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From:

Date: 25 May 2005

cc: Nigel Sheinwald, No 10
Martin Donnelly
Creon Butler
Dominic Asquith
Tim Torlot, Baghdad

Andrew Millar
Graham Allardice, DTI

To: John Sawers

BP: IRAQ

1. You asked for an update on a number of oil/commercial issues following your conversation with Nick Butler of BP on 13 May.

Petroleum Law

2. The Petroleum Law will be a key piece of legislation. It will set out how Iraq's energy resources will be regulated, including its approach to foreign investment. Major international oil companies will want to see transparent rules established, ensuring fair treatment of foreign investment.
3. The Ministry of Oil has said it will start drafting a Petroleum Law alongside the drafting of the Constitution, although it will be for a fully sovereign Iraqi government to ratify.

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Iraq has not asked the UK for help in drafting of the law, although we are planning to take forward a GOF-funded project to assist Iraq develop transparent petroleum contracts (terms of reference attached).

4. We have consulted DTI, CCEG and Baghdad and their view, which we share, is that a high level of oil company involvement in drafting the Petroleum Law could be counter productive. This should be an Iraqi drafted law and it will be for them to decide their approach to foreign investment. We will however want to encourage them to consult widely in the process. It may be possible for the major oil companies – including BP – to play some role, perhaps offering comments on certain aspects of the new law. How these are fed in will require careful handling. We will be able to offer advice on the ground on how to do this. More widely, Baghdad in conjunction with UKTI will continue to provide support to BP and other UK oil companies in a number of areas. They remain open to suggestions from companies such as BP on how UK support could be improved.

UK/Iraq commercial agreement?

5. Nick Butler asked whether the UK was preparing a UK/Iraq commercial agreement, which could provide a framework for trade and investment. We have not entered into formal discussions with the Iraqi government on such an agreement at this stage but consider that it would be beneficial in two ways.
 - i) The idea and/or negotiation process would provoke debate about foreign investment and the currently inadequate legal framework for it in Iraq.
 - ii) It would provide a positive platform for direct UK investment in Iraq.Baghdad plans to discuss with the new government a model agreement as a framework for taking this forward.

US assistance

6. Nick Butler also asked whether there were signs of the US pressing their interests in the oil sector. US activity in the Iraqi is currently focused on short-term production issues.

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They are undertaking infrastructure projects to increase oil production to around 3.5 million barrels per day by mid 2006. We are not aware of the US demanding privileged arrangements for US oil companies operating in Iraq.

Iraq Policy Unit

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