

CRS Report for Congress

Iraq: Oil and Gas Legislation, Revenue Sharing, and U.S. Policy

June 26, 2007

Christopher M. Blanchard
Analyst in Middle Eastern Affairs
Foreign Affairs, Defense, and Trade Division



**Prepared for Members and
Committees of Congress**

Report Documentation Page				Form Approved OMB No. 0704-0188	
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 26 JUN 2007		2. REPORT TYPE		3. DATES COVERED 00-00-2007 to 00-00-2007	
4. TITLE AND SUBTITLE Iraq: Oil and Gas Legislation, Revenue Sharing, and U.S. Policy				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Congressional Research Service, The Library of Congress, 101 Independence Ave SE, Washington, DC, 20540-7500				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 22	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

Iraq: Oil and Gas Legislation, Revenue Sharing, and U.S. Policy

Summary

Iraqi leaders continue to debate a package of hydrocarbon sector and revenue sharing legislation that will define the terms for the future management and development of the country's significant oil and natural gas resources. The package includes an oil and gas sector framework law and three supporting laws that would outline revenue sharing mechanisms, restructure Iraq's Ministry of Oil, and create an Iraqi National Oil Company. Both the Bush Administration and Congress consider the passage of oil and gas sector framework and revenue sharing legislation as important benchmarks that will indicate the current Iraqi government's commitment to promoting political reconciliation and long term economic development in Iraq.

Section 1314 of the FY2007 Supplemental Appropriations Act [P.L.110-28] specifically identifies the enactment and implementation of legislation "to ensure the equitable distribution of hydrocarbon resources of the people of Iraq without regard to the sect or ethnicity of recipients" and "to ensure that the energy resources of Iraq benefit Sunni Arabs, Shia Arabs, Kurds, and other Iraqi citizens in an equitable manner" as benchmarks on which the President must report to Congress in July and September 2007. The draft framework legislation approved by Iraq's Council of Ministers (cabinet) in February 2007 does not include revenue sharing arrangements. The companion revenue sharing law defines terms for revenue distribution. The Council of Representatives (parliament) has not yet considered either bill. The central importance of oil and gas revenue for the Iraqi economy is widely recognized by Iraqis, and most groups accept the need to create new legal and policy guidelines for the development of the country's oil and natural gas. However, Iraqi critics and supporters of the proposed legislation differ strongly on a number of key issues, including the proper role and powers of federal and regional authorities in regulating oil and gas development; the terms and extent of potential foreign participation in the oil and gas sectors; and proposed formulas and mechanisms for equitably sharing oil and gas revenue. Concurrent, related discussions about proposed amendments to articles of Iraq's constitution that outline federal and regional oil and gas rights also are highly contentious.

The current military strategy employed by U.S. forces in Iraq seeks to create a secure environment in which Iraqis can resolve core political differences. However, it remains to be seen whether the package of hydrocarbon legislation under consideration will promote reconciliation or contribute to deeper political tension. Administration policymakers and Members of Congress thus face difficult choices with regard to encouraging timely consideration of hydrocarbon legislation and related constitutional reforms while attempting to ensure that the content of proposed laws and amendments reflects compromises reached by and acceptable to Iraqis. This report reviews the package of legislation currently under consideration, analyzes the positions of various Iraqi political actors, and discusses potential implications for U.S. foreign policy goals in Iraq. The report will be updated to reflect current debates and new developments. See also CRS Report RL31339, *Iraq: Post-Saddam Governance and Security*, and CRS Report RS22079, *The Kurds in Post-Saddam Iraq*.

Contents

Background	1
Draft Hydrocarbon Legislation	1
Draft Hydrocarbon Framework Law	3
Federal Oil and Gas Council	3
Contract Type(s)	4
Petroleum Revenues and Sharing Arrangements	5
Regional Authority and Oil Field Management Annexes	5
Draft Revenue Sharing Law	6
Prospects for Future Revenue Sharing	6
Ministry of Oil and Iraq National Oil Company Laws	7
Prospects for Enactment and Implementation	7
Iraqi Perspectives	8
Core Issues	8
Iraq's Constitution: Federal and Regional Authority	8
Revenue Sharing	9
Foreign Participation	10
Players and Positions	10
The Kurds: Regional Authority and Kirkuk	11
Sunni Arabs: Revenue Sharing and Foreign Participation	11
The United Iraqi Alliance: Investment and Development	12
Basrah: Industry Unions and the Fadilah Party	12
International Energy Companies	13
Oil Revenue and Security Concerns	14
Revenues	14
Current Arrangements	14
Resources, Expenditures, and Corruption	14
Security	15
Infrastructure Attacks and Smuggling	15
U.S. Policy and Issues for Congress	16
Frequently Asked Questions	17
Privatization and Foreign Participation	17
U.S. Legal and Diplomatic Support	17
Congressional Benchmarks and Other Legislation	18

List of Figures

Figure 1. Location of Iraq's Oil Reserves	2
---	---

List of Tables

Table 1. Key Oil Indicators	2
-----------------------------------	---

Iraq: Oil and Gas Legislation, Revenue Sharing, and U.S. Policy

Background

Oil exploration and production in Iraq began in the 1920s under the terms of a wide-ranging concession granted to a consortium of international oil companies known as the Turkish Petroleum Company and later as the Iraq Petroleum Company. The nationalization of Iraq's oil resources and production was complete by 1975. From 1975 to 2003, Iraq's oil production and export operations were entirely state operated. However, from the early 1980s until the toppling of Hussein's government in 2003, the country's hydrocarbon infrastructure suffered from the negative effects of war, international sanctions, a lack of investment and technology, and, in some cases, mismanagement.

According to the *Oil and Gas Journal*, Iraq has 115 billion barrels of proven oil reserves, the world's third-largest. Other estimates of Iraq's potential oil reserves vary. In April 2007, oil industry consultants IHS estimated that Iraq's proven and probable reserves equal 116 billion barrels, with a potential additional 100 billion barrels in largely unexplored western areas. The U.S. Geological Survey's median estimate for additional oil reserves in Iraq is approximately 45 billion barrels. In August 2004, Iraq's then-Oil Minister Thamer al Ghabban stated that Iraq had "unconfirmed or potential reserves" of 214 billion barrels. Iraq's proven reserves are concentrated largely (65 percent or more) in southern Iraq, particularly in the southernmost governorate of Al Basrah. Significant proven oil resources also are located in the northern governorate of Al Tamim near the disputed city of Kirkuk. (See **Figure 1**, below). Oil exports provide over 90% of Iraq's government revenue.

