



Friday, June 25, 2010

### THE OUTLOOK

*Summary and analysis from the editors of Iraq Oil Report*

In the U.S. this week, the scandal that took down Gen. Stanley McChrystal has revealed an administration in disarray and a military campaign in danger of backsliding toward defeat. Afghanistan is the American foreign-policy crisis du jour – followed by Iran and Israel. Iraq is perhaps a distant fourth.

Yet Iraq saw more political tumult this week than it has since the contentious March elections.

Minister of Electricity Kareem Wahid Hasan resigned under criticism that the government still cannot provide enough power for citizens to run their air conditioners. Squabbling politicians have been unable to form a new government. And in this power vacuum, a summer heat wave was all the dry kindling necessary for populist agitators to spark violent protests, which roiled the southern provinces of Basra and Dhi Qar, leaving one dead and several injured.

The electricity minister's ouster was less a just punishment and more a sacrifice at the altar of public opinion. In truth, the obstacles that have prevented Iraq from meeting growing electricity demand are beyond any single ministry's responsibility – violence, chronic sabotage, not enough natural gas, not

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Minister of Oil Hussein al-Shahristani (L) and Minister of Electricity Karim Wahid al-Hasan (R) at a news conference with U.S. Secretary of Energy Samuel Bodman in Washington, DC on July 26, 2006. (BRENDAN SMIALOWSKI/AFP/Getty Images)

## Electricity minister resigns, Shahristani given temporary power portfolio

BAGHDAD - Iraqi Oil Minister Hussain al-Shahristani will oversee the Electricity Ministry now that the long-serving electricity minister has resigned, following violent protests over the country's chronic power outages. The announcement came from government officials, but was disputed by Iraq's deputy electricity minister.

Officials in the Oil Ministry said Shahristani has been named acting electricity minister while maintaining his duties as the head of Iraq's state-run petroleum operations. Ministry spokesman Assem Jihad said that it remained uncertain when Shahristani would "start his works as the acting electricity minister."

Kareem Wahid Hasan announced he would step down as head of the Electricity Ministry on Tuesday, and Prime Minister Nouri al-Maliki officially accepted the resignation on Wednesday.

In a sign of the discord between the two ministries and the prime minister's office, Deputy Minister of Electricity Ra'ad al-Haris said that a decision had not been made "yet indicating that someone will take over the Ministry of Electricity as the acting minister."

Haris added that ministers often stand in for one another when a min-

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## Electricity minister resigns, Shahrستاني given temporary power portfolio

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istry chief travels or a post become vacant, and said that Hasan is still performing his duties at the head of the Electricity Ministry.

The Electricity Ministry and Hasan himself have been perennial targets of criticism during the summer heat, when air conditioners are taken off line by power outages.

The oil and electricity ministries, whose leaders have both served since 2006 when Maliki came to power, have often battled in public and behind the scenes over budgets and allocation of resources. The ministries are interdependent: oil and fuel production relies on steady electricity, and generating power requires a steady flow of fuel for plants.

Power production capacity has increased to a degree that would meet demand levels from 2004, but demand has doubled as air conditioners and other energy intensive appliances have flowed into the country along with other imports, following the 2003 U.S.-led invasion.

After his resignation, Hasan noted that while frustrations are high in Iraq, his ministry is still working on ways to improve electricity production by way of additional power plants and increased megawatt output, assurances which were made by Maliki's administration in years past, though never fulfilled.

Promises to improve Iraq's electricity infrastructure were also a mainstay of many candidates' platforms ahead of the March 7 parliamentary elections. However, the newly elected parliamentarians have so far failed to form a ruling coalition, stoking the frustrations about government inaction that led to the violent protests in the southern cities of Basra and Nassiriya earlier this week.

The Oil Ministry's assertion that

Shahrستاني will take over the Electricity Ministry – even temporarily – failed to quell criticism among some Iraqis.

