICE PREMIUM. TO COMBAT THE PROBLEM OF PRICE SURCHARGES, KRAMAR SAID SOMO COULD BE MORE MARKET RESPONSIVE BY ADJUSTING THE OSP MORE FREQUENTLY, OR, SOMO COULD MAINTAIN A SINGLE OSP THROUGHOUT THE MONTH AND REFUSE TO PERMIT CONTRACT HOLDERS TO POSTPONE OR CANCEL OIL LOADINGS AS THEY TYPICALLY DO NOW TO MAXIMIZE PROFIT BASED ON MARKET PRICE VARIATIONS. KRAMAR SAID A THIRD ALTERNATIVE APPROACH TO DEAL WITH PRICING PREMIUMS WOULD BE TO SHORTEN THE PERIOD THE 661 COMMITTEE GRANTED FOR APPROVED PRICES ON IRAQI OIL SHIPMENTS.

5. ~~(S)~~ UK PERMREP GREENSTOCK, ECHOING COMMENTS MADE BY COLOMBIAN PERMREP VALDIVIESO AND IRISH PERMREP RYAN, SAID IT WAS IMPORTANT THAT THE COUNCIL FOCUS ON THE SUBSTANTIVE ISSUE OF HOW BEST TO ADDRESS THE PROBLEM OF OIL PREMIUMS RATHER

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ACTION IO-00

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	CAEX-01	PA-00	PM-00	PRS-00	ACE-00	P-00	SP-00
	SSO-00	SS-00	STR-00	TRSE-00	T-00	USIE-00	SA-00
	EPAE-00	PMB-00	DSCC-00	DRL-02	G-00	SAS-00	SWCI-00

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TO SECSTATE WASHDC IMMEDIATE 5483

INFO IRAQ COLLECTIVE IMMEDIATE

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UN SECURITY COUNCIL COLLECTIVE IMMEDIATE
CJCS WASHDC IMMEDIATE
CIA WASHDC IMMEDIATE
NSC WASHDC IMMEDIATE
SECDEF WASHDC IMMEDIATE
WHITEHOUSE WASHDC IMMEDIATE

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THAN RE-ENGAGE IN DEBATE ON THE MORE PERIPHERAL MATTERS INVOLVING COMMITTEE PROCEDURE, WHICH COULD BE DEALT WITH LATER. GREENSTOCK TOOK NOTE OF COMMENTS BY THE OIL OVERSEERS THAT SOMO DID NOT DEMONSTRATE THE SAME PROPENSITY TO RAISE PRICES IN RESPONSE TO CHANGING MARKET CONDITIONS AS IT DID TO LOWER THEM. IN FACT, GREENSTOCK SAID THAT SOMO SOUGHT TO LOWER PRICES NINETEEN TIMES DURING PHASE IX OF THE OIL-FOR-FOOD PROGRAM, WHILE REQUESTING INCREASES ONLY THREE TIMES, AN ISSUE THAT, ACCORDING TO GREENSTOCK, SHOULD HAVE BEEN BROUGHT TO THE ATTENTION OF THE COUNCIL SOONER. GREENSTOCK NOTED THAT IDEALLY, OIL PRICES SHOULD BE ADJUSTED DAILY TO REFLECT CHANGES IN MARKET PRICES. SINCE THAT WAS NOT PRACTICAL, HE SAID COUNCIL MEMBERS SHOULD AGREE TO CHANGE TO A 15-DAY PRICING SCHEME AS SOON AS POSSIBLE.

6. ~~(S)~~ AMBASSADOR CUNNINGHAM THANKED THE OIL OVERSEERS FOR THEIR USEFUL AND INFORMATIVE BRIEFING, NOTING THAT COUNCIL MEMBERS WOULD BENEFIT FROM SUCH INFORMATION ON A REGULAR BASIS. CUNNINGHAM UNDERScoreD THE COUNCIL'S RESPONSIBILITIES TO OVERSEE AND SUPPORT THE OIL-FOR-FOOD (OFF) PROGRAM, INCLUDING ENSURING THAT PRICES CHARGED FOR IRAQI OIL WERE NOT AT GREAT VARIANCE WITH MARKET CONDITIONS. CLEARLY, THE EXCESS PROFITS BEING MANIPULATED BY IRAQI OFFICIALS OR CONTRACT MIDDLEMEN OR BOTH WERE NOT GOING TO THE OFF ESCROW ACCOUNT AND WERE NOT BEING USED TO SUPPORT THE HUMANITARIAN NEEDS OF THE IRAQI PEOPLE. CUNNINGHAM SAID THE U.S. ALSO SUPPORTED A 15-DAY PRICING SCHEME FOR THE U.S. AND EUROPEAN MARKETS. HE REITERATED HIS PREVIOUSLY ISSUED DEMAND FOR

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WEEKLY OIL OVERSEER UPDATES TO THE 661 COMMITTEE ON OIL PREMIUMS SO THAT COMMITTEE MEMBERS, ARMED WITH THE FACTS, COULD DECIDE ON APPROPRIATE NEXT STEPS. COUNCIL MEMBERS SUBSEQUENTLY AGREED TO SUPPORT THE U.S. PROPOSAL.

