

Ministry of Natural Resources  
Kurdistan Regional Government

شارع 30 متري - صندوق بريد 18 \ 0112 - اربيل



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**Dr. Ashti Hawrami, the Minister of Natural Resources of the Kurdistan Regional Government, comments on the events of the past three weeks and talks about the difficulties his opponents have caused. He expresses his views on how the entry of Genel Enerji and DNO to Kurdistan has impacted the overall oil policy of the Kurdistan Regional Government and why their success has been so important to the Region**

### Background

After the first Gulf War, the suffering of the people of Kurdistan and the infighting followed, and a new political reality evolved. Two strong administrative centres emerged in Sulaimaniya and Erbil, controlled by the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK), the two major Kurdish political parties, respectively. By the turn of the century, the Region became more stable, and the Turkish company Genel became one of the first companies in 2002 to enter the TaqTaq area to explore for oil, at the invitation of the Sulaimaniya Administration. After the 2003 war, the Erbil Administration took a similar approach and invited the Norwegian company DNO to explore for oil in the Duhok province.

Both companies were successful and soon managed to discover large quantities of oil reserves within their respective contract areas. Therefore, there can be no doubt these oil finds have influenced the KRG's oil policies which followed, hence the Kurdish negotiators' insistence on the constitutional Articles 111, 112 and 115 in the new Iraq constitution, to ensure that oil and gas resources should become locally managed and not be centrally controlled as before.

### Personal role and commitments

I left Iraq at the end of 1974 for postgraduate studies, and had been working in the UK for 30 years. I had my own successful partnership/business till September 2005, which I sold to enjoy a quiet life with my family! To my surprise, apparently because of my extensive technical knowledge of the oil industry both technical and commercial, I was invited in May 2006 by Prime Minister Nechirvan Barzani and Dr. Braham Salih to join the newly unified Kurdistan Regional Government in Erbil, to take up my current position in the newly created Natural Resources Ministry.

At the outset, I made clear that I was not interested in the job for any financial reward. Quite the opposite, I knew that this job would cost me money and inconvenience for my family. I was not interested in ministerial titles or recognition of any kind. I was only prepared to do the job because I thought that my experience would help Iraq generally and, the Kurdistan Region in particular, to succeed and to develop economically.

That was a personal choice that I made, but it came with a lot of difficulties, as it transpired that there are many people who wanted to completely undermine my position.

On my arrival back to Iraq after 30 years or so, I was informed by both of these leaders (Mr Barzani and Dr Salih) that oil will make the future of Kurdistan and I would be part of that history in the making. I told them then that I valued their trust in me, but I could only do the job with their full support. I made it clear at the outset that our success can only be achieved if we keep the business absolutely clean, away from any corruption or influence.

I was aware of the magnitude of the tasks involved and the obstacles that I had to overcome. I had no doubt that transparency was an absolute necessity to enable us to argue for our constitutional rights. They both made their commitments to support that process and to keep oil as much as possible out of the internal politics of the Region. For my part, and from the first day I was appointed to the job, that is exactly what I did. I never wavered or deviated from that policy.

I sincerely believed then, and I still passionately believe that oil should be outside of any major political influences, as these precious resources do not belong to political party by right, and should not be under the control of any particular political group or groups. It belongs to all the people, and as such it must be managed based on economic criterion and not driven by politics, in order to benefit all our people for many generations to come.

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Over the last three and half years, pursuing these goals and the policies of the KRG leadership, I worked very closely with Prime Minister Nechirvan Barzani. Under his guidance, a modern transparent contractual framework was successfully created, and a constitutionally-based regional Oil and Gas Law was passed in 2007 to regulate contracts and investments.

This essential framework and regional law, coupled with the success of DNO and Genel in demonstrating the potential of the Region, have laid the foundations for a new business environment which has attracted other companies to the Region. Since then, over 30 companies have been awarded oil contracts, and some of them have already discovered oil and gas in their contract areas. Collectively, these companies, in addition to the investments that they have to make on their oil contracts, have also earmarked some \$5 billion of contributions for community projects and the development of infrastructure projects in the Region.