“The lack of fuel supply (for Iraq's power plants) is the real reason behind the electricity crisis,” said Mithal al-Alussi, a member of Iraq's of Parlia-

ment and head of the Iraqi Nation Party. “It's the fault of the Ministry of Oil.”

In the southern areas hardest hit by power shortages, the protests were reportedly organized by followers of Shiite cleric Moqtada al-Sadr, whose political allies performed well in the March elections. In both Basra and Dhi Qar provinces, the political parties of Maliki and Sadr have been jostling for power

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enough power plants, not enough money. Against those odds, Hasan has drastically increased the country's electricity-generating capacity in the last two years.

One would perhaps be better off pointing the finger at Hasan's boss, Prime Minister Maliki, whose job, after all, is to bring all aspects of government together to solve problems of national importance and scope. But even blaming Maliki isn't entirely fair.

The problem with governing by coalition is that the prime minister often lacks primacy. Maliki has been unable to wrangle his cabinet into unity because they serve, above all, at the pleasure of their own separate parties; there's little political incentive for anyone to be a team player. A unified energy strategy has therefore been elusive, and it's precisely what's required.

In the interim, Maliki has tapped Hussain al-Shahrستاني, who is minister of oil, to be the minister of electricity, too. In one sense, this could give the two ministries – which have historically been at odds – an opportunity to forge some institutional cohesion. But

the fact remains that this lame-duck government doesn't have the mandate to pursue the large-scale coordination and long-term planning that Iraq's energy sector requires.

More likely, Shahrستاني's double duty heading the two ministries most responsible for Iraq's power shortages simply means that he faces a double dose of condemnation for the continuing shortages. In Iraq, no issue is more politically charged than energy, so without some modicum of political unity, no minister can effectively govern Iraq's energy sector.

For the politicians jockeying for the leadership of Iraq, the regrettable lesson of the last week is that populist outrage resonates with the people and scores points. Ironically, the climate of anger has been stoked by frustrations over the power grid, whose failure has come from a lack of strategic unity. Iraqis, for their part, are baking in the heat while watching their leaders pull against each other, at either side of a Gordian Knot. More civil unrest seems likely.

As the U.S. begins its scheduled draw down of its military presence, Iraq might yet again rise on the list of American foreign-policy priorities. Unfortunately.

## Shahristani to take over as minister of electricity



Demonstrators in Nassiriya protest chronic power shortages, June 22, 2010. (STAFF/Iraq Oil Report)

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within the provincial councils and in the court of public opinion.

In lieu of Hasan's resignation, officials seemed more inclined to return to politicking than to spur continued protests.

Leaders in Dhi Qar province issued demands to the central government for improving the power supply, including renewed assurances that the Electricity Ministry would designate more megawatts for the province and would escalate a government media campaign to educate Iraqis on the importance of power conservation.

Dhi Qar officials also called for the central government to provide Nassiriya its own power plant capable of providing 500 megawatts daily.

Iraq has plans to bring more than two dozen gas-fueled power plants online in the next three to five years, though many Iraqis, who have heard such promises before, take them with a grain of salt.

"Sharistani does not possess the magic wand to make improvements in power supply services," said Sahar

Oda, a teacher in Nassiriya. "It is a game they are playing; it is too late for them to make the changes."

Engineer Nadhim Naeem disagreed, saying he thought the oil minister was "honest enough to make the changes," citing Shahristani's handling of the dispute between the Kurdistan Regional Government and the Iraqi central government over the oil contracts that Kurdish leaders signed in defiance of Baghdad.

"The problem is that demand has doubled, outstripping even increased supply," said U.S. Embassy Spokesman Phil Frayne in reaction to the electricity minister's resignation.

Frayne said U.S. officials in Iraq were keenly aware of the "the frustrations of Iraqi citizens languishing through a very hot summer with limited supplies of electricity," though he noted that U.S. officials were "working very closely with different Iraqi ministries to increase further the power supply and eventually bring new state-of-the-art generators on line."

