

RELEASE IN PART B5



United States Department of State

Washington, D.C. 20520

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October 14, 2011

**NOTE FOR THE SECRETARY**

FROM: S/CIEA Pascual and S/EEE Morningstar

SUBJECT: Iraq Energy Engagement Strategy

Given recent discussions of Iraq and oil [redacted], we would like to update you on the steps we are taking on this issue. Iraq is potentially one of the largest oil producers in the world, but one where production has consistently underperformed expectations and significant challenges remain. First, Embassy Baghdad, NEA, ENR, and S/EEE will analyze the principal constraints on expanding Iraq's oil output and develop a set of targets to help move the country in the right direction. Second, we will craft a diplomatic strategy to keep Iraqi policymakers consistently focused on the projects and initiatives most likely to pay the greatest dividends. By bringing together one State team to work these issues, we believe we can add dynamism [redacted]

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Lack of export infrastructure remains the principle impediment to short-term growth in Iraqi oil exports. Oil contracts with international companies signed in 2009 are now raising production. Our goal, with the embassy, is to try to keep Iraq on the critical path of bringing new infrastructure on line while addressing the list of commercial and policy issues that constrain production and exports. We will develop a systematic and targeted approach that sets realistic goals and identifies concrete steps for engagement and assistance. Iraq has the capacity to increase sustainable production from the current 2.6 million barrels per day (bpd) up to four million bpd of oil in the next five years, but it has to take the necessary and sufficient steps to get there. By tracking each step and engaging Iraq to stay on this path, we stand the best chance to use our diplomatic capital and commercial leverage most effectively.

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