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PA/HO Department of State  
E.O. 12958, as amended  
June 21, 2006

*Pet 6 Iraq*

077002

Department of State

TELEGRAM

*frs Pet 14 Iraq*  
*Pet 15-2 Iraq*  
*Pet 3 OPEC*

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Authority *NND 969014*  
By *RC* NARA Date *4-15-0*



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ACTION: Amembassy LONDON PRIORITY  
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AmConsul DHAHRAN  
Amembassy BRUSSELS

STATE:

LIMDIS

SUBJECT: Oil Negotiations with Iraq

Ref: London 3746; 3986

1. At meeting with IPC ~~xxxx~~ reps May 2 Iraq Vice President Ammash presented list of eight demands, two of which he said were non-negotiable. If companies did not reach agreement with GOI by Thursday May 6, Ammash said GOI would legislate. If companies refused to go along with legislation, Ammash said GOI would nationalize IPC and sell the oil itself, "even if this means accepting only one dollar per barrel." If other companies tried to help IPC by taking collective action against Iraq, Ammash said Iraq would "resort to all means necessary" and "companies would also lose Kuwait and

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*Pet 14 Iraq, Pet 30 OPEC*

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*Pet 14 Iraq*

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NEA/ARP/ - Mr. ~~Scotes~~  
*Wampelmeier*

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Saudi Arabia, because if Arab brethren <sup>ren</sup> do not stand by Iraq," Iraq "would use force to stop their oil flow."

2. Despite these drastic threats, IPC negotiators said meeting with Ammash was cordial and Iraqis seemed genuinely interested in reaching negotiated solution. IPC team now in London and will return to ~~Bag~~ Baghdad to see Ammash May 6, but present indications are they will not be empowered to go very far towards meeting demands.

3. Ammash gave IPC a paper listing eight demands, the last two of which he said were non-negotiable. Demands ~~a~~ were as follows:

A. Increase liftings at Basrah to 36 million tons this year. (Comment: present capacity of terminal at Khor al Amaya is 30 million tons annually (600,000 b/d) and IPC has given GOI promise of "best endeavor" to lift 28 million tons this year. Export capacity at Fao is 10 million tons annually, but this facility has been given to INOC by IPC).

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DISTRIBUTION	<p style="text-align: center;">- 3 -</p> <p>ACTION:</p> <p>B. Invest new capital to <del>INCREASE</del> increase capacity of Khor al Amaya above 36 million tons annually and make it capable of receiving tankers of up to 250,000 dw tons. (Comment: CFP has been promoting idea within IPC of expanding Khor al Amaya along these lines, and there is some indication other IPC members might be willing to go along with some expansion there.)</p> <p>C. Compensation in regard to injustices suffered since 1965. (This presumably refers to lack of agreement on royalty expensing between 1965 and 1970).</p> <p>D. Payment of the accumulated debt as a result of the disparity recognized in the Tehran agreement between the Basrah and Ras Tanura posted prices. (This is presumably a claim for a 6 cent increase in the posted price for Basrah crude retroactive to 1965, following the 6 cent "adjustment" in the Basrah price agreed upon at Tehran. This claim would cost IPC about 36 million dollars.)</p> <p>E. Payment of 40 million Dinars (112 million dollars)</p>
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as partial payment of the accumulated claims of Iraq against IPC. (This is similar to "C" above; 40 million dinars represents half of Iraq's current claims against IPC.)

F. A two cent increase in the Tripoli/Banias posted price because of the injustice suffered in the past by the posted price on the Jambur/Bai Hassan blend. (The posted price of this crude in the past was 10 cents per barrel lower than other equivalent crudes because of certain poor quality characteristics. In the current offer by IPC to the GOI, the posted price of this blend has been brought into line with the price of other Iraqi crudes. A two cent increase in IPC's posted price offer would bring the Tripoli/Banias posting to \$3.23 for 36 gravity API crude.

G. (non-negotiable). The GOI wants a letter from IPC stating it will adjust the border value of crude in Iraq's favor within three months. (IPC interprets this to mean

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that the GOI is insisting on the "Sidon formula" demanded by Hamadi in earlier negotiations. Under this formula, taxes and royalties would be based on the posted price of crude at the Mediterranean terminals rather than on the "border value" of the crude as it passes across the border from Iraq to Syria. This "Sidon formula" would increase GOI take in taxes and royalties by about 6 cents per barrel over the "border value" formula now used.)

H. (Non-negotiable). Iraq also wants an exchange of letters with IPC stating and recognizing that Iraq reserves its position on the sulphur premium given Libya. (The GOI has insisted that the companies had no justification for giving Libya a 10 cent posted price increase because of the low sulphur content of Libyan crude, and therefore must give Iraq some further upward price adjustment in compensation.)

4. At one point in the talks, Ammash also mentioned that he wanted the capacity of the Khor al Amaya terminal

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increased because GOI would soon "wish to sell large quantities of crude to IPC". IPC interprets this remark to mean GOI has had difficulty in making arrangements for the transportation and sale of crude from Northern Rumaila, and may now, finally, be contemplating some arrangement with IPC that would move ~~kw~~ towards resolving this thorny problem.

5. To our knowledge, negotiations with Tapline w still suspended pending resolution of negotiations with Iraq.

**END**

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