The United States is also assisting the Electricity Ministry with a "Master Plan for Electricity," which will chart Iraq's future strategic planning for the electricity sector through 2030, the U.S. official said.

Full article online, [June 23, 2010](#)

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## Power shortages provoke violent protests



Iraqi security forces confront protestors in Basra who are taking to the streets as power outages take their mental toll in the summer heat. (STAFF/Iraq Oil Report)

BASRA - Summer heat has struck Iraq, and citizens tired of going without electricity and air conditioning took to the streets in protests that began last weekend and continued Monday and Tuesday. Security units responded with force in Basra and Nassiriya, injuring protesters and killing one.

The weather will only grow hotter over the coming months, and both local and national governments are taking blame for the electrical grid's shortcomings. The protests prompted the resignation of the electricity minister, and Iraq's ministries are scrambling to step up efforts to meet demand that continues to outpace supply.

Prime Minister Nouri al-Maliki sent a delegation to oil-rich Basra to investigate why area residents are receiving just a scant few hours of electricity a day, following the killing of a protester by Iraqi security forces.

Residents in some areas average only a few hours of power a day or less, and the Ministry of Electricity is getting the brunt of the complaints. Officials there in turn blame consumers

for demand that is nearly double that of 2004. The ministry also said the Oil Ministry doesn't supply it with enough fuel to run the power plants and has called on the central government to give more funding to expansion plans.

In the meantime, the prime minister called for calm in Basra in hopes of avoiding further confrontations between authorities and angry Iraqis. Local officials said they would investigate the protester's death at the hands of security forces.

Hoping to quell Iraqi's ire, government spokesman Ali al-Dabbagh said that the cabinet addressed the ongoing electricity crisis, particularly in southern cities like Basra, and ratified a recent decision to increase megawatt output at power plants in the south.

Dabbagh conveyed what he said was Iraqi officials' "regret over the victims killed and wounded during the protests."

The Electricity Ministry also announced Wednesday that Baghdad would receive an additional 1,000 megawatts of electricity per day - ca-

capacity which will be freed up by cutting back the power supply to some government offices and one of the capital's single largest energy consumers, the Green Zone.

The protected area in central Baghdad houses many of the foreign embassies and Iraqi ministries and government buildings, and has been immune from much of the violence and most service cuts facing the rest of Iraq. None of the American bases or the embassy run on the national power grid.

The Green Zone will be subject to regular power blackouts lasting three hours or more, said Deputy Electricity Minister al-Haris. A U.S. official at the American Embassy said they were familiar with the media reports on the planned cutbacks to Green Zone power supplies, though have not been informed by Iraqi officials of the plan.

Iraq currently produces between 7,000 megawatts and 7,500 megawatts per day, up from 5,000 megawatts in 2004. Most of that increase has come since 2008; prior to that, security problems prevented most repairs and expansion. Demand, however, has grown from 7,000 megawatts in 2004 to more than 12,800 megawatts now.

In response, the Ministry of Electricity is taking measures both to subdue demand and to increase supply.

On the demand side, the ministry will soon institute a scaled fee structure for the power supply, which is currently subsidized. As a consumer uses more electricity, the rate that he or she pays will increase.

On the supply side, the ministry has planned to add an additional 1,000 megawatts to the grid by the end of this year, and to increase capacity to 11,000 megawatts within three years.

The ministries of Oil and Electricity have blamed each other for the current shortfalls. The Oil Ministry says it could produce more fuel if its refineries and other oil facilities received more elec-

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## Power shortages provoke violent protests

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tricity, and claims the Electricity Ministry doesn't efficiently use the fuel it receives. The Electricity Ministry says the Oil Ministry doesn't live up to its delivery agreements for fuel and has been too slow to develop natural gas, which could increase the output of the power stations.

The Oil Ministry announced it is increasing its allocations of fuel to petrol stations, so that citizens can purchase more fuel for their generators. Iraqis have turned to private generators since 2003 in an effort to fill the massive gap between what the state delivers and what they need. In Baghdad alone, the megawatts produced by private generators equals the output of an average nuclear power plant.

The weekend demonstration, fueled by Basra residents' frustration with the Electricity Ministry, left one man dead and several injured when security forces

es fired on a crowd estimated to number in the thousands.

Protesters decried the central government and local leaders for failing to keep promises to improve the country's overtaxed electricity grid, waving signs like, "Prison is more comfortable than our homes." A coffin covered in a black cloth mounted to the roof of a van had the word "Al-kahraba" (Arabic for "electricity") written on it.

Recent daytime temperatures in Basra and other Iraqi cities have hovered around 120 degrees Fahrenheit (49 degrees Celsius), conditions which have been difficult to bear since electricity shortfalls began plaguing Iraq in the early 1990s.

Ahead of the March 7 parliamentary elections, many Iraqi candidates promised to address the electricity shortage issue. However, a continuing deadlock over who will lead the next government has left many Iraqis

angered with their inaction.

The protests were reportedly organized by followers of the populist Shi'ite cleric Moqtada al-Sadr, whose political allies performed well in the March 7 parliamentary elections.

Sadr's electoral block, the Iraqi National Alliance, came in third place behind Maliki's State of Law coalition and ex-Prime Minister Ayad Allawi's Iraqiya alliance, which came in first by two seats. Leaders of the political parties are still negotiating a power-sharing strategy that will select the next government.

For populists like Sadr, the high levels of discontent make it easy to organize civil unrest. Electricity is just one of many core issues of basic services – along with water, housing, education, and more – that the next Iraqi government will have to address immediately. Yet it could still take months for Iraqi leaders to form a ruling coalition, leaving a space in the dead of summer for

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Iraqis protesting chronic electricity shortages clash with security forces in Nassiriya, June 21, 2010. (STAFF/Iraq Oil Report)

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citizens to grow angry about government dysfunction and political gridlock.

"People are just getting tired of this," a Western official engaged with Iraq's services delivery said. "They're just frustrated and now are picking on electricity."

Following the protests, before his resignation, Electricity Minister Karim Waheed Hasan told reporters the power outages were due to "the doubling of electricity use" over the last few months. "The consumption of electricity is much more now than before," he said.

Basra Province Gov. Shiltagh Abood attempted to deflect blame for the electricity shortage that inspired outrage over the weekend.

"We are not the ones who should be blamed," said Abood. "The central government is the one should be questioned. The Minister of Electricity should be asked why Basra's share of the electricity is so small."

According to Abood, the region receives 250 megawatts for all its energy needs, far short of its minimum requirements.

## Interview: Zalmay Khalilzad's take on Iraq - Part 2

WASHINGTON, D.C. - Before being named a board member of the Norwegian oil firm DNO - one of the biggest foreign players in Iraqi Kurdistan - former U.S. Ambassador to Iraq Zalmay Khalilzad spoke with Iraq Oil Report about the country during and after his tenure.

One of the critical issues he faced as ambassador was the rift between the semi-autonomous Kurdistan Regional Government in the north and the central government in Baghdad. Their dispute over control of Iraq's oil sector has been a major front in a battle to

"Why it is only limited to 250 megawatts despite the huge oil revenues obtained from the province?" he asked.

Regional officials and the federal government announced the brokering of an agreement that would provide a 48-megawatt increase for the province.

Over the weekend, some protesters called for Abood to step down amid the electricity crisis gripping Basra, according to Zaman Yousif, a 19-year-old student, who was among the crowd when uniformed officers fired on demonstrators.

"Our futures are being threatened - that is what motivates us," said Yousif.