Earlier this year we witnessed the start of some projects in the Garmian area, and we also laid the foundation for a major power plant in Erbil from these contractors' contributions. One refinery has become fully operational, and the oil export potential of the Region has been demonstrated and is no longer in doubt. This is just the beginning, as the substantial part of that \$5 billion funding (\$4 billion of it) is still to come over the next two to three years, and that will transform Kurdistan's infrastructure for the benefit of all the people.

Our success in attracting 35 companies from 16 countries so far did not come easily. The transparent, businesslike approach I have described above was absolutely necessary in order to attract all the new investors to the Region. This approach has created a lot of opposition within our own ranks as well as you may expect in Baghdad.

#### **Opposition to our policies**

Although Kurds have to some extent benefited from the fall of Saddam Hussein's regime and have become stronger players in Iraq both politically as well as economically, Iraq still remains sectarian in nature and the political infighting has intensified recently.

Kurdistan's old enemies have gradually resurfaced again and they are ignoring the constitution and aiming to recentralise Iraq (particularly control over oil). They have blacklisted companies that have chosen to work in the Kurdistan Region and vowed that they would never be allowed to export oil from the Region.

In addition to the Baghdad opposition to KRG's oil policy, there is also some internal wrangling and misunderstanding. There are many reasons for the internal problems, partly because of their misunderstanding about the contractors' contributions, and this makes them act irresponsibly and unwittingly join our traditional opponents in criticising our policy and our achievements.

There are those who do not understand what we are trying to do and why, as they have neither read nor do they have a grasp of what is in the constitution. Furthermore, they have not even made an attempt to understand the oil and gas law of the Region, which many of them were instrumental in passing.

There are others who see the KRG's policies which are firmly protected by this Minister as an obstacle in the way of their own political objectives. These are the people who would not blink to compromise some or all Kurdistan's constitutional oil and revenue sharing rights, for their own personal gain elsewhere.

Of course, let us not forget that we still have our real outside enemies and opponents. They are our national opponents and that is what one expects from them. These include the chauvinists and the oppressors of the past who envy our success and will do whatever possible to attack us and to undermine our policies. They cleverly exploit the compromisers within our ranks to help them in this regard.

There are also, some outsiders from other countries, who privately and often publicly encourage Baghdad to pursue policies of recentralisation despite the constitution. This is either because of their own misguided policies for quick fixes in Baghdad, or sometimes to pave the way for lucrative contracts that can be exclusively easily negotiated, if the oil

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policy is in the hands of a few in Baghdad. Some of them may have offered some help to orchestrate the stories come out of Oslo recently.

Therefore, for all the above reasons, KRG's policies have been targeted and our opponents and our own compromisers have often collaborated to undermine them. As the success of the KRG echoed around the world and Kurdistan became firmly established as a strong new player on the Energy Map of the World, our opponents became more active.

They took an opportunistic moment to strike at us at the time when the post-election government was about to be formed in order to undermine the continuity of the established policies. The alignment of the interests of our opponents has orchestrated what has happened recently in Oslo.

However, as stated by the Prime Minister in his recent interview, HSBC bank issued a letter to him and confirmed that all the transactions were carried out properly according to agreed mandates through KRG's own account. As we stated before, no private account was involved, whatsoever, and no private individual or government official gained or tried to gain any benefits from these transactions.

So, I have bad news for all of our opponents. The KRG policy is no longer dependent on one particular person or another. It is an established policy and it is the policy of the people of Kurdistan, who voted overwhelmingly (by 70%) to directly elect the President of the Region. This is precisely because the elected President has made an absolute commitment to the people of Kurdistan that he shall protect the constitutional rights of the Region. As we all know, oil is at the forefront of the protection to be made, as it is at the heart of our constitutional rights.

So, I say to the opponents of our policies, yes you have managed to hurt me on many occasions, particularly recently. I have learned a few personal lessons out of it. However, as far as you are concerned, I say you should realise that these recent events have also made the KRG more determined to fight back, and the policy shall continue to its full natural conclusion.

#### **Genel and DNO**

By 2008, DNO and Genel have invested around \$500 million dollars each, but there were doubts about oil export permits being granted. During the second half of 2008, these doubts grew, because of repeated negative statements from Baghdad in relation to the companies working in Kurdistan. Although, DNO was not yet ready for oil exports, the fact that future permits were in doubt, coupled with the aftermath of the 2008 market crash, made it even more difficult for DNO to access funding to get its remaining operations completed to at least demonstrate the KRG's oil export capabilities.

