

December 9, 2006

Iraqis Near Deal on Distribution of Oil Revenues

By [EDWARD WONG](#)

BAGHDAD, Dec. 8 — Iraqi officials are near agreement on a national oil law that would give the central government the power to distribute current and future oil revenues to the provinces or regions, based on their population, Iraqi and American officials say.

If enacted, the measure, drafted by a committee of politicians and ministers, could help resolve a highly divisive issue that has consistently blocked efforts to reconcile the country's feuding ethnic and sectarian factions. Sunni Arabs, who lead the insurgency, have opposed the idea of regional autonomy for fear that they would be deprived of a fair share of the country's oil wealth, which is concentrated in the Shiite south and Kurdish north.

The [Iraq](#) Study Group report stressed that an oil law guaranteeing an equitable distribution of revenues was crucial to the process of national reconciliation, and thus to ending the war.

Without such a law, it would also be impossible for Iraq to attract the foreign investment it desperately needs to bolster its oil industry.

Officials cautioned that this was only a draft agreement, and that it could still be undermined by the ethnic and sectarian squabbling that has jeopardized other political talks. The Iraqi Constitution, for example, was stalled for weeks over small wording conflicts, and its measures are often meaningless in the chaos and violence in Iraq today.

But a deal on the oil law could be reached within days, according to officials involved in the drafting. It would then go to the cabinet and Parliament for approval.

The major remaining stumbling block, officials said, concerns the issuing of contracts for developing future oil fields. The Kurds are insisting that the regions reserve final approval over such contracts, fearing that if that power were given to a Shiite-dominated central government, it could ignore proposed contracts in the Kurdish north while permitting them in the Shiite south, American and Iraqi officials said.

The national oil law lies at the heart of debates about the future of Iraq, particularly the issue of a strong central government versus robust regional governments. The oil question has also inflamed ethnic and sectarian tensions. Sunni Arabs, who preside over areas of the country that apparently have little or no oil, are adamant about the equitable distribution of oil revenues by the central government.

On the drafting committee, Sunni Arabs have allied with the Shiites against the Kurds, who have sought to maintain as much regional control as possible over the oil industry in their autonomous northern enclave. Iraqi Kurdistan has enjoyed de facto independence since 1991, when the American military established a no-flight zone above the mountainous region to prevent raids by [Saddam Hussein](#).

Gen. George W. Casey Jr., the senior American commander here, and Zalmay Khalilzad, the American ambassador, have urged Iraqi politicians to put the oil law at the top of their agendas, saying it must be passed before the year's end.

The drafting committee is made up of ministers and politicians from the main Shiite, Sunni Arab and

Kurdish blocs in government. They began talks months ago, but the pace picked up recently, said an American official tracking the negotiations, who spoke on condition of anonymity because he did not want to give the appearance of Western interference in sovereign Iraqi matters.

At the start of the talks, the Kurds fought to ensure that regional governments have the power to collect and distribute revenues from future fields, Iraqi and American officials said. They also proposed that revenues be shared among the regions based on both population and crimes committed against the people under Mr. Hussein's rule. That would have given the Kurds and Shiites a share of the oil wealth larger than the proportions of their populations.

But the Kurds dropped those demands, said Barham Salih, a deputy prime minister who is a Kurd and the chairman of the committee.

"Revenue sharing is an accepted principle by all the constituent elements of the Iraqi government, including the Kurds, and that is the unifying element that we're all hoping for in the oil law," Mr. Salih said in an interview.

The American official said the Kurds were willing to make concessions because a national oil law could attract more foreign oil companies to exploration and development in Kurdistan. A large foreign oil company would have more confidence in signing a contract with the Kurds if it were to operate under the law of a sovereign country rather than just the law of an autonomous region.

Some Kurdish leaders also believe that the concessions are a worthwhile price to pay for having a stake in the much larger revenue pool of the country's oil industry, the American official said. The southern fields accounted for 85 percent of total Iraqi crude production last year, partly because northern production was hampered by insurgent sabotage. The south has an estimated 65 percent of the country's 115 billion barrels of proven reserves.

But the Kurds are still holding out on the issue of oil contracts, arguing that the Constitution guarantees the regions absolute rights in those matters. The Kurds recently discovered two new oil fields after signing exploration contracts with a Turkish company and a Norwegian company.

"There are those among us who say we cannot go back to the former days of centralization, which were not conducive to good business practice and to the idea of federalism that is enshrined in the Constitution," Mr. Salih said.

In its recommendations released Wednesday, the Iraq Study Group took the opposite tack, to the anger of the Kurds. The report said that "no formula that gives control over revenues from future fields to the regions or gives control of oil fields to the regions is compatible with national reconciliation." Though the Kurds have ceded their position on the issue of future revenues, they are fighting for control over the development of future fields.

The drafting committee met Thursday night to try to resolve the contract issue, but could not reach an agreement.

Distributing revenues by population could be a difficult matter without a reliable census, which Iraq lacks. Sunni Arabs often claim they are at least 60 percent of the population, not the 20 percent that is commonly cited. The Shiites are generally estimated to be 60 percent of the population, and the Kurds 20 percent. The American official said a national census expected to be taken next year should determine the share of revenue that goes to each province or region.

If doing a census next year is too politically fraught, or if security conditions prevent it, then revenues could

be distributed to provincial or regional governments according to the household counts used by Mr. Hussein's government to distribute rations in the 1990s.

The Kurds have insisted that revenues collected by the central government should be put into an account that automatically redistributes the money into sub-accounts dedicated to the provinces or regions. This approach could be written into the national oil law or into a separate law, the American official said.

The working draft of the oil law re-establishes the state-run Iraq National Oil Company, which was founded in 1964 to oversee oil production but was shut down by Mr. Hussein in 1987. The company would operate using a business model and not through a government budget process. Iraqi and American officials say that would make management of oil production more efficient and separate it from the Oil Ministry, which has been rife with corruption.

The North and South Oil Companies, which currently manage production in their regions, would fall under the umbrella of the Iraq National Oil Company. Any exports would still be sold through a state marketing company.

The law also sets production thresholds for creating new regional companies. A province or region, for example, might have to show it can produce 100,000 barrels a day before a company can be created there. Officials in Maysan Province in the south have already said they want to start a company.

[Copyright 2006 The New York Times Company](#)

[Privacy Policy](#) | [Search](#) | [Corrections](#) | [RSS](#) | [First Look](#) | [Help](#) | [Contact Us](#) | [Work for Us](#) | [Site Map](#)