7. ~~(C)~~ RUSSIAN [REDACTED] NOTING THE RISKY NATURE OF THE IRAQ OIL MARKET, SAID COUNCIL EFFORTS TO CHANGE APPROVED PRICING PERIODS COULD RESULT IN GREATER UNCERTAINTY, AND POSSIBLY GREATER DISRUPTION, IN OIL EXPORTS, THEREBY THREATENING REVENUE DESTINED FOR THE OFF ESCROW ACCOUNT. BEFORE THE COUNCIL DECIDED ON ANY CHANGES, [REDACTED] SAID ADDITIONAL INFORMATION WAS NEEDED, INCLUDING THE SOURCE OF THE OIL OVERSEERS' INFORMATION ON PRICE PREMIUMS, THE SPECIFIC NAMES OF EXPORTING COMPANIES INVOLVED, THE NAMES OF SECONDARY PURCHASERS, AND THE GEOGRAPHIC DISTRIBUTION OF IRAQ OIL EXPORTS UNDER PHASE X, COMPARED TO THE DESTINATION OF IRAQI OIL UNDER PHASE IX. [REDACTED] SAID RUSSIA DID NOT SUPPORT THE UK PROPOSAL FOR COUNCIL ENDORSEMENT OF A 15-DAY PRICING SCHEME.

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8. ~~(C)~~ CHINESE [REDACTED] SAID IRAQ SHOULD ADJUST OIL PRICES MORE FREQUENTLY TO ADDRESS THE PROBLEM OF SURCHARGES, YET QUESTIONED WHETHER SHORTER TIME FRAMES MIGHT NEGATIVELY IMPACT IRAQ OIL EXPORTS. [REDACTED] SAID IT WAS NO SURPRISE THAT IN LIGHT OF EXISTING SANCTIONS ON IRAQ, ITS OIL MARKET AND OIL EXPORTS WOULD PRESENT UNIQUE SITUATIONS DIFFERENT FROM THOSE ENCOUNTERED WITH OTHER OIL MARKETS. COUNCIL PRESIDENT LEVITTE (FRANCE), IN HIS NATIONAL CAPACITY, SAID THE FRENCH GOVERNMENT OPPOSED THE IMPOSITION OF ILLEGAL SURCHARGES ON IRAQ OIL EXPORTS, A PRACTICE WHICH DEPRIVED THE OFF ESCROW ACCOUNT NEEDED REVENUE TO DEAL WITH IRAQ'S

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NUMEROUS HUMANITARIAN CONCERNS. LEVITTE SAID FRANCE SUPPORTED SHORTER PRICING PERIODS AND WOULD ENDORSE A 15-DAY PRICING SCHEME. LEVITTE VOICED REGRET THAT CERTAIN 661 COMMITTEE MEMBERS HAD BLOCKED PROGRESS ON THE OIL PRICING ISSUE AND SUGGESTED THAT NEW COMMITTEE RULES, PARTICULARLY MAJORITY VOTING INSTEAD OF CONSENSUS, SHOULD BE ADOPTED FOR ALL PROCEDURAL ISSUES ADDRESSED. JAMAICAN [REDACTED] ENDORSED THE FRENCH PROPOSAL, CALLING THE SANCTIONS COMMITTEE'S CURRENT CONSENSUS PRACTICE "ANACHRONISTIC."

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9. ~~(C)~~ IN RESPONSE TO A QUESTION POSED BY AMBASSADOR CUNNINGHAM CONCERNING THE GEOGRAPHIC DISTRIBUTION OF CURRENT CONTRACT HOLDERS FOR IRAQI CRUDE OIL, OIL OVERSEER KRAMAR NOTED THAT 33 COUNTRIES PRESENTLY HAD CONTRACTS IN PHASE X TO LIFT IRAQI OIL, INCLUDING:

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CHINA - 7 CONTRACTS, JORDAN - 7 CONTRACTS, SYRIA - 7 CONTRACTS, UAE - 8 CONTRACTS, FRANCE - 2 CONTRACTS, SWITZERLAND - 5 CONTRACTS, UK - 2 CONTRACTS, AND RUSSIA - 15 CONTRACTS.

UNDER PHASE X, KRAMAR SAID 75 PER CENT OF ALL IRAQI OIL EXPORTS WERE DESTINED FOR THE U.S. MARKET, WITH 23 PER CENT FOR EUROPE AND 1 PER CENT FOR THE FAR EAST.

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10. ~~(S)~~ ACTION REQUEST: USUN SEEKS DEPARTMENT VIEWS ON A POSSIBLE UKUN PROPOSAL, SUBJECT TO FURTHER GUIDANCE FROM LONDON, THAT WOULD PUT FORWARD A 15-DAY OIL PRICING PROPOSAL IN THE FORM OF A RESOLUTION, THEREBY NECESSITATING RUSSIA'S EXERCISE OF A VETO TO PREVENT ITS ADOPTION.

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