Draft Hydrocarbon Legislation

Iraqis continue to debate a package of hydrocarbon sector and revenue sharing legislation that will define the terms for the future management and development of the country's significant oil and natural gas resources. The centerpiece of the legislative package is a draft hydrocarbon framework law that would create a regulatory and policy development framework for future oil and gas exploration and production in Iraq. Three companion laws will complete the package by establishing terms and mechanisms for revenue sharing, creating the Iraq National Oil Company, and reorganizing Iraq's Ministry of Oil. Concurrent negotiations regarding constitutional amendments may have direct implications for the package of hydrocarbon legislation, particularly efforts to clarify the specific authorities granted to federal and regional governments to regulate oil and gas development and export activities under Articles 111 and 112 of the Iraqi constitution.

Figure 1. Location of Iraq's Oil Reserves and Infrastructure

Source: U.S. Energy Information Administration (EIA), Energy Situation Analysis Report, June 26, 2003. See also EIA, Country Analysis Brief: Iraq, June 2006; and CRS Report RS21626 - *Iraq Oil: Reserves, Production, and Potential Revenues*.

Table 1. Key Oil Indicators

Oil Production (current weekly avg.)	Oil Production (pre-war)	Oil Exports (current)	Oil Exports (pre-war)	Oil Revenue (2005)	Oil Revenue (2006)	Oil Revenue (2007 to date)
1.85 million barrels per day (mbd)	2.5 mbd	1.38 mbd	2.2 mbd	\$23.5 billion	\$31.3 billion	\$13.9 billion

Note: Figures in the table from the U.S. Department of State "Iraq Weekly Status Report," June 20, 2007. Oil export revenue is net of a 5% deduction for reparations to the victims of the 1990 Iraqi invasion and occupation of Kuwait, as provided for in U.N. Security Council Resolution 1483.

Both the Bush Administration and Congress consider the passage of oil and gas sector management and revenue sharing legislation as important benchmarks that will indicate the current Iraqi government's commitment to promoting political reconciliation and economic development in Iraq. Iraqi critics and supporters of the legislative package differ over the proper roles and authorities of federal and regional bodies, the terms and extent of potential foreign participation in oil and gas production and development, and potential formulas and mechanisms for equitably sharing oil and gas revenue. The four elements of the package of hydrocarbon legislation remain at different stages of development and negotiation and are likely to be considered by the Council of Representatives (parliament) simultaneously.

Iraqi, U.S., and other international observers have expressed concern that the atmosphere of violence and unresolved political tension prevailing in Iraq may not be conducive to careful consideration of detailed hydrocarbon sector legislation. Specifically, Iraqi labor groups have challenged the transparency and inclusiveness of the drafting and negotiation processes thus far, and some blocs within Iraq's Council of Representatives have vowed to oppose or attempt to significantly amend elements of the legislative package to reflect their priorities (see Players and Positions below).

Draft Hydrocarbon Framework Law

Beginning in mid-2006, a three member Oil and Energy Committee working under the auspices of the Iraqi cabinet prepared draft hydrocarbon framework legislation to regulate Iraq's oil and gas sector. A political negotiating committee subsequently edited their draft. Following approval by the negotiating committee, Iraq's Council of Ministers (cabinet) approved the draft hydrocarbon framework legislation in February 2007.¹ Annexes to the law that designate specific oil fields for management by federal and regional authorities remain controversial (see below).

Federal Oil and Gas Council. The central element of the draft hydrocarbon framework legislation is the creation of a Federal Oil and Gas Council (FOGC) to determine all national oil and gas sector policies and plans, including those governing exploration, development, and transportation. The FOGC would become the most powerful body in Iraq's oil sector, with the power to review all contracts, and would operate according to a two-thirds majority decision-making system. The seats on the FOGC are reserved for specific cabinet members, representatives of constitutionally recognized regional governments, hydrocarbon experts, and "producing governorates."² A "Panel of Independent Experts," open to Iraqi and foreign membership, would work with the FOGC in a non-binding, advisory capacity. The

¹ In response to a June 2007 CRS inquiry, the U.S. Department of State referred to an English text of the draft legislation made available by the Kurdistan Regional Government as an official English draft version. It is available online at [http://www.krg.org/uploads/documents/Draft%20Iraq%20Oil%20and%20Gas%20Law%20English__2007_03_10_h23m31s47.pdf]

² Article four of the draft framework law defines a "producing governorate" as "any Iraqi Governorate that produces Crude Oil and natural gas continually on rates more than one hundred and fifty thousand (150,000) barrels a day."

possibility that foreign energy experts or industry representatives could be chosen to participate on this panel has alarmed some Iraqis and foreign observers.

Although the draft law stipulates that the formation of the FOGC “shall take into consideration a fair representation of the basic components of the Iraqi society,” some observers have warned that the makeup of the FOGC specified in the draft law could potentially contribute to sectarian or regional tensions. Given the potential for the majority Shiite Arab community to directly or indirectly control the makeup of Iraq’s cabinet in Iraq’s democratic system and the ineligibility of Sunni Arab governorates to qualify for FOGC seats based on the other specified terms, some Sunni Arabs fear their interests may not be adequately represented in the powerful council. Other Iraqis may be encouraged to seek constitutionally recognized regional status in order to ensure their representation in the council.

Contract Type(s). The draft hydrocarbon framework law establishes several criteria that future “exploration and production contracts” must meet. The criteria are designed to preserve Iraqi control and maximize the country’s economic return. The draft law does not mandate the use of so-called “production-sharing agreements” as the sole model contract for future oil development in Iraq. The law states that contract holders may be given exclusive rights to exploration, development, production, and marketing of Iraqi oil for specified periods, subject to approval of the contract and a field development plan by Iraqi authorities. The law also outlines general terms and conditions for evaluating contracts and development plans designed to preserve the Iraqi government’s sovereign control of oil production, economic returns to Iraq, and “appropriate returns” to potential investors.³ The FOGC’s Panel of Independent Experts would use these criteria to evaluate contracts signed by the Kurdistan Regional Government since 2003, and the Ministry of Oil, and the FOGC would use the criteria to evaluate contracts signed by the former regime with international oil companies (Article 40).

