

~~CONFIDENTIAL~~ PTQ5728

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ACTION L-00

INFO	LOG-00	NP-00	AF-00	AID-00	ACQ-00	CIP-00	COME-00
	CTME-00	DOEE-00	WHA-00	PERC-00	SRPP-00	DS-00	EAP-00
	EB-00	EUR-00	VC-00	FRB-00	H-01	TEDE-00	INR-00
	IO-00	LAB-01	VCE-00	AC-01	NEA-00	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	PRM-00	DRL-02	G-00
	SAS-00	SWCI-00	/009W				

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O 040915Z OCT 02
 FM USMISSION USUN NEW YORK
 TO SECSTATE WASHDC IMMEDIATE 1457
 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

31, 1.47(b)(d), B6

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WHITE HOUSE FOR OVP

E.O. 12958: DECL: 10/03/2007
 TAGS: ETTC, PREL, UNSC, IZ
 SUBJECT: UN/IRAQ SANCTIONS: 661 COMMITTEE REMAINS DIVIDED

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 OVER OIL PRICING; U.S. SEEKS OIP CLARIFICATION ON GRL
 PROCEDURQINVOLVING OIL SECTOR CONTRACT

REF: USUN 2371

CLASSIFIED BY: [REDACTED]

REASONS: 1.5 (B) AND (D).

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1 (S) SUMMARY: IRAQ 661 COMMITTEE MEMBERS, MEETING IN
 INFORMAL SESSION OCTOBER 2, AGAIN FAILED TO REACH CONSENSUS
 ON COMMITTEE POLICY GOVERNING THE PRICE SET FOR IRAQI CRUDE
 OIL. RUSSIA AND CHINA CALLED FOR THE IMMEDIATE END TO
 RETROACTIVE PRICING IN LIGHT OF THE IRAQI GOVERNMENT'S
 APPARENT DECISION TO STOP THE IMPOSITION, AT LEAST

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SELECTIVELY, OF AN ILLEGAL SURCHARGE. FRANCE ENCOURAGED COMMITTEE CONSIDERATION OF PREVIOUSLY INTRODUCED PROPOSALS TO MODIFY THE CURRENT RETROACTIVE PRICING SCHEME. USUN POLOFF SAID THE U.S. STOOD READY TO CONSIDER ALTERNATE APPROACHES ON OIL PRICING AS LONG AS THEY ADDRESSED THE PROBLEM POSED BY THE ILLICIT SURCHARGE. POLOFF NOTED THAT A KEY CONTRIBUTING FACTOR TO THE REVENUE SHORTFALL CURRENTLY UNDERMINING THE EFFECTIVENESS OF THE UN OIL-FOR-FOOD (OFF) PROGRAM (REFTEL) REMAINED THE SIGNIFICANT VOLUME OF OIL SHIPPED VIA THE IRAQ-SYRIA PIPELINE OUTSIDE THE OFF SYSTEM. THE UN OIL OVERSEERS REAFFIRMED THEIR PREVIOUSLY STATED VIEW THAT IRAQI OIL EXPORTS WOULD INCREASE TO MAXIMUM CAPACITY IN THE ABSENCE OF A SURCHARGE NO MATTER WHAT PRICING SCHEME WAS APPLIED AS LONG AS PRICES WERE IMPOSED FAIRLY. POLOFF ALSO SOUGHT CLARIFICATION FROM UN OFFICE FOR THE IRAQ PROGRAM (OIP) OFFICIALS AS TO WHO HAD INITIATED AN IMPACT EVALUATION OF A DANISH CONTRACT APPLICATION (COMM. NUMBER 1130152) DENIED BY

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THE U.S. BECAUSE IT CONTAINED HEAVY EQUIPMENT TRUCKS FOUND ON THE GOODS REVIEW LIST (GRL). COMMITTEE MEMBERS AGREED TO A U.S. PROPOSAL TO HOLD A SEPARATE COMMITTEE MEETING TO DISCUSS GRL PROCEDURES AS THEY APPLIED TO IRAQI OIL SECTOR CONTRACT APPLICATIONS. END SUMMARY.