Meanwhile in Nassiriya, protesters also took to the streets for the second day in a row to express their anger with local officials and the federal government over the lack of reliable electricity. More than 500 protesters there have clashed with police.

At a rally on Sunday some 300 people carried signs calling both the prime minister and minister of electricity "thieves" and "liars" for failing to solve the electricity crisis.

Dhi Qar Province Gov. for Technical Affairs, Rahim al-Khaqani, said that

determine the shape of Iraq's young democracy. Khalilzad tried to referee this fight, brokering the unsuccessful negotiations to pass legislation that would have governed the development of Iraq's hydrocarbon resources.

In Part Two of our interview, Khalilzad said that passing such an oil law will be more important than ever - a crucible of Iraq's ability to overcome a divisive election and form a cohesive government.

Khalilzad also defended the role his consulting firm, Khalilzad Associates, is playing in the country's oil sector. U.S. policy discourages foreign oil firms from



Protesters in Nassiriya disburse amid clashes with police. (STAFF/Iraq Oil Report)

protesters "have a right to express their demands" and promised to raise their concerns with province leaders and the Iraqi central government.

In the clashes in Nassiriya, at least 14 were injured, as police officers used water hoses and nightsticks and protesters threw rocks.

Dhi Qar officials have called for a joint committee, to be composed of local and national officials and protesters, to address the electricity issues.

*Full article online, [June 21, 2010](#)*

doing business directly with the KRG; Khalilzad claims that his clients, who are engaging with Baghdad, are pursuing agendas in harmony with American priorities.

**Ben Lando: I wanted to get your thoughts on the oil law. There were long, drawn-out negotiations, then there was an initial agreement in 2007 that then broke down - and it's been almost the same status ever since. How do you see making any headway in the future?**

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## Interview: Zalmay Khalilzad's take on Iraq



Zalmay Khalilzad speaks in Davos on January 26, 2008. (MONIKA FLUECKIGER/World Economic Forum)

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Zalmay Khalilzad: I think that the constitution requires that there be a new law, although the constitution does give some rights to the center and some rights to the region, but it does say there has to be a new law and that the new law has to emphasize new technologies, private sector. But the constitution also says that oil resources belongs to all Iraqis in all Iraqi provinces so that the revenue sharing part is there. I feel that it is in both sides' interest for there to be an agreement.

We were very close in 2007. There had been a basic agreement when I was there and then it broke down afterwards. One of the challenges of the next government in the formation process is how central will that be in the negotiations during the formation of government, to deal with this issue, and I believe it's very important that this issue be resolved, but there are so many issues I think we'll have to wait and see.

It is one of the most important issues that need to be resolved because it is a source of tension between the region of Kurdistan and the center, it is a factor that negatively effects the development of those resources.

**BL: The draft law that was agreed**

**upon (in 2007) was more of an incomplete draft. There were some issues actually that needed to be ironed out before they could have a proper agreement, and thus it fell apart. And there are some sides who said that if they were given a little bit more time, if there wasn't as much American insistence on passing it so quickly, on approving it so quickly, that it might have had a better chance than it had now.**

ZK: We thought that it was important that at that time – and many Iraqis agreed with us – to get as many of the basic issues agreed to as possible because Iraqis needed a sort of national compact about this new Iraq and that this was important not only for the economic development in terms of this oil issue but also in terms of political development of the country.

The draft that they agreed to, which ultimately they had to agree to, but we were encouraging, was ultimately approved by the cabinet. There were some issues that had to be agreed to within a specified time frame, how revenue sharing would be implemented – everybody agreed to share but how do you do it? – and there was also some issue with regard to the role of the cen-

ter vs. the region in terms of some of the contracting mechanisms. But the cabinet did approve the draft oil law.

It ran into difficulties in parliament and because they couldn't get an agreement in a timely manner.