The contract provisions of the law have attracted significant attention because they would allow foreign participation and therefore represent, in principle, a reversal of the nationalization of Iraq’s oil sector. The specific details of model contracts developed by Iraqis and the terms of specific individual contracts negotiated between Iraq and potential foreign partners will determine the type of foreign participation and the specific long term revenue benefits to Iraq or foreign companies. The draft hydrocarbon framework law does not mandate a specific form of contract or predetermine specific contract terms or details.⁴ The FOGC would develop model

³ According to Article 9 of the draft framework, “All model contracts shall be formulated to honor the following objectives and criteria: 1- National control; 2- Ownership of the resources; 3- Optimum economic return to the country; 4- An appropriate return on investment to the investor; and 5- Reasonable incentives to the investor for ensuring solutions which are optimal to the country in the long-term related to a- improved and enhanced recovery, b- technology transfer, c- training and development of Iraqi personnel, d- optimal utilization of the infrastructure, and e- environmentally friendly solutions and plans.”

⁴ The law explicitly states in Article 9 that “Model Contracts may be based upon Service (continued...) ”

contracts for use in Iraqi oil and gas fields and evaluate agreements with foreign participants according to the stated criteria and the model contracts. According to Revenue Watch⁵ Middle East director Yahia Said, “the aim of this law from beginning was to promote foreign investment in Iraq’s oil sector. Yet while the law opens the door for foreign companies, there are careful, deliberate mechanisms in place to maintain control in the hands of national government.”⁶

Petroleum Revenues and Sharing Arrangements. The draft hydrocarbon framework law states that Iraq’s oil wealth belongs to all of its citizens, as reflected in the Iraqi constitution. However, the draft legislation does not contain specific guidelines or mechanisms for revenue sharing. The draft would create two funds for oil revenues: the first, an “Oil Revenue Fund,” and the second, a “Future Fund” to hold an unspecified percentage of oil revenue for long-term development goals. Both funds would be regulated and administered according to terms specified in separate federal revenue legislation (see below).

Regional Authority and Oil Field Management Annexes. Constitutionally recognized regional authorities would automatically qualify for seats on the FOGC under the terms of the draft oil sector legislation. The draft law would grant regional authorities licensing powers with regard to oil fields specified in the law’s annexes, subject to the terms of the draft law and in conjunction with the plans and procedures of the FOGC. Official versions of the draft annexes have not been published, although several press reports cite figures and details drawn from drafts circulated at an April 2007 Iraqi oil conference in Dubai.⁷ According to these reports, approximately 93 percent of Iraq’s proven oil reserves would be subject to the jurisdiction of the federal government (Annexes 1, 2, and 4), while the Kurdistan Regional Government (KRG) would exercise authority over the remaining seven percent (Annex 3).⁸ In response, Kurdish representatives made several public statements following the conference expressing their opposition to the draft annexes and threatening to withdraw support for the legislative package in the Council of Representatives.⁹ The KRG has posted its analysis of the annexes on its website.¹⁰

⁴ (...continued)

Contract, Field Development and Production Contract, or Risk Exploration Contract.”

⁵ Revenue Watch is an independent operating and grantmaking 501(c) 3 organization that monitors natural resource revenues and public expenditures and provides grants to local partners to improve transparency in oil and gas producing countries. For more information, see [<http://www.revenuewatch.org/>].

⁶ Said, Remarks at the United States Institute of Peace, May 18, 2007, as quoted in Christina Parajon, “USIPeace Briefing: The Iraq Hydrocarbon Law: How and When?,” June 2007.

⁷ An unofficial transcript of the Dubai meeting is available at [<http://www.revenuewatch.org/activities/April18IRW/April%2018%20transcript.pdf>].

⁸ According to press reports, Annex 1 lists 26 fields currently in production, Annex 2 lists 25 fields that are “close to production,” Annex 3 lists 27 fields not near production and open to international oil companies or the INOC, and Annex 4 delineates 65 exploration blocks.

⁹ For example, Ashti Hawrami, Minister of Natural Resources for the Kurdistan Regional Government said, “The annexes as they are written now will not be accepted by the KRG....

(continued...)

Draft Revenue Sharing Law

Article 112 of the Iraqi constitution sets qualitative criteria for the distribution of oil and gas revenues and requires the Iraqi parliament to pass a law regulating revenue distribution. In February 2007, some officials in Baghdad and Washington indicated that a broad agreement to share oil revenues among regions based on population had been reached. However, Iraqi leaders continued to negotiate the terms of the draft revenue sharing law through June 2007. In line with the constitutional requirement, a separate draft revenue sharing law has been prepared as a component of the hydrocarbon legislative package currently under consideration.

According to a draft of the revenue sharing law published by the Kurdistan Regional Government on June 20, 2007,¹¹ the federal government would be empowered to collect all oil and gas revenue, with the stipulation that all funds be deposited into external and internal accounts based on their source. The federal government would have priority to allocate the funds in the accounts to support national priorities such as defense and foreign affairs, “provided that this does not impact the balance and needs of the governments of the Regions and the Governorates which are not organized in a region.” The remainder of the accounts would be distributed to regions and governorates automatically, on a monthly basis, based on agreed population-density-based percentages until a census can be completed. The Kurdistan Regional Government would receive a 17% share of the remaining funds deposited in two accounts at the Central Bank of Iraq branch in Irbil.¹² No specific provision is made in the draft for addressing requirements to meet the needs of “damaged regions” as required by Article 112 of the constitution.

The draft revenue law also would create a “Commission of Monitoring the Federal Financial Resources” composed of central government officials, experts, and representatives of each region and governorate. The Commission would monitor deposits and allocations from the central revenue fund, in addition to facilitating international audits and producing monthly, quarterly, and annual transparency reports. Article 7 of the draft revenue law reiterates the call for the establishment of a “Future Fund” for surplus revenue, but states that the operation of such a fund should be defined in a separate piece of legislation following further negotiation among federal, regional, and governorate representatives.

Prospects for Future Revenue Sharing. A number of outside observers have emphasized the importance of proper oil revenue management and equitable oil

⁹ (...continued)

If I don’t get the lion’s share of fields (in the region) then it’s a bad law. If the law dilutes regional control then it is unconstitutional.” Simon Webb, “Iraq Oil Law to Go to Parliament, Kurds Wary,” *Reuters*, April 18, 2007.

¹⁰ Available at [http://www.krg.org/pdf/Dubai_Oil_Law_Annexes_with_KRG_analysis.pdf]

¹¹ Available at [http://www.krg.org/pdf/English_Draft_Revenue_Sharing_law.pdf]

¹² Ben Lando, “Iraqis Make Progress on Sharing Oil Sales,” *United Press International* (UPI), June 21, 2007.

revenue sharing as requirements for economic development and political reconciliation in post-Saddam Iraq. Some Members of Congress, such as Senator Hillary Rodham Clinton and Senator John Ensign, have advocated for the creation of an “Iraq Oil Trust” to ensure that all Iraqis share Iraq’s oil wealth equitably.¹³ The Iraq Study Group recommended that oil revenue accrue to the central government and not to regions (Recommendation 28). This principle appears to have been included in the draft hydrocarbon framework and draft revenue sharing legislation, which would create central accounts for oil and gas revenues.