Genel's problems were even more pressing. They had similar concerns on funding issues, again due to export restrictions. In addition, they were building an oil refinery, which was important for Kurdistan to alleviate the fuel supply shortages of the Region. During early-mid 2008, with my approval, Genel were in the process of raising equity capital for their 60,000 barrels oil per day refinery project. The funding prospects looked very encouraging, but then the market crashed. By that time Genel had already spent some \$25 million dollars on the refinery and owing much more on prepayments, and the manufacturer was unable to proceed to the next stage of the work, before the required payments are made.

#### **Why KRG had to step in and help these two companies**

The reasons for the help were very clear and sound. The failure of these two companies would have meant the failure of the KRG's overall policy. These two companies entered Kurdistan from the beginning, they took huge risks, invested a lot of capital, and they became a symbol and catalysts for the KRG's constitutional negotiations and the Regional policies that followed.

In September 2008 (after the market crash) I talked to both of these companies regularly. They were looking for ways to get access to cash, from prepayments in lieu of future oil exports, to getting more payments for their local supply of oil to the Region.

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Genel came up with the idea of temporarily exiting from the refinery project and selling the equipment it had already paid for to KAR, a company which was building another refinery in Kurdistan. That plan would have accelerated the KAR refinery completion, which was of interest to the KRG, and also freed up some cash back to Genel to invest in its oil field development projects. By November to December 2008 all the related parties (including the manufacturer) agreed to this plan. Hence Genel's immediate cash problems and refinery liability became partially solved.

DNO did not have anything to restructure to release cash for its operations. It was looking for \$50 million dollars or more of funding. In September, DNO's Managing Director said to me that they will be selling some shares, and asked if the KRG could take them. I told him I would think about it and I would consult the Prime Minister. After consultation, the Prime Minister said that up to \$50 million is okay, but not more and he agreed with me that if DNO's project should fail it would be very bad for our oil policy, so temporary help would be appropriate.

#### How the assistance to DNO materialised

Shortly after that the Managing Director of DNO contacted me and said that they had ~43 million shares, he was looking for a large premium for these shares which I could not agree to, so we settled for NK4.0 per share, the market price was a little below that price then. This meant to offer them approximately 60% the cash my Prime Minister had approved and I could not do more, because that is what the shares were priced at.

More importantly, even if DNO had more shares to offer (and they could have), I would not have been interested in them, because at the outset I had mentioned to DNO that I did not want the KRG's name to be disclosed, as it could be politically attacked by our opponents. Also, I was mindful that the disclosure could be exploited by some to create an impression that KRG may have an agenda here, or was planning to become a long term investor in the company (which was not our intent at all) and that could have falsely impacted on their share price without any real reasons.

Then in early October 2008 I had a discussion with our bank (HSBC) to assist with the transaction on behalf of KRG. The concept of using a nominee account was discussed with HSBC at length and they were clearly made aware during several conversations of the sensitivity KRG attached to any unnecessary public disclosure. HSBC explained that having a nominee account meant that the KRG's name would not appear, i.e. the shares would be held in an HSBC nominee account to protect the privacy of the client.

What was not explained to me at the time was that confidential client information would be disclosed by HSBC to the Oslo Stock Exchange without the KRG's knowledge, and that the Oslo Stock Exchange would then be at liberty to publish all or any part of it selectively or otherwise, without KRG's or HSBC's consent, thus rendering the client end of confidentiality meaningless. Had I known this, I would not have gone ahead with the transaction, as the fear of the KRG being undermined by our opponents because such a potential public disclosure would have been a big deterrent in my decision process.

In any case, DNO received its payment after October 10, 2008. DNO was pleased as this helped its project to progress to the next stage to prove KRG's oil export capability, although that was not part of the plan at the time. I do not regret helping DNO as this was for a good cause, which was central to our own primary objective, but I wish I had had better advice at the time with regard to the purchase of the shares.

