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~~PRIME MINISTER~~

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**IRAQ : POLICY REVIEW**

The one piece of hard policy to discuss with President Bush and Colin Powell is on Iraq. The US have started a policy review and want to get a new policy in place in the next month. No decisions are needed yet on our approach, but you need to familiarise yourself with the issues before Washington, as Bush will ask for your views. The attached paper provides an overview.

The objectives remain the same: contain the threat from Iraq, prevent it building up WMD, limit the impact on ordinary Iraqis, and prepare Iraq to re-join the international community when it is prepared to abide by the rules (ie when Saddam has gone). The question is how do we best achieve all this?

The main issues you will need to reflect on are:

- **WMD/Inspections.** Do we really want UN inspectors to go back into Iraq while Saddam remains in power? They would constrain Iraq's WMD programmes. But they will also take us back into regular crises with Iraq as we had in 1996, 1997 and 1998 (twice). No-one is suggesting we resile from the UNSCRs, but how high a priority should we place on inspections? The answer to this is relevant to the next issue;
- **Sanctions.** How much can we narrow down the scope of sanctions now? They can be better targeted, but should we go further and, in effect, suspend purely economic sanctions and limit the scope of those that remain to military- and WMD- relevant programmes? The latter step is conditional now on the return of the inspectors. Taking it now would make a difference to the humanitarian situation, but we would lose the incentive for Iraq to have the inspectors back in;
- **Oil Revenues.** How important is continued control of Iraq's oil revenues? Very much so in my view, especially if we suspend non-military sanctions. It prevents Saddam having free use over \$24 billion a year, and allows the

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UN to fund programmes in the autonomous Kurdish areas. It allows for snapback of sanctions if Saddam really misbehaves. Closing the loopholes (Syria, ) in the oil regime would be a quid pro quo for easing sanctions;

- **No Fly Zones.** Could we stop enforcing the Southern NFZ? Are the military implications in terms of ensuring the defence of Kuwait acceptable? That might involve a shift from a posture of defence (ie we have forces ready to ensure, oh Saddam, that you will be prevented from attacking Kuwait again) to one of deterrence (ie don't even think about attacking Kuwait: we may not be able to prevent you but you will pay an overwhelming price/we will go all the way to Baghdad next time). Military views differ on all this, and it is not just a military judgment;
- **Regime Change.** How can we play up the prospects for Iraq once they get rid of Saddam? A Contract with Iraq (like the one we offered to Serbia) is possible. But I think we have to resist those Americans who want to fund a 1980s Afghanistan-style insurgency, as that will only trigger a humanitarian catastrophe through Iraqi repression.

My own view is that we should retain a firm grip on Iraq's oil revenues while moving to substantially lighter sanctions; we should ease up the pressure to get Inspectors back in, while leaving SCR 1284 on the table as part of long term normalisation; and we should make more explicit the military response if Iraq attacks one of its neighbours again or re-constitutes its WMD.

There is a fine judgment to be made on the Southern NFZ, which remain popular with Kuwait and Saudi Arabia, but unpopular with the rest of the Arab World and here at home. I would be inclined to end the patrols – the benefits are simply not worth the price we pay politically (and in terms of risk to the pilots).

Such a set of moves will need careful packaging. It could be presented as a response to Saddam's clear refusal to accept the UNSCRs; and the need to contain Saddam, while minimising the impact on the Iraqi people, until such time as Iraqi views change. But we will need to play up our determination to defend Kuwait and Saudi Arabia, and to sustain our policy for as long as it takes.

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