According to the drafts, revenue sharing will reflect a population-based system for revenue allocation, with automatic monthly distributions to regional and governorate authorities. Potential obstacles to revenue sharing on these terms include the lack of recent, reliable national census data and uncertainty over the terms of communal representation on hydrocarbon policy decision making and implementation bodies. Political groupings that favor strong central government control over production and revenue decision making have criticized the draft, and one Iraqi politician reportedly referred to the arrangements agreed to in the draft revenue sharing law as the result of “political blackmail” by Kurdish politicians.¹⁴

Ministry of Oil and Iraq National Oil Company Laws

The final two components of the hydrocarbon legislative package are laws that will reorganize Iraq’s Ministry of Oil and establish an Iraqi National Oil Company (INOC). Under the hydrocarbon framework law, the responsibilities and authorities of the Ministry of Oil and the INOC would be altered significantly, and the draft Ministry and INOC laws are necessary to ensure proper oversight, accountability, and separation of powers between the two entities. As of June 26, 2007, drafts of these laws had not been published and public reporting on their contents remains limited.

Prospects for Enactment and Implementation

Iraqi and U.S. officials hailed the Council of Ministers’ February 2007 approval of the draft hydrocarbon framework legislation as an important step forward. However, in recent months, the draft legislative package has been the subject of intense scrutiny from Iraqi and international observers: the draft framework law is imprecise on key issues, including contract terms and revenue sharing, and political observers have warned the legislation would create decision making structures that could contribute to sectarian or inter-regional tensions rather than defuse them.

Both the U.S. and Iraqi administrations had hoped the hydrocarbon framework law would be approved by the parliament by the end of May 2007. However, differences over the oil field management annexes to the hydrocarbon framework and the revenue sharing formulas and mechanisms precluded parliamentary

¹³ Senators Hillary Rodham Clinton and John Ensign, “An Oil Trust for Iraq,” *Wall Street Journal*, December 18, 2006.

¹⁴ Remarks attributed in an Iraqi press account to Usama al Najafi, a member of the Iraqiya parliamentary coalition associated with former interim prime minister Iyad Allawi.

consideration. The failure to achieve a regular quorum in the Iraqi Council of Representatives also has complicated efforts to consider or adopt legislation since late 2006. Many Iraqi legislators maintain residence outside of Iraq, and, as of late June 2007, two Sunni parliamentary blocs — the National Dialogue Front and the Accord Front, were boycotting parliamentary sessions. Within the parliament, criticism of a perceived fast-tracking of hydrocarbon legislation because of U.S. demands is prevalent. Once the parliament begins consideration of the package, potential amendments to the draft legislation could alter or jeopardize core compromises reached by negotiators and cabinet officials. The Iraqi government may face long-term challenges in enforcing enacted legislation in light of persistent security threats and the strong opposition to proposed compromises voiced by some Iraqi groups (see Players and Positions below).

Iraqi Perspectives

Core Issues

Iraq's Constitution: Federal and Regional Authority. The concept of federalism has been incorporated into Iraq's constitution and law, and Iraqi attitudes toward the draft legislative package often correspond with regional differences of opinion about the proper role and power of the federal government and regional and governorate authorities to make oil policy and revenue decisions. However, the constitution's ambiguity about the roles and powers of federal, regional, and governorate authorities has contributed significantly to the ongoing impasse over these issues.¹⁵ Articles 111 and 112 of the Iraqi constitution state that Iraq's natural resources are the property of "*all the people of Iraq in all regions and governorates,*" and that "*the federal government, with the producing governorates and regional governments,* shall undertake the management of oil and gas extracted from present fields (*italics added*)."¹⁵ These provisions were included as a means of ensuring consensus among Iraqis and the adoption of the constitution.

Iraq's Constitutional Review Committee delivered its long-expected recommendations for constitutional amendments in late May 2007, but left many sensitive issues, including the distribution of oil revenue, to be decided by "the political leadership in the country, to settle them for the interest of the nation and to

¹⁵ Further complicating matters are Article 115, which provides regional authorities the power to override federal law in the event of conflicts with regional legislation, and Article 110, which grants powers to Iraq's federal government to formulate "foreign sovereign economic and trade policy" and regulate "commercial policy across regional and governorate boundaries" similar to those granted to the United States Congress by the commerce clause of the U.S. Constitution. For one analysis of these issues, see Joseph C. Bell and Cheryl Saunders "Iraqi Oil Policy — Constitutional Issues Regarding Federal and Regional Authority," Memorandum, July 7, 2006. Available at [<http://www.iraqrevenuewatch.org/reports/MEMORANDUMConstitutional%20Interpretation.DOC>]

guarantee rights to all parties.”¹⁶ Reportedly, Kurdish representatives on the committee pressed for regional power to distribute oil revenue, while Sunni and Shiite Arab members supported central government control over revenue collection and distribution.¹⁷ Some observers argue that without a mutually acceptable agreement on federal and regional power sharing as reflected in a constitutional amendment, passage of the current draft hydrocarbon framework and revenue sharing laws may not adequately ensure equitable distribution or contribute to political reconciliation.

To date, Iraqi Kurds, acting through their Kurdistan Regional Government (KRG), have demanded the right to sign oil development deals without much national government interference. Other subnational groupings also may contest the right of Iraq’s central government to control aspects of oil policy, including some inhabitants of the oil-rich governorate of Al Basrah and members of the minority Sunni Arab community who fear that a Shiite Arab and Kurdish dominated national government may not administer hydrocarbon revenues fairly.

Revenue Sharing. The central role of the oil sector in Iraq’s economy, the uneven geographic distribution of Iraq’s oil resources, and the legacy of communal favoritism practiced under Saddam Hussein have created lasting concerns among Iraqis about the future equitable distribution of oil revenues. These concerns have deepened in the atmosphere of sectarian and ethnic violence that has gripped Iraq since mid-2003. The principles and mechanisms by and through which Iraq’s oil revenues are to be collected and distributed remain contested. Nevertheless, most outside observers agree that an equitable revenue distribution formula will be critically important to Iraq’s future economic health and political stability. Article 112 of Iraq’s constitution requires the Iraqi government to distribute revenues:

“in a fair manner in proportion to the population distribution in all parts of the country, specifying an allotment for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law.”