Almost immediately after we purchased the DNO shares, the DNO share price continued to decline. In order for the KRG not to be exposed to single stock price variation, a week later I asked HSBC to use the balance of the approved sum to buy some additional stocks of three other companies in the UK (Sterling Energy, Gulf Keystone and Heritage). This was in order to spread the risks that might be involved with the DNO stock price alone. Nothing was going on with any of these companies that could have been considered as my having private knowledge as far as I was aware, and no rules were to be broken.

#### Genel's difficulties

By late February to early March 2009, Genel came back to me and said that it had spent all the cash it had received from the refinery as well as some further shareholders' money. Genel stated that without any prospect in sight for oil

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exports, it would be difficult for it to raise more cash for its operations. Genel asked me for pre-payments against future oil export, or for some sort of KRG loan.

In March 2009 we were meeting very frequently, because we had what we generally call a "Third Party Interest" in many contracts (an unallocated working interest carved out for the KRG to bring other companies into the existing contracts to broaden their consortium base). We had been discussing with Genel some of these Third Party Interests under a "Master Agreement" to be agreed and formalised with them.

This Master Agreement was to entitle the KRG to some \$1.1 billion of payments from Genel's share of future profits to be spent on infrastructure projects in the Kurdistan Region. During March 10-13, 2009 when I was in London, Genel came to finalise the draft of the Master Agreement. Once again, Genel reminded me of their needs for the loan. They said they needed some \$15 million almost immediately and the rest could be advanced to them later. Again I said I would need to think about it.

DNO had also been invited to join us in some of those meetings of March to inform them that the Third Party Interest (KRG's rights, not DNO's) in two of DNO's contracts would be assigned to Genel and that Genel could soon become a contractor-partner with them. It was a sort of introductory meeting and also aimed at dealing with some of the formalities that would follow.

During a private meeting with the Managing Director of DNO, on March 11 and 12, he informed me that he had just received a notice or email from the Oslo Stock Exchange (OSE) asking DNO to disclose the identity of the purchaser of the shares on October 10, 2008. I asked him whether the OSE was entitled to know and if so why it had taken them so long to ask for that disclosure. The Managing Director of DNO then revealed that the OSE had been chasing them for the information since December 2008, and that there had been a number of exchanges between the OSE and DNO on the subject.

My first thoughts were that I could not see any problem for the OSE to be informed, because I was only concerned about public disclosures. However, I became very alarmed when the Managing Director of DNO said that confidentiality could not be guaranteed here. He then explained that there were some people (namely media.) with contacts in the OSE and that they may somehow access the confidential disclosed information made available to the OSE, therefore it could be leaked.

Furthermore, I understood that DNO's relationship with the OSE had not been very good and that also there was some media hostility against them partly because of their work in Kurdistan and also largely because of some ongoing disputes between a prominent member of DNO management and some Norwegian Authorities. So, for these reasons the leaking was highly likely in order to damage DNO. I immediately felt uncomfortable. This brought to the forefront my previous fears that such a disclosure in the hands of hostile media, initially aimed at DNO, could also be orchestrated in such a way to have serious consequences for the KRG.

After that meeting with DNO, on March 12 I saw the CEO of Genel and his lawyer, and I immediately told them that I had a plan for their loan request. I explained that although I could not easily find a way to justify with the KRG such a loan as requested, I could do it some other way. I said I would arrange for the \$15 million loan immediately in cash and the balance would be in from proceeds of DNO shares that KRG had purchased, and that their proceeds to be assigned to them once the shares are sold. I explained that these shares had been purchased by the KRG from DNO directly to support their cash-flow (and that they had problems at that time just as Genel had). They were, in general terms, made aware that I had some potential negative publicity issues in Oslo because of DNO, so essentially Genel were doing a favour for the KRG by taking the beneficiary rights to the shares. Genel were not keen on the idea as they needed cash. I explained that the shares could be sold whenever Genel needed the cash, so they reluctantly accepted the idea.

On March 12, 2009, the DNO shares were trading a little higher (NK4.4-NK4.5/share) than the original purchased price of NK4.0/share. This would have meant that KRG had approximately \$31 million value in DNO shares, and this was some \$4 million short of the \$35 million additional sum needed to arrive at the overall \$50 million loan. So, I included two of the three UK stocks we had purchased in the October 2008 package (valued at that time at around at around \$4 million, but originally would have been around \$6 million) to make up the total loan amount of \$50 million as agreed (i.e. \$15

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cash and \$35 million in shares, primarily DNO plus two minor stocks). The additional two stocks were those of Sterling Energy and Gulf Keystone.

