

JIC Assessment, 8 March 2001

IRAQ: IMPACT OF SMARTER SANCTIONS

Key Judgements

- I. **Economic sanctions** on Iraq are **eroding** and have **lost international political credibility**. Saddam makes sufficient money to maintain his regime and therefore feels little pressure to accept weapons inspectors or to improve the lot of ordinary Iraqis. (Paras. 1-4)
- II. The **arms embargo** against Iraq **remains largely intact**. State suppliers are likely to continue to deny Iraq **major weapons systems** while Saddam remains in power. But some spares and dual use items are getting through. Without a more effective sanctions policy, **leakage is likely to increase**. (Paras. 5-6)
- III. It is envisaged that **smarter sanctions** would:
  - focus on military and dual use items, and **allow all civil trade**;
  - retain UN control over oil revenue and **bring oil smuggling under these controls**; and
  - **enhance border controls** against prohibited trade. (Para. 7)
- IV. By allowing all civil trade, smarter sanctions would give the US and UK the opportunity to **shift the political debate** away from the humanitarian issue. Saddam will still seek to blame sanctions and popular Arab opinion will remain susceptible to his propaganda. But he will find it **harder to persuade Arab governments and the wider international community that smarter sanctions are to blame for the suffering of the Iraqi people**. (Paras. 8 & 10)
- V. The **greatest potential gains** in terms of cutting Saddam's illicit revenue would come from **curbing oil smuggling**. Political agreement will be needed with the frontline states most involved in oil smuggling (Jordan, Syria and Turkey). They are likely to demand **compensation for bringing trade under UN control**, [...]. Unless all routes are closed, a reduction in oil smuggling via one route is likely to be made up, at least in part, via another. (Paras 9 & 13)
- VI. Governments in the region are also **likely to agree in principle to inspection of border crossings** and trade in return for free civil trade. But this will be hard to sell and **border controls will be difficult to implement effectively**. As trade increases, there would be a growing risk that military and WMD dual use components would reach Iraq. (Paras. 11 & 12)
- VII. Although Russia, France and China may try to link this package to other issues, smarter sanctions **could restore P5 unity**. This would **significantly increase pressure on Iraq**. (Para. 14)

## IRAQ: IMPACT OF SMARTER SANCTIONS

*We review existing sanctions on Iraq and assess the likely impact of "smarter sanctions".*

1. UN sanctions on Iraq are ten years old. Since 1996, the "oil-for-food" (OFF) programme has allowed Iraq to export oil for the purchase of essential civilian goods. Since December 1999, there has been no limit on the amount of oil which Iraq can sell. The UN retains control over the revenue and what it is used for. But Saddam circumvents this by illicitly selling increasing amounts of oil and buying goods outside OFF, and taking percentage commissions from legal trade. Meanwhile, Baghdad delivers the bare minimum standard of living for most Iraqis while successfully blaming sanctions for their plight.

### Economic sanctions eroding

2. International pressure on governments can be successful in curtailing illegal trade, as in the case of oil smuggling through Iranian waters in the Gulf. But economic sanctions have been eroding for some years. Both **Jordan** and **Turkey** have trade agreements with Iraq outside UN control. More recently, **Syria** has been testing the sanctions regime including by re-opening the oil pipeline from Iraq. The primary motive of all these countries is **economic**.

#### *Sanctions erosion – main sources of revenue:*

- *Smuggling oil through Turkey, Syria and via the Gulf to [...] (up to \$650m);*
- *the Jordan/Iraq trade protocol (around \$450m);*
- *abuse of the OFF through bribes, surcharges and commissions (up to \$600m), and*
- *smuggling of other non-oil goods (up to \$150m).*

*Figures are estimates for 2000*

3. Outside OFF and the UN escrow account, we estimate that Saddam will be able to appropriate \$1.5bn to \$1.8bn in cash and goods in 2001, slightly up on 2000 (see box). This figure could **rise substantially with new surcharges and commissions, and if the Syrian oil pipeline continues to operate**. High oil prices have increased Saddam's revenues and his leverage over the front-line states and oil companies.