Recent debate has centered on the content of draft revenue sharing legislation that must be considered and approved as part of the hydrocarbon package. The principal issues remain formulas for ensuring equitable distribution of revenues to Iraq’s population and the mechanisms through which revenue will be collected and distributed. Debate over distribution reflects efforts to agree on formulas for ensuring equitable per capita distribution and providing for “damaged” and “unjustly deprived” regions in line with Article 112 of the constitution. Debate on distribution mechanisms focuses on whether or not regions or governorates should retain the right to make decisions about revenue from oil and gas produced in their territory and whether federal revenue distribution should be automatic and fixed or whether the

¹⁶ Damien Cave, “Iraqis Are Failing to Meet U.S. Benchmarks,” *New York Times*, June 13, 2007.

¹⁷ Mariam Karouny, “Iraq Lawmakers Deadlocked over Constitution Reforms,” *Reuters*, May 22, 2007.

federal government should retain discretion over the allocation of funding to regions and governorates.

Foreign Participation. The sovereign control of Iraq's oil resources and revenues remains a subject of intense scrutiny, debate, and sensitivity in Iraq. Iraq completed the nationalization of its oil resources in 1975, and oil exploration, production, and exports were managed subsequently by state-run entities that employed thousands of Iraqis. Given the effects of war, sanctions, and mismanagement of the country's oil infrastructure since 1980, many energy experts believe Iraq will need significant infusions of investment, technology, and expertise in order to rehabilitate and eventually expand its oil production capacity in line with the current government's plans.¹⁸ Iraq's own oil revenues may provide a significant resource base for such investment and for attracting technology and expertise. However, some observers question the Iraqi government's capacity to effectively direct large amounts of its own resources toward hydrocarbon sector rehabilitation in light of its recent failures to manage and expend funds set aside in the federal budget for those purposes (see Revenues below).¹⁹

Over the short-term, Iraq's unstable security situation presents a significant barrier to large-scale investment by most international entities. Over the medium to long term, Iraqis face difficult choices about the character and needs of their oil and gas industries: preserving full control over all investment and technological inputs to the sector may not be compatible with its technical needs. Whereas some Iraqis oppose foreign participation on any terms, others support foreign participation in the form of technical service contracts, and still others favor production sharing agreements (PSAs), which would grant international companies exploration and production rights over specific areas for specified periods, subject to the terms of negotiated contracts.

Players and Positions

Iraqi attitudes on the future of the country's oil industry are shaped by a number of factors, including geography, ethnicity, political ideology, and party affiliation. Sectarian identity politics undoubtedly is one important factor, particularly with regard to the concerns of some members of the minority Sunni Arab community who fear exclusion from decision-making bodies and inadequate revenue sharing. However, viewing ongoing Iraqi debates over oil resources and revenue through a purely sectarian lens obscures other important non-sectarian dynamics.

¹⁸ According to a May 2007 Government Accountability Office (GAO) report, "U.S. officials and industry experts have stated that Iraq would need an estimated \$20 billion to \$30 billion over the next several years to reach and sustain a crude oil production capacity of 5 million barrels per day. This production goal is below the level identified in the Iraqi 2005-2007 National Development Strategy — at least 6 million barrels per day by 2015." GAO, "Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors," GAO-07-677, May 15, 2007.

¹⁹ See U.S. Department of Defense, *Measuring Stability and Security in Iraq*, June 2007, Report to Congress in accordance with the Department of Defense Appropriations Act 2007 (Section 9010, Public Law 109-289), pp.9, 11-12.

Constitutional questions relating to federal and regional authority concern all Iraqis, and members of some ethnic and sectarian groups oppose positions and compromises that their political leaders have suggested with regard to the package of draft hydrocarbon legislation. Many Iraqi oil experts, technicians, and powerful unions also have taken strong positions on the legislative package that do not correspond to ethnic or sectarian affiliations or interests.

The Kurds: Regional Authority and Kirkuk. The Kurdistan Regional Government (KRG) has signed oil and gas production sharing contracts with several small international companies since 2003. Under the draft oil sector law now before Iraq's Council of Representatives, these existing contracts would be subject to review by the Panel of Independent Advisers of the Federal Oil and Gas Council (FOGC). Regional authorities would retain the right to license future international participation in oil and gas development in their region, subject to the terms of the hydrocarbon framework law, the Iraqi constitution, and the review of the FOGC. The KRG favors the establishment of an automatic revenue distribution mechanism based on a per capita formula in order to prevent political intervention at the federal government level that would limit allocations to the Kurdish region.²⁰

The Kurds, both through legal procedures as well as population movements, also are trying to secure political control over the ethnically and religiously mixed city of Kirkuk, which sits atop a large oil field in the northern governorate of Al Tamim. The Kurds supported insertion of language in Iraq's constitution (Article 140) requiring a vote by December 2007 on whether Kirkuk might formally join the Kurdish-administered region. The Iraq Study Group report stated that this referendum should be delayed (Recommendation 30). In June 2007, Kurdistan Regional Government president Massoud Barzani stated that, "we will never delay; we will never accept any delay in the implementation of Article 140."²¹

Sunni Arabs: Revenue Sharing and Foreign Participation. The Sunni Arab minority-dominated areas of Iraq have few proven crude oil or natural gas deposits, although petroleum geologists differ as to whether substantial oil deposits may be found in Iraq's western Al Anbar governorate in the course of future exploration. As such, the community's concerns have focused on ensuring equitable distribution of oil export revenues in the future. In some cases, Sunni parties also have taken a hard-line position on preventing feared exploitation of Iraq's oil resources by international companies or other third parties. Sunni negotiators opposed Iraq's new constitution in part because it empowers regions in oil production and revenue allocation policy. The Association of Muslim Scholars and the Iraqi

²⁰ Yahia Said as quoted in Christina Parajon, "The Iraq Hydrocarbon Law: How and When?" United States Institute of Peace Briefing, June 2007.

²¹ On June 12, 2005, Barzani was named "President of Kurdistan" by the 111-seat Kurdish regional assembly that was elected in January 2005. Articles 63 to 67 of the Iraqi constitution set general rules for the creation of executive authority by regional governments. *Radio Free Europe/Radio Liberty*, "Iraq: Kurdish Official Says Kirkuk Normalization To Proceed," June 22, 2007.