ONGOING IMPASSE OVER
OIL PRICING

2. ~~(S)~~ IRAQ SANCTIONS 661 COMMITTEE CHAIR NORWAY SCHEDULED AN INFORMAL COMMITTEE MEETING OCTOBER 2 FOR A RENEWED DISCUSSION OF COMMITTEE POLICY ON OIL PRICING FOLLOWING THE RECENT RECOMMENDATION OF MANY SECURITY COUNCIL MEMBERS THAT THE COMMITTEE RENEW EFFORTS TO REACH AGREEMENT ON AN ACCEPTABLE WAY FORWARD (REFTEL). RUSSIAN, FRENCH AND CHINESE REPRESENTATIVES REITERATED PREVIOUSLY STATED DEMANDS THAT THE COMMITTEE TERMINATE ITS PRESENT PRACTICE OF RETROACTIVELY DETERMINING THE PRICE FOR IRAQI CRUDE OIL AND INSTEAD RETURN TO THE PREVIOUS COMMITTEE POLICY OF PROACTIVELY SETTING IRAQI OIL PRICES IN ADVANCE OF LOADINGS. RUSSIAN [REDACTED] CHARGED THAT THE COMMITTEE'S RETROACTIVE OIL PRICING POLICY WAS HAVING "CATASTROPHIC CONSEQUENCES" BY CREATING ONGOING PRICE UNCERTAINTY AMONG OIL BUYERS, THEREBY RESULTING IN REDUCED DEMAND, LOWER IRAQI OIL EXPORTS, AND DIMINISHED FUNDING FOR THE UN'S OIL-FOR-FOOD HUMANITARIAN PROGRAM. CHINESE [REDACTED] SAID IN LIGHT OF THE IRAQI GOVERNMENT'S APPARENT DECISION TO ELIMINATE, AT LEAST SELECTIVELY, ITS PREVIOUSLY IMPOSED SURCHARGE ON OIL EXPORTS,

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THE 661 COMMITTEE SHOULD RESPOND BY SENDING A POSITIVE SIGNAL

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THAT RETROACTIVE PRICING WOULD BE ENDED.

3. ~~(S)~~ USUN POLOFF MADE CLEAR THE U.S. STOOD READY TO DISCUSS IN DETAIL ANY PROPOSED ALTERNATIVE SCHEME THAT WOULD ENSURE THE IRAQI GOVERNMENT WOULD NOT SEEK TO RE-IMPOSE ADDITIONAL FEES ABOVE THE OFFICIAL SELLING PRICE FOR IRAQI OIL. POLOFF NOTED THAT THE REVENUE SHORTFALL FOR CURRENT PHASE XII OF THE UN OIL-FOR-FOOD (OFF) PROGRAM OF APPROXIMATELY USD 2.07 BILLION WAS AN ARTIFICIALLY INFLATED NUMBER SINCE THE IRAQI GOVERNMENT CONTINUED TO REFUSE TO REVISE ITS DISTRIBUTION PLANS AND BUDGET ALLOCATIONS, EVEN WHEN GLOBAL OIL DEMAND WAS DECREASING. POLOFF ALSO POINTED TO ONGOING ILLICIT SHIPMENTS OF IRAQI OIL THROUGH THE IRAQ-SYRIA PIPELINE AS ANOTHER KEY REASON WHY THE UN OFFICE FOR THE IRAQ PROGRAM (OIP) LACKED SUFFICIENT FUNDS TO AUTHORIZE SHIPMENTS OF OVER USD 2 BILLION IN APPROVED CONTRACTS. RESPONDING TO A QUESTION POSED BY POLOFF, THE UN OIL OVERSEERS REITERATED A VIEW THEY FIRST CONVEYED TO THE COMMITTEE IN FEBRUARY THAT IRAQI OIL EXPORTS SHOULD RISE TO MAXIMUM CAPACITY ONCE THE SURCHARGE HAS BEEN REMOVED, NO MATTER WHAT PRICING SCHEME WAS APPLIED, AS LONG AS PRICES WERE IMPOSED FAIRLY AND IN SOME PREDICTABLE FASHION.

4. ~~(S)~~ UK [REDACTED] NOTED THAT DESPITE CERTAIN REPORTS THE IRAQI GOVERNMENT NO LONGER WAS IMPOSING AN ILLICIT SURCHARGE, NOT ALL COMPANIES INTERESTED IN PURCHASING

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ACTION L-00

INFO	LOG-00	NP-00	AF-00	AID-00	ACQ-00	CIP-00	COME-00
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	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	PRM-00	DRL-02	G-00	SAS-00	SWCI-00

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CJCS WASHDC IMMEDIATE
CIA WASHDC IMMEDIATE
NSC WASHDC IMMEDIATE
SECDEF WASHDC IMMEDIATE
WHITEHOUSE WASHDC IMMEDIATE

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OVER OIL PRICING; U.S. SEEKS OIP CLARIFICATION ON GRL
PROCEDURE INVOLVING OIL SECTOR CONTRACT

IRAQI CRUDE OIL WERE BEING OFFERED NO-SURCHARGE DEALS BY
IRAQ'S STATE OIL MARKETING ORGANIZATION (SOMO). [REDACTED] SAID
IT WAS TIME SOMO CONSISTENTLY OFFERED ALL INTERESTED BUYERS
OPPORTUNITIES TO PURCHASE IRAQI OIL WITHOUT ANY SURCHARGE, AS
APPARENTLY SOMO HAD DONE WITHIN THE PAST WEEK BY CONCLUDING
DEALS DIRECTLY WITH CERTAIN EUROPEAN END-USE REFINERS.
[REDACTED] SUGGESTED THAT SOMO'S CONCLUSION OF MORE SUCH DEALS
WOULD RESULT IN SIGNIFICANTLY HIGHER IRAQI OIL EXPORTS AND,
HENCE, MORE REVENUE FOR THE OFF PROGRAM.

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5. ~~(S)~~ FRENCH [REDACTED] CALLED ON COMMITTEE
MEMBERS TO CONSIDER THE VARIOUS PROPOSALS PREVIOUSLY
INTRODUCED BY COMMITTEE MEMBERS TO IMPLEMENT AN ALTERNATIVE
TO RETROACTIVE PRICING. [REDACTED] SAID THE FRENCH DELEGATION
FAVORED A SYSTEM BASED ON 15-DAY PROACTIVE PRICING, BUT WITH
NO OBLIGATION FOR OIL CONTRACT HOLDERS TO LIFT THE OIL, A KEY
REQUIREMENT CALLED FOR IN THE PROPOSAL INTRODUCED BY THE UK.
USUN POLOFF PROPOSED THAT COMMITTEE CHAIR NORWAY SCHEDULE YET
ANOTHER INFORMAL COMMITTEE MEETING TO PERMIT DETAILED
DISCUSSION OF THE PENDING OIL PRICING PROPOSALS; OTHERWISE,
POLOFF SAID, THE IMPASSE WITHIN THE COMMITTEE OVER OIL
PRICING WOULD CONTINUE UNRESOLVED.

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OIP INTERPRETATION OF
GRL PROCEDURES

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6. ~~(S)~~ USUN POLOFF USED THE OCCASION OF THE INFORMAL 661 COMMITTEE MEETING TO SEEK CLARIFICATION FROM OIP OFFICIALS AS TO WHY AN IMPACT EVALUATION AND SUBSEQUENT PETITION HAD BEEN FILED ON A CONTRACT APPLICATION (COMM. 1130152) SUBMITTED BY THE DANISH MISSION TO PROVIDE OILFIELD TRUCKS FOR USE IN THE IRAQI OILSECTOR. THE CONTRACT WAS IDENTIFIED BY UN MONITORING, VERIFICATION AND INSPECTION COMMISSION (UNMOVIC) REVIEWERS AS CONTAINING GRL ITEMS (I.E., THE HEAVY EQUIPMENT TRUCKS IN QUESTION). THE CONTRACT SUBSEQUENTLY WAS DENIED BY THE U.S. **AND UK** DELEGATIONS AS CONTAINING ITEMS THAT WERE DEEMED HIGH RISK FOR POSSIBLE DIVERSION TO MILITARY USE. OIP CONTRACTS PROCESSOR FELICITY JOHNSTON EXPLAINED THAT PROCEDURE 9 OF THE GRL PROCEDURES APPROVED BY THE COUNCIL AT THE TIME UNSCR 1409 (2002) WAS ADOPTED PROVIDED FOR AN ASSESSMENT OF THE HUMANITARIAN, ECONOMIC AND SECURITY IMPLICATIONS OF THE APPROVAL OR DENIAL OF THE GRL ITEMS IN A CONTRACT THAT COULD BE REQUESTED BY THE SUBMITTING MISSION OR UN AGENCY. JOHNSTON SAID THAT IN THE CASE OF IRAQ'S OIL SECTOR, THERE WAS NO/NO UN AGENCY THAT WAS RESPONSIBLE FOR OVERSEEING DAILY DEVELOPMENTS. HOWEVER, SINCE THE IRAQI MINISTRY OF OIL WAS SEEKING AN IMPACT EVALUATION, OIP EXECUTIVE DIRECTOR BENON SEVAN HAD DECIDED TO REQUEST SUCH AN EVALUATION AND SUBSEQUENT PETITION TO PROMPT A RECONSIDERATION BY 661 COMMITTEE MEMBERS OF THE CONTRACT THAT WAS DENIED.

7. ~~(S)~~ USUN POLOFF POINTED OUT THAT PROCEDURE 9 PERMITTED THE SUBMITTING MISSION OR UN AGENCY TO REQUEST AN IMPACT EVALUATION, NOT/NOT THE IRAQI GOVERNMENT OR ONE OF ITS MINISTRIES. POLOFF SAID OIP EXECDIR SEVAN SHOULD HAVE BROUGHT THE MATTER TO THE ATTENTION OF THE 661 COMMITTEE TO

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SEEK GUIDANCE, NOT HAVE TAKEN IT UPON HIMSELF TO INTERPRET A "GREY" AREA OF THE GRL PROCEDURES. POLOFF PROPOSED THAT COMMITTEE MEMBERS RECONVENE AT EXPERT LEVEL AGAIN SOON TO CLARIFY WHETHER OIP, OR SAYBOLT, THE FIRM CONTRACTED BY THE UN TO MONITOR OIL LOADINGS AT IRAQI PORTS, SHOULD BE AUTHORIZED TO SEEK AN IMPACT EVALUATION ON GRL ITEMS DENIED BY THE COMMITTEE THAT WERE DESTINED FOR USE IN THE IRAQI OIL SECTOR. 661 COMMITTEE CHAIR NEERLANDER (NORWAY) INDICATED HE PLANNED TO SCHEDULE SUCH A DISCUSSION FOR THE WEEK OF OCTOBER 7.

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