The deal was agreed between the parties on that day, and we then left it to the Genel lawyer to prepare the paperwork for the \$50 million loan agreement, to include the cash payment of \$15 million and proceeds of the shares once they are sold as required by Genel to access the cash needed.

Two weeks late, on March 27, I arrived in Istanbul and two days later I left to Erbil to check on the final draft of the Master Agreement prior to its completion. We agreed that they should come to Erbil soon after my departure for signing with the Prime Minister. Whilst in Istanbul, Genel's lawyer gave me a request letter asking the KRG to arrange for all shares of DNO and the two minor stocks to be sold immediately. I knew they had not been keen to have the shares, so I was not that surprised to see the letter.

Soon after that on March 31, 2009, a notice to HSBC to sell all the KRG stocks in the nominee account was formally issued by me, with clear instructions and guidance to HSBC to sell all the DNO as well as the rest of the stocks, as soon as possible. These instruction, have also included the Heritage stock as there was no longer any need for it. That was the only instruction of its kind from the KRG to HSBC in relation to the sale of the DNO shares or any of the other stocks. The guidance to HSBC was to sell it all, as soon as possible with a minimum set price, in line or then below (in the case of DNO) individual stock market prices at they stood in late March 2009.

There had been no further follow-up or consultation with HSBC on any disposal prices, volumes, timing whatsoever. It was left to them to do it as quickly as possible. Again, I was not aware of anything beyond the public knowledge that may have been happening with DNO of any of the other companies, when we issued our instructions to sell the entire portfolio as soon as possible. If there were or are any regulatory issues then we would have been and are happy to provide explanations. The important thing is that A) we did this to assist the two companies who mattered to us, B) the KRG has done the transactions through its own legitimate accounts, and C) that no private accounts had been involved and no benefits have gone to any private individual or any KRG official.

I must make it clear here that, the motive in offering the benefits of the DNO shares to Genel was not just to make up the \$50 million loan they needed, it was primarily driven by the fact that I assumed that by transferring the beneficial rights to the DNO shares to Genel, the KRG would not be dragged into the hostile Norwegian media's obsession with DNO.

Of course, later on it transpired that (1) since the DNO shares still remained in KRG's nominee account with HSBC, the beneficiary arrangements made with Genel, and (2) since the OSE has chosen to selectively release misleading confidential information, perhaps to give a helping hand to its media friends, and (3) as it is has transpired recently, the smearing of the KRG's name had been an important part of the policy, therefore the media had already been busy on the case for a while, done their work to connect everything back to the KRG, and have made the best use of deliberately disclosing partial information to orchestrate their attacks on the KRG and to come up with accusations of private accounts and wrong doings. DNO had been a target itself for reasons mentioned above, but the policy to implicate the KRG in this manner was politically motivated, and we hope and call upon the Norwegian Government and Norway's elected Parliament to investigate this, as such behaviours should not be allowed to pass unchecked.

The Norwegian media even stated that our export announcement of May 8 was timed to get the DNO share price up to benefit the shares we were selling. They relied on the OSE documents which falsely state that KRG started selling the shares on May 8, despite the fact that the actual order and the selling was issued on March 31, 2009, and some four transactions had already taken place prior to May 8. These facts were not disclosed to the public, which allowed the media to also attack us on this issue. In any case, this was not in any way central to the OSE's fine against DNO, and in fact they were cleared of any wrongdoing on this issue. Furthermore, if the OSE or any other authority needed, or required any explanations on the regulatory side of the transactions then we would have been and are more than happy to address their questions.

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Why has the OSE chosen to conduct these accusations via the media? Is it fair to use the media as an accuser, then as a judge and jury in this regard? Well, I must leave that to the Government and the Parliament in Oslo to decide and for the people of Norway to question the motives here.