Accord Front, both Sunni groups, have criticized the draft oil legislation currently under consideration.²²

The United Iraqi Alliance: Investment and Development. The leading parties of the ruling Shiite United Iraqi Alliance (UIA) — the Dawa Party and the Supreme Islamic Iraqi Council (SIIC, formerly known as the Supreme Council for Islamic Revolution in Iraq, or SCIRI), have supported the adoption of the hydrocarbon legislative package as a means of reviving Iraq's oil sector and increasing government revenues. To date, ministries led by members of these parties have faced mounting criticism over allegations of oil-related corruption and mismanagement of export revenues. According to some analysts, differences within the UIA with regard to principles of federalism could have important implications for future oil sector decisions, particularly the SIIC's reported preference for establishing a large federal region encompassing all of the Shiite Arab majority governorates of southern Iraq.²³ However, at present, both the Dawa Party and the SIIC reportedly favor the centralization of authority in federal decision making bodies likely to be dominated by Shiite parties under Iraq's democratic system. The UIA also reportedly supports the creation of a strong Iraq National Oil Company to limit the influence of potential political challengers affiliated with Iraq's Southern Oil Company, the Iraq Federation of Oil Unions, and the Fadilah (Virtue) party.

Basrah: Industry Unions and the Fadilah Party. Al Basrah governorate holds most of Iraq's proven oil resources and, as such, local political actors exert influence over the hydrocarbon sector and consideration of the legislative package. In particular, the 26,000 member Iraq Federation of Oil Unions has voiced its members' opposition to the current draft of the hydrocarbon framework legislation and has demonstrated a capacity to disrupt oil production and refinery operations with strikes.²⁴ In May 2007, oil unions demanded participation in discussions of the draft hydrocarbon legislation with Prime Minister Nouri Al Maliki, who reportedly agreed to include the unions in future talks. By June 2007, the unions stated that Maliki's failure to do so was one contributing factor to their decision to launch a strike that halted oil operations in southern Iraq for days. In response, the federal government dispatched troops to the south, issued arrest warrants for union leaders, and ultimately agreed in negotiations to establish a formal mechanism for union input into the legislative drafting process.²⁵

²² Sabah Jerges, "Iraqi Sunni Faction Calls for Ban on PSAs," *Platts Oilgram News*, Volume 85, Issue 81, April 25, 2007.

²³ Reidar Visser, "Basra Crude: The Great Game of Iraq's 'Southern' Oil," Norwegian Institute of International Affairs, March 2007.

²⁴ In June, the Iraqi Federation of Oil Unions led a two-day strike against the Southern Pipeline Company over working conditions and threatened to spread the action to other unions and facilities. The Iraqi government responded by deploying military forces to the Company facilities and issuing arrest warrants for union leaders. See also, Ben Lando, "Unions Could Sway Iraq Oil Law," *UPI*, March 28, 2007; and *Associated Press*, "Iraqi Oil Workers Threaten Open-Ended Strike In South," June 6, 2007.

²⁵ Ben Lando, "Iraq Oil Strike on Hold, Troops Remain," *UPI*, June 8, 2007.

The Fadilah (Virtue) party holds about 15 seats in Iraq's Council of Representatives and split from the ruling UIA coalition earlier this year. The Governor of Al Basrah governorate and the director of the influential Southern Oil Company are both Fadilah party members. Fadilah leaders have voiced similar opinions to those of some oil union members and may support efforts to secure regional status for Al Basrah and adjacent oil producing governorates of Maysan and Dhi Qar that would increase southern Iraqis' influence over national oil and gas policy. Both the oil unions and the Fadilah party reportedly oppose the use of production sharing agreements with international companies and may support the introduction of foreign investment and technology on the basis of technical service contracts similar to those used by other Gulf region producers.

International Energy Companies. The absence of an accepted hydrocarbon framework presents a procedural obstacle to international investment in Iraq's oil and natural gas sector. However, energy experts often argue that the persistence of insecurity is a more fundamental concern to international energy companies. While some small international energy companies have signed limited production sharing agreements in the Kurdish-controlled region of northern Iraq, significant international investments in oil exploration and production elsewhere in Iraq have not been made since 2003. Saddam Hussein's government signed contracts with several major international oil companies, and under the draft hydrocarbon legislation currently under consideration, these contracts must be evaluated and re-approved by the Federal Oil and Gas Council.²⁶ In June 2007, Iraqi Oil Minister Hussein al Shahrastani told reporters that a 1997 contract signed by the Saddam Hussein regime and China National Petroleum Corporation to develop the Al Ahdab oil field in Wasit governorate "is still valid" and that the current Iraqi government "will honor it," pending the resolution of ongoing technical discussions.²⁷

While the risks associated with investment in Iraq's established producing oil fields are relatively low, potential future investments in discovered but undeveloped or exploration blocks could carry more significant risks. Investors are therefore likely to seek contract terms that would provide adequate return and compensation. According to some observers, concerns about corruption and the potential opacity of Iraq's regulatory and contracting processes may also deter some outside investment over the long term, particularly if key decision making powers are delegated to regional or governorate authorities.²⁸ Nevertheless, some large companies have expressed interest in oil and gas investment opportunities, including Royal Dutch

²⁶ Some of the presumptive contracts for oil exploration in Iraq, signed with the government of Saddam Hussein, include the following: Al Ahdab field — China National Petroleum Corporation (China); Nassiriya field — Agip (Italy) and Repsol (Spain); West Qurna — Lukoil (Russia); Majnoon — Total Fina Elf (France); Nahr Umar — Total Fina Elf (France); Tuba — ONGC (India) and Sonatrach (Algeria); Ratawi — Royal Dutch Shell (Britain and the Netherlands); Block 8 — ONGC (India). Dan Morgan and David Ottaway, "In Iraqi War Scenario, Oil Is Key Issue," *Washington Post*, September 15, 2002.

²⁷ Jamil Anderlini and Steve Negus, "Iraq Revives Saddam Oil Deal with China," *Financial Times* (UK), June 23, 2007.

²⁸ *Oxford Analytica*, "Iraq: Oil Law Necessary but not Sufficient for IOCs," March 6, 2007.

