



COALITION PROVISIONAL AUTHORITY
BAGHDAD

18 November 2003

H. E. Dr Ibrahim Bahr al-Uloum
Minister of Oil

Subject: Capital Investment Budget for 2004

Thamir Ghadhban submitted a letter to CPA dated 9 November 2003 requesting the status of the Oil Ministry capital budget for 2004. Because of the importance of this subject, it is more appropriate that our response be directed to you.

Presently, the Ministry has no capital budget allocated for its sole control in 2004. As such, I want to take the time to explain to you just how we should proceed over the next couple of months.

The Supplemental that was signed by the President includes funding of \$1.2 billion for oil infrastructure projects and \$690 million for the purchase of petroleum products. These are US government appropriated funds, so they will be administered by the US Army Corps of Engineers or similar organization of the US government. The \$1.2 billion will be used to complete the remaining projects of the work plan agreed to last July as well as the new projects that have been identified for the USACE to administer, under the name of Task Force RIO.

In addition, there will be a need for additional oil infrastructure capital for the Ministry. How do we attain and manage this capital?

We had hoped that completion of a national petroleum regime and transition to the INOC structure would be further along by now, allowing for an efficiently-managed capital investment program among other things. Therefore, it is important to reiterate that I cannot support any additional funding until 1) a national petroleum regime is defined and published and 2) a national oil company is established and we are satisfied the appropriate management processes and financial controls are defined. Per our previous discussions, I know that you are supportive of these very important undertakings and intend to implement them this coming January, after consultation and guidance from CPA and the Governing Council.

If money is required prior to either of these two conditions being satisfied, all requests will have to be justified and presented to my office for review, and only emergency funding will be considered. If I agree, we would then seek approval from the Program

Review Board for each project. My feeling is that you and your Ministry would not be at all happy with this process.

However, when the two conditions ARE satisfied I intend to work with Ambassador Bremer to provide a capital budget which will be solely controlled and administered through INOC, without any day-to-day oversight by CPA. This is a significant step in our being able to return the oil business completely to Iraqi direction and control.

I would recommend you continue your planning such that the Ministry is prepared to submit a detailed capital budget for 2004 to CPA in January. Meanwhile, Task Force RIO will be working to complete its approved work program and mission separately from the capital budget discussed above.

Sincerely,



R.E. McKee
Senior Advisor
Iraqi Oil Ministry

Cc: Amb L. Paul Bremer