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United States Senate

COMMITTEE ON ARMED SERVICES
WASHINGTON, DC 20510-6050

June 5, 2008

Honorable Stephen J. Hadley
Assistant to the President for National Security Affairs
National Security Council
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. Hadley:

I write to you in regard to Hunt Oil Company's decision to sign an oil production sharing contract (PSC) with the Kurdistan Regional Government (KRG) on September 8, 2007, and the official U.S. government policy relating to such deals. The KRG has now signed more than 25 PSCs with international oil companies, several of which are subsidiaries of U.S.-based companies.

The PSCs signed between international oil companies and the KRG run directly counter to our goals for reconciliation in Iraq and risk fracturing the country over the management of Iraq's oil industry and distribution of oil revenues. As you know, Iraq's Oil Minister has called PSCs like the one signed by Hunt Oil "illegal." Furthermore, the State Department's May 2008 report on Iraq states that progress on the national hydrocarbon legislation "is at a standstill" and its prospects for passage have been "further complicated by the KRG's pursuit of oil contracts."

While the State Department report also indicates "the United States continues to discourage the KRG from signing oil contracts until negotiations on a national oil law are completed," I am concerned that U.S. policy has not been clearly and consistently communicated to oil companies who have signed or may be considering signing PSCs with the KRG, including U.S.-based companies like Hunt Oil.

In response to reports of contacts between Hunt Oil employees and State Department representatives prior to the company signing a PSC with the KRG on September 8, 2007, I sent a series of letters to Hunt Oil and Secretary Rice regarding the nature of these contacts and whether U.S. officials expressed opposition to such a deal prior to its signing. The responses I received from the State Department and Hunt Oil starkly contradict one another.

In response to a letter I sent to Hunt Oil Chief Executive Officer Ray Hunt, I was provided an email from Hunt Oil's General Manager for Mideast Exploration David McDonald to another Hunt Oil employee dated September 28 in which he detailed meetings he had with State Department Regional Reconstruction Team (RRT) representatives on June 12, June 15, and September 5, 2007. Of the June 15 meeting, Mr. McDonald states that he "specifically asked if

the USG had a policy toward companies entering contracts with the KRG” and was told “that there was no policy, neither for nor against.” Mr. McDonald also states, “There was no communication to me or in my presence made by the 9 state department officials with whom I met prior to 8 September that Hunt should not pursue our course of action leading to a contract. In fact there was ample opportunity to do so, but it did not happen.”

On the other hand, the State Department in a letter to me stated “Hunt Oil apparently first expressed its interest in signing an agreement with the KRG to RRT staff in the meeting on September 5, 2007. RRT staff explained U.S. Government policy against signing deals with the KRG to Mr. McDonald.”

The clear inconsistency between the State Department and Hunt Oil in their accounting of the meetings leading up to the company’s signing of a PSC with the KRG is deeply troubling. Hunt Oil says that they were never told about a U.S. policy against signing deals with the KRG. The State Department says that Hunt Oil was told of such a policy on September 5, three days before the deal was signed.

I believe the administration should request Hunt Oil, and other U.S.-based oil companies, to withdraw from any PSC they have signed and to advise the KRG that they are doing so in order to facilitate the passage of national hydrocarbon legislation. I also believe that the administration should clearly define and disseminate a policy relating to the signing of oil deals with the KRG.

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Thank you for your attention to this matter.

Sincerely,



Carl Levin
Chairman

* prompt !