Here, I would like to address the May 8, 2009 announcement to export oil. This was a political decision came about and discussed and agreed on May 7, 2009, and not before that date. Until early May, we had been working on and off towards finding a cooperative way with Baghdad to agree on export arrangements. During the first week of May, the Oil Minister in Baghdad made a statement saying that the KRG oil is of inferior quality and that it would devalue all the other Iraqi oil exported with it (i.e. dirty oil) and that there is no market for it and it will have to only be used locally.

This hit a raw nerve with us, as the Oil Minister was saying that despite discussions, cooperation and preparations, he was he was using technical and quality reasons (false assumptions of course) to block the export of oil from the Region. So, together with the Prime Minister we decided to do something about it. I called DNO to check whether they could accelerate their work programme if the KRG decided on a unilateral action to commence oil export. They confirmed that with some intense help and the KRG's cooperation it could be done so we chose June 1 as a reasonable target date. On that same date (evening of May 7) we prepared an announcement and went public with it the following morning. The decision to sell the DNO shares was served on March 31, 2009, and not on May 8, 2009, as appeared in the OSE disclosure to the public, which was another misleading piece of information picked upon by their hostile elements of the Norwegian media. The shares could have been sold on April 1 or at any time after that, so our announcement has nothing to do with it.

#### DNO suspension and reinstatement

There were many reasons for the suspension. DNO was closely consulted and it understood the objectives. We needed to get the media stories refocused and get the truth out. We needed to frame the problem and find out who was behind the aggression against the KRG. There were other stories on arbitration to follow which were also intended to be damaging for the KRG. DNO was not responsible for what the OSE and the Norwegian media did against the KRG. However, DNO's relationship with the OSE and other unrelated issues with other Norwegian Authorities created an opportunity to also orchestrate the policy against the KRG.

A few days into the suspension, an atmosphere was created which made us understand and learn about the political and the orchestrated purposes of the attack. DNO has clarified and confirmed to the KRG's satisfaction that there are no other party-interests in their KRG contracts. DNO has been targeted for various reasons, hence we have agreed in principle, that company or the Kurdistan assets should be relisted elsewhere. Finally, and importantly, we have jointly agreed that no more free oil will be pumped for export and payments have to be made. We have proven to Iraq that we have the capacity for 100,000 barrel per day right now, and indeed we will be capable of delivering 250,000 barrels per day soon, but if Baghdad wishes to have all that oil, for a just compensation of contractors' entitlements, then we can wait. Iraqis, particularly in Baghdad, now are fully aware of the mismanagement of the oil sector under the current Oil Minister. They should be also aware that not only his ministry has failed to boost production in the rest of Iraq; it has also actively blocked KRG's oil to be exported with serious consequential financial damages to all of Iraq.

When we unilaterally, started the oil export on June 1, I informed the contractors that they should not expect immediate payments. At that time, statements coming out of Baghdad were denying that we had any oil for export. After some reluctant cooperation on their part, when they realised we were serious and we were pushing for oil export, Baghdad came out with their "dirty oil" statement. That is why we did it, to prove them wrong and to make all the Iraqi people realise what sort of people they have in charge in Baghdad. For now, we have proved that point and next we will only resume export with guaranteed payments.

In summary, what began as a well-intended course of action, led to a painful situation with a regrettable outcome, with all the bad publicity and attacks that followed. The irony of all of this is that all along I had my doubts and worries that it could go wrong. However, having taken supposedly the best (from HSBC), I now realise that people are not there to listen to your concerns, even when you go out of your way to explain the details to them. They just assure you to rely on their knowledge, and offer you their list of products and you just have to hope for the best. I have now learned a very

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hard lesson, but because of the concerns I had about the sensitivity of public disclosure, I should have gone by my first instincts and not helped DNO, although that would have been detrimental to progress we set out as a primary objective.

Finally, it is important to remind everyone that the \$50 million sum involved, which I used for both purposes (initially for DNO and later on for Genel), was approved by my Prime Minister. It is important to realise that we had clear justifications to help DNO and Genel, as that was to the KRG's. It should also be clear, as HSBC has confirmed in writing to the Prime Minister, that the nominee account was the KRG's own account and that all the monies were channelled via the KRG's official account. No monies have been lost or gone to any private accounts as irresponsibly stated in the Norwegian media.

**END**

**9<sup>TH</sup> October 2009**