**BL: But the first breakdown came just a few months after the agreement and it gets to the meat of the disagreement between the two sides, which is control over fields. There were the four different annexes of the fields – those that are producing, those that are discovered, etc – those weren't addressed in the oil law. And the oil minister, Shahrstani, basically presented these annexes as if these were the final draft, and the KRG disputed that.**

ZK: The agreement was that these would be negotiated by the two sides. There was also revenue sharing implementation that was part of that. As I said the agreement was made in principle when I was there in February, and then I left in March to go to the United Nations, and the deadline was in May, to complete the rest.

Sometimes you can't agree to everything at once. You agree to what you can agree. And what will be left for later. That's what they all agreed was a good way to proceed but at the same time there was a timeline because the Iraqis had been doing well when there was a timeline, whether it was about the constitution or some of the elections, to meet the deadline.

But it did not work out. I do not know all the details since I was gone when it happened. But I felt that the fundamental agreement was an important milestone on something important to Iraqis – we're talking trillions of dollars, how to develop that resource for the benefit of all Iraqis.

**BL: Did you foresee that there would be such a split between Ashti Hawrami and Hussain Shahrstani?**

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ZK: Personalities are very important in all negotiations and I wouldn't be surprised if they were important in this regard as well. That would be unique if not the case. But I also have to say that these were important and complicated issues. Some people knew a lot about the issues, some people didn't know a lot about this whole issue of energy and oil. There were political constraints that they all have faced. These are difficult issues.

But I think the key thing is the mechanism through our help – which our help was just to facilitate, we didn't go with a view that it must be resolved this way, that it must be resolved that way but to help them we saw it as a partnership with them, and to offer them the benefit of our experience, knowledge – was a way to offer bridging formulas from our point of view, always recognizing that the decision was theirs, but recognizing that an agreement on something as important as oil would have a positive impact for Iraq.

**BL: Obviously, Iraq has a lot of prospects in many sectors, the possibilities are almost endless. A lot of people in various industries they see these big risks, especially in security, that the future isn't certain and the way that they'll get to**

**the future isn't certain either. So how would you explain this to clients, that the benefits would outweigh the risks in investing in Iraq?**

ZK: Iraq has huge potential. There are risks associated with it, obviously. The benefits are great. I believe that Iraq will ultimately work. That in many other countries that have had political instability and some unresolved issues, very good deals have been made and in fact economic development has had a positive impact on the political development of the country. And sometimes if you are there early on, the kind of relationships you establish pays dividends down the road in terms of your market position, in terms of the quality of the relationship.

**BL: You are talking about you or your clients? Maybe both?**

ZK: I'm talking about my clients. My judgment is that if you look around the world at some of the places where there is a lot of oil and energy, they are places where there has been instability and yet companies have done very well there.

My motivation besides making money has been to focus on the countries that I spend a lot of time on to see what can be done from outside to assist with the economic development. But at the same time I spend my time on the side on other issues that are non-profit. For example I'm on the board of the American Univer-

sity of Iraq because I think education is very important. I'm also on the board of the American University of Afghanistan. I'm creating an education foundation that will deal with how you assist the next generation and prepare them for success. So it is in my case the focus is on a region that I know and care about it and its economic development and ultimately its future but my activities are for profit but also nonprofit.

**BL: One question that people have raised, and it's important to allow you to respond: the issue of oil and Iraq and the U.S. motivations for going to war in Iraq. Do you think there is any kind of conflict, for such a top-level American official to be involved in the oil sector in Iraq, now that he is in the private sector? Kind of the revolving door issue?**

ZK: I don't see a conflict if you behave consistent with the law and regulations and you are facilitating the development of the sector. You're not doing it yourself. I'm not seeking oil fields for myself from the Iraqi government, and I'm very careful about the kind of businesses I select to make sure they are reputable people and companies and that they will do a good job. This is what they need. The businesses need it and also the Iraqis need it. So this idea has no particular standing in my view.

*Full article online, [June 25, 2010](#)*

### IRAQ OIL REPORT

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