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SENIOR EXECUTIVE INTELLIGENCE BRIEF  
14 December 2002  
PASS SEIB 02-290CHX

**Russia-Iraq: Using Energy Contracts as Leverage** [redacted]

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*Baghdad's sudden cancellation this week of its largest contract with a Russian firm is unlikely to cause Moscow to abandon Baghdad completely.* Russian firms have approximately \$10 billion worth of other signed or potential contracts with Iraq, and the long-term agreement the two countries may sign early next year has more than 60 other projects worth billions of dollars.

-- Under the terms of the canceled deal, a consortium led by the oil company Lukoil was to develop the West Qurnah oilfield and receive at least 4 billion barrels of oil during the length of the contract. [redacted]

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In what appears to be a counterthreat, an unnamed Russian Government spokesman yesterday told the media that Iraq's decision "removes one of the main reasons for Russia to oppose military action" against it. Moscow has had some success in resolving similar disputes by sternly reproaching Iraqi officials.

-- Lukoil has announced plans to challenge the Iraqi cancellation in an international arbitration court. [redacted]

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*The cancellation could be a tactical move by Baghdad to squeeze Moscow at a time when its support in the UN is crucial.* Iraq may have used the cancellation to send a message to Moscow in advance of Security Council discussion of its WMD declaration, which it may expect to result in increased US pressure on Russia.

-- Baghdad probably calculates that its use of the contract as leverage over Moscow will not seriously damage their relationship. Baghdad may follow up with back-channel hints about reinstating the deal based on Russia's position in coming Security Council debates, where Moscow continues to be its strongest supporter.

-- The letter to the Lukoil-led consortium was signed by Iraq's deputy oil minister, and so it may be easier for Iraq to retract than one signed by a higher-ranking official. [redacted]  
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