4. **Economic sanctions** have lost international political credibility. Without a major change in the stance of front-line states, they **will continue to erode**. More transactions will take place outside OFF. We cannot judge whether, or when, economic sanctions would become completely defunct, partly because it is a matter of degree. But Saddam faces no economic pressure to accept UNSCR 1284, to feed his people or otherwise to change his behaviour. His priority is regime security. [...] he has no money now to disburse largesse within the regime and to its supporters.

### The arms embargo is holding

5. The arms embargo against Iraq remains largely intact. Components and spares for the military, and some dual-use goods have slipped through the net. This has assisted Iraq with some shortfalls in telecommunications and transport. Spare parts and other equipment for air defence systems help to maintain the challenge to UK/US patrols in the No Fly Zones (NFZs). But Saddam cannot rebuild his military power without access to major weapon systems from state suppliers. We have seen no reliable evidence that Iraq has imported major or complete weapon systems and

judge that **governments are likely to be constrained as long as Saddam is in power and UN sanctions remain.**

6. We cannot rule out exceptions. As trade across Iraq's borders grows there is an increased risk of a breach. As his illegal earnings continue to accumulate, Saddam may be able to tempt a company in Russia or central and eastern Europe to deliver a limited quantity of a major weapons system, [...]. On its own, however, this would **not lead to an immediate collapse of the embargo, nor be enough to transform Iraq's military power.** But without a more effective sanctions policy, the leakage of components and dual use items is likely to increase. And in the longer term, the introduction of a more widely accepted sanctions regime would **enhance the prospects of the arms embargo holding.**

#### Smarter sanctions

7. To recreate an international consensus on Iraq, HMG is considering a concept of **smarter sanctions.** Although still being defined, a revised policy would seek inter alia to:

- focus controls on **military and dual-use items and allow all civilian trade;**
- retain UN control over oil revenues and bring revenues from the **Iraq-Jordan oil/trade protocol, the Syrian pipeline and other oil smuggling** under UN control; and
- enhance **border controls,** with consideration being given to the feasibility of **international monitoring.**

#### Iraq's response

8. Faced with the prospect of a tighter sanctions regime, Iraq would try, as in the past, to work on sympathetic Security Council members to delay or prevent a new UN resolution, or to weaken its provisions. Iraq has already launched a public attack on the concept of smarter sanctions. It wants sanctions lifted completely. It argues for control of revenues as an issue of sovereignty. Even with unfettered civilian trade, **Saddam would exploit continuing controls on revenue and dual use goods to claim that the UN was to blame for Iraq's economic plight.** He would also continue to link Iraq's suffering to US/UK bombing in the NFZs.

9. If a smarter sanctions policy were adopted, **Iraq would still try to smuggle oil, evade the controls on military and dual-use imports, and abuse OFF by adding surcharges and commissions.** Saddam's incentive to do this will remain so long as the UN retains control of Iraq's oil revenues. Unless all routes are closed off, a reduction in oil smuggling via one route is likely to be made up, at least in part, via another. If frontline states co-operate, Saddam's illicit revenues could drop by more than \$1 billion per year, although he would retain illicit income from surcharges and commissions, which he is already trying to increase. **The key battle would be over political perceptions** and hence the willingness of regional governments to co-operate with other aspects of a revised policy.

#### The response of Arab and front-line states

10. **Arab governments would welcome any initiative which eases civilian trade.** But because of public perceptions, they would measure the success of smarter sanctions against their effect on

the standard of living for ordinary Iraqis. In practice, Saddam would be able to continue to deny his people additional subsistence. But he would find it **harder convincingly to blame sanctions** for it. The extent of contract "holds" by the US/UK and the intrusiveness of border control inspections would be critical to the implementation, presentation and success of smarter sanctions.

11. We judge that all **states in the region would be likely to agree in principle to the inspection of border crossings and trade**. This would be a hard sell. They will demand free civil trade with sanctions focused solely on military and WMD trade. They would also expect a much lower threshold for dual-use items than hitherto.

12. Whatever agreements are reached in principle it is **unlikely that border controls would be effective in practice**. A **comprehensive international monitoring presence** would be required. But with numerous border crossing points and oil export facilities, such monitoring **would be heavy on manpower and resources**, and frontline states would be reluctant to agree an intrusive international regime. Moreover, as general trade increased, there would be a growing risk that military components and WMD dual use items could be smuggled to Iraq.

13. We judge that **Jordan, Turkