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16 January 2004

The Rt Hon Patricia Hewitt MP  
SECRETARY OF STATE  
FOR TRADE AND INDUSTRY

The Rt Hon Jack Straw MP  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
King Charles Street  
LONDON  
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Dear Jack,

### GOVERNANCE OF THE IRAQI OIL SECTOR

I am writing to update you and colleagues on the current situation with regard to governance of the Iraqi Oil Sector and to seek your agreement that we should give a high priority to working with the Americans to establish principles of good governance before the transfer of sovereignty in July.

Decisions about the development of Iraqi oil resources, including the question of involving Western oil companies, will, of course, be for the Iraqi people.

But this is entirely compatible with our doing everything possible, with the Americans, to establish key principles of good governance in the oil sector before our departure. This will be crucial for the future prosperity, and indeed stability, of Iraq - bearing in mind the very large part that oil plays in its tradable economy.

Natural resources, and oil in particular, have been a source of conflict and corruption in many parts of the developing world and it is a major part of our international policy to raise the standards of governance in this area. This was reflected in the conclusions of Evian and is being pursued through the Transparency Initiative, on which DFID lead, and by the DTI through the US/UK Energy Dialogue. We will have lost a major opportunity if we do not live up to our responsibilities, in this respect, in Iraq.

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We have an oil expert, Terry Adams, working in Baghdad who has played a leading role in getting these issues onto the CPA agenda, and, under the senior American advisor, in commissioning a major study of options for the modernisation of the oil industry. The key governance principles put forward by the study include:

- Properly defined and distinct roles for a national oil company, an Oil Ministry, and for the Government as a whole.
- The national oil company to be run on commercial lines with transparent accounting and auditing.
- Anti-corruption policies.

We and the Americans, including the White House and the NGC, are at one on the need to have these principles in place. It has taken considerable effort to get the Americans to this point, but they now appear to accept the force of the case we have been making. Indeed at official level they pay warm tribute to the contribution from our people, and Terry Adams in particular. I am pleased that our two Departments have worked so effectively together. The Americans also believe that the report has been well received by the Iraqi Oil Minister, Al-Uloom. We believe that the Minister is aiming to announce the principles of the new regime at an oil conference in Basra at the end of March. But the outcome is by no means assured and we will need to continue working hard with the Americans, to get a good result.

Officials have discussed this situation with Jeremy Greenstock. He agrees on the importance of this objective but has stressed that it will not be easy to achieve given the lack of a real constituency for good governance amongst senior Iraqi figures. He counsels that it will be essential to continue to work with the Americans at the highest levels to ensure that they give this issue the priority it deserves. He has also suggested that we consider strengthening our team on the ground in Baghdad to deliver this result.

I understand that officials are considering whether the Transitional Law has any part to play in setting out the most basic governance principles.

I hope that you and colleagues fully support giving a high priority to working with the Americans to establish key principles of good governance for the Iraqi oil industry before our departure and agree that officials should consider urgently how this can be achieved in terms of our strategy with the Americans at all levels and the possible strengthening of our team in Baghdad.

I am copying this to members of the Ad Hoc Ministerial Group on Iraq and to the Prime Minister.

Best wishes,

Patricia Hewitt

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