Shell, which reportedly held a meeting in Oman in March 2007 with Iraqi government representatives to discuss significant gas investments.²⁹

Oil Revenue and Security Concerns

Revenues

Current Arrangements. Iraq's State Oil Marketing Organization (SOMO) remains responsible for the sale and export of Iraqi crude oil. Under the terms of United Nations Security Council resolution (UNSCR) 1483 (and renewed through subsequent Security Council resolutions), revenue from Iraq's oil exports is deposited into an Iraq-controlled account held at the Federal Reserve Bank of New York (FRBNY). Five percent of the funds are reserved for a U.N.-administered compensation fund for reparations to the victims of the 1990 Iraqi invasion and occupation of Kuwait. The remaining 95% is deposited into a Development Fund for Iraq (DFI) account at the FRBNY and is then transferred to an Iraqi Ministry of Finance account at the Central Bank of Iraq for further distribution to Iraqi government ministries.³⁰

Under the terms of UNSCR1546 (and renewed by subsequent resolutions), the DFI is monitored by an International Advisory and Monitoring Board (IAMB), which provides periodic reports on Iraq's oil export revenue, Iraq's use of its oil revenues, and its oil production practices.³¹ UNSCR 1723 of November 28, 2006, extended the IAMB monitoring of the DFI until December 31, 2007, subject to Iraqi government review by June 15, 2007. In October 2006, the Iraqi cabinet approved the creation of an oversight body known as the Committee of Financial Experts (COFE) to monitor oil revenue collection and administration. The COFE remains under development. The establishment of an audit oversight committee for the DFI and oil export revenues is a structural benchmark under Iraq's Stand-by Arrangement (SBA) with the International Monetary Fund currently satisfied by the extension of the IAMB arrangement. The signing of the SBA was a requirement for Iraq's debt reduction agreements with the members of the Paris Club.³²

Resources, Expenditures, and Corruption. Periodic audits conducted under the auspices of the IAMB have routinely found irreconcilable discrepancies in oil production and export figures and DFI account receipt and distribution amounts. Oil production and exports were conducted without metering equipment throughout the Coalition Provisional Authority (CPA) period, and the IAMB reported in

²⁹ Hassan Hafidh and Benoit Faucon, "Shell Intensifies Iraq Gas Lobbying With Secret Oman Meeting," *Dow Jones*, March 28, 2007.

³⁰ Ernst & Young, Development Fund for Iraq — Statement of Cash Receipts and Payments for the period from 1 July 2005 to 31 December 2005, September 19, 2006, p. 6.

³¹ The IAMB homepage is available at [<http://www.iamb.info/>]

³² See International Monetary Fund, Country Report No. 07/115, Iraq: Third and Fourth Reviews Under the Stand-By Arrangement, March 2007; and, CRS Report RL33376 - *Iraq's Debt Relief: Procedure and Potential Implications for International Debt Relief*.

December 2006 that, while “some metering has since been installed at oil terminals... there continues to be no metering in the oil fields.” A May 2007 GAO report confirmed that reliable metering in Iraq’s oil fields remains lacking and contributes to the lack of reliable data on Iraq’s oil production and related revenue.³³

Completed financial audits through December 2005 found that “no comprehensive financial and internal controls policies and procedures manuals” were present in Iraqi ministries that were spending oil export proceeds delivered through the DFI system. Preliminary findings for 2006 state that Ministry of Finance internal accounting procedures and controls remained inadequate.³⁴ In addition to these macro-level oil revenue findings, allegations of widespread corruption have been leveled against a number of Iraqi ministries spending distributed oil export revenue, often associated with weak contracting and cash management policies.

The United States has spent \$1.6 billion in appropriated reconstruction funding on efforts to repair and secure Iraq’s hydrocarbon production and export infrastructure since 2003.³⁵ In addition, as of December 2005, the United States had administered over \$2.8 billion in Iraqi funds from the DFI for oil infrastructure projects.³⁶ The June 2007 U.S. Department of Defense Measuring Stability and Security in Iraq report states that the Iraqi government’s “failure to execute several billion dollars of its own funds in oil sector capital investments” has limited the overall recovery of the sector. According to the report, Iraq’s Ministry of Oil expended only \$90 million of its \$3.5 billion capital budget in 2006, and the Ministry’s 2007 allocation of \$2.38 billion is less than half of the ministry’s own estimated maintenance and growth needs.³⁷

Security

Infrastructure Attacks and Smuggling. Iraq’s oil infrastructure suffered little damage during the U.S.-led invasion (an estimated nine oil wells were set on fire), but insurgents and smugglers have targeted oil infrastructure for political and financial reasons since 2003. Iraq’s total pipeline system is over 4,300 miles long, and most insurgent groups have focused their attacks on pipelines in northern Iraq that feed the Iraq-Turkey oil export pipeline as a means of reducing government

³³ James Glanz, “Billions in Oil Missing in Iraq, U.S. Study Finds,” *New York Times*, May 12, 2007; and, GAO, GAO-07-677, May 15, 2007, pp. 26-7.

³⁴ Ernst & Young, Summary of Preliminary Findings for the six months ended June 30, 2006, Pending the Finalization and Approval of the Audit, November 6, 2006.

³⁵ For more information about U.S. reconstruction spending and programs, see CRS Report RL31833 - *Iraq: Reconstruction Assistance*.

³⁶ GAO, GAO-07-677, May 15, 2007, p. 15.

³⁷ U.S. Department of Defense, Measuring Stability and Security in Iraq, June 2007, Report to Congress in accordance with the Department of Defense Appropriations Act 2007 (Section 9010, Public Law 109-289), pp.9, 11-12.

export revenues.³⁸ Highly organized smuggling operations have leveraged supply and price imbalances in the Iraqi refined fuel market to create lucrative profit opportunities, some of which may benefit Shiite political parties and militia groups. In particular, smugglers have targeted pipelines in southern Iraq to force refining operations to transport fuel products using more vulnerable tanker vehicles that can be stolen, diverted, and manipulated.³⁹ The U.S. military reports that some members of the Iraqi Ministry of Defense Strategic Infrastructure Battalions and the Ministry of Oil Protection Force are “sometimes suspected of being complicit in interdiction and smuggling.”⁴⁰

U.S. Policy and Issues for Congress

Both the Bush Administration and Congress have identified political reconciliation and long-term economic development as key policy goals and benchmarks for the progress of U.S. efforts in Iraq. The current military strategy employed by U.S. forces in Iraq seeks to create a secure environment in which Iraqis can resolve core political differences. In Iraq, the ongoing debate over a package of four draft hydrocarbon laws reflects Iraqis’ unresolved political differences over the powers reserved for federal and regional authorities, proper means for ensuring equitable distribution of hydrocarbon revenues, and longstanding, shared concerns about preserving Iraq’s unity and sovereignty.

In light of the U.S. military commitment and persistent Iraqi political differences, Members of Congress and U.S. policymakers face a number of challenging questions: To what extent does the U.S. investment in improving Iraq’s security permit the United States to influence either the pace or content of Iraqi debates over the future management of their sovereign economic resources? Should the United States encourage Iraqis to complete constitutional reforms that will resolve core political differences before promoting the adoption and implementation of hydrocarbon legislation? How can the United States most effectively ensure that Iraqis adopt equitable revenue sharing mechanisms? Should the U.S. government promote international investment in Iraq’s oil and gas sector and, if so, in what form and on what scale?

To the extent that Iraqi factions perceive the United States to be promoting legislative solutions or processes opposed to or supportive of their interests, they may oppose or support the hydrocarbon legislation and U.S. preferences and policy goals.

³⁸ See Michael Knights, “Iraqi Critical Infrastructure Faces Sophisticated Threat,” *Jane’s Intelligence Review*, January 1, 2006.

³⁹ The Iraqi government imports refined fuels because it lacks sufficient refining capacity to meet local demand. Saddam-era price subsidies also remain in place, making Iraqi fuel products cheaper than those found in neighboring countries. See James Glanz and Robert F. Worth, “Attacks on Oil Industry in Iraq Aid a Vast Smuggling Network,” *New York Times*, June 4, 2006.

⁴⁰ For example, the June 2007 Measuring Stability and Security in Iraq report states that, “As much as 70% of the fuel processed at Baiji was lost to the black market — possibly as much as US\$2 billion a year.”

If constitutional disputes over federal and regional authority remain unresolved, the durability of compromises reached with regard to the hydrocarbon legislation may be undermined. Revenue sharing mechanisms based on per capita population formulas may ensure formerly disadvantaged regions receive adequate shares of oil and gas proceeds, but could create new resentment in less populous governorates, including areas inhabited by Iraq's minority Sunni Arab population. International investment and technology may be necessary in light of the current Iraqi government's ambitious plans for the expansion of Iraq's oil and gas production. However, the terms and conditions of international participation are likely to remain highly controversial, with powerful Iraqi interest groups taking opposing positions. The public positions that Members of Congress and Administration officials take on each of these questions will likely influence Iraqi attitudes toward the U.S. presence in Iraq, toward the draft legislative package, and toward each other.

Frequently Asked Questions

Privatization and Foreign Participation. Some U.S. and international press coverage of Iraq's draft hydrocarbon framework legislation has alleged that the draft law would require the Iraqi government to use contracts known as production sharing agreements in future dealings with international oil companies. While the draft legislation represents a reversal of the nationalization of Iraq's hydrocarbon sector insofar as it allows foreign investment and participation in exploration, production, and development, the legislation does not mandate the use of production sharing agreements or any other type of model contract. Rather, the legislation would require the Federal Oil and Gas Council to develop model contracts subject to terms of the law that seek to preserve economic return for Iraq, the sovereign control of oil and gas resources, and production plans in line with Iraq's long-term development. While Iraqis may choose to use production sharing agreements or service contracts in the future, the legislation currently under consideration would not require them to use one specific type or to agree to specific revenue, tax, or ownership terms with potential international partners.

U.S. Legal and Diplomatic Support.⁴¹ Several press reports have alleged that U.S. government personnel, U.S. contractors, or international oil executives may have had a role in drafting or otherwise contributing to the creation of the draft hydrocarbon framework legislation. In response to a March 2007 CRS inquiry, the Administration reported that the "U.S. Government did not provide any drafting input to the recent hydrocarbon law; the Iraqis have not asked for that kind of assistance on that law or on the revenue sharing law."

The U.S. Agency for International Development (USAID) funded a Baghdad-based Petroleum Legal and Regulatory Advisor on a contract basis from mid-2006 to April 2007.⁴² The advisor worked with the U.S. Embassy and coordinated with five other contracted lawyers affiliated with the U.S. Department of Commerce (DOC), and the U.S. Department of Energy (DOE). Together the lawyers worked to

⁴¹ This information is drawn from an interagency Administration response to a CRS inquiry, drafted by the U.S. Department of State Bureau for Near Eastern Affairs on March 19, 2007.

⁴² BearingPoint held the contract for this advisory coordinator position.

“assist the Iraqis by providing commentary and case studies,” which, according to USAID, were designed to “help lay the foundation for a legal, regulatory, and tax environment conducive to domestic and foreign investment in [Iraq’s] energy sector.” The legal advisory effort concluded in April 2007.

In recent months, the U.S. Embassy in Baghdad has hosted and arranged a number of meetings among key Iraqi political figures to encourage discussion and compromise over outstanding legislative and constitutional reforms, including the package of hydrocarbon legislation. According to the U.S. Department of State, an “Energy Fusion Cell” made up of U.S. Embassy personnel, representatives of Multinational Force-Iraq (MNF-I), and Iraq’s Ministry of Oil and Ministry of Electricity also is working to develop an integrated national energy strategy to better coordinate Iraqi budget allocations, reconstruction plans, and production goals.⁴³

Congressional Benchmarks and Other Legislation

- Section 1314 of the FY2007 Supplemental Appropriations Act [P.L.110-28] specifically identifies the enactment and implementation of legislation “to ensure the equitable distribution of hydrocarbon resources of the people of Iraq without regard to the sect or ethnicity of recipients” and “to ensure that the energy resources of Iraq benefit Sunni Arabs, Shia Arabs, Kurds, and other Iraqi citizens in an equitable manner” as benchmarks on which the President must report to Congress in July and September 2007. Section 3301 of the act states that no funds appropriated by the act or any other act may be used “to exercise United States control over any oil resource of Iraq.”
- Section 8 of H.R. 2574, the Iraq Study Group Recommendations Implementation Act of 2007, includes a detailed statement of policy on the oil sector in Iraq. The bill would require the Administration to report on the implementation of the bill’s reformulation of the Iraq Study Group recommendations (including Section 8) 90 days after enactment.
- Section 4 of S. 670, the Iraq Troop Protection and Reduction Act of 2007, would prohibit the provision of appropriated funds to the Government of Iraq for security purposes unless the President certifies to Congress that the GOI “provides for an equitable distribution of the oil revenues of Iraq.”
- S.Con.Res.37 states that the United States should encourage Iraqis to adopt oil revenue sharing legislation as a “critical component of a comprehensive political settlement based upon federalism.”

⁴³ GAO, GAO-07-677, May 15, 2007, p. 45.

- Other resolutions and bills include statements of policy declaring that it is not and shall not be the policy of the United States to control Iraq's oil resources. See H.Con.Res. 46 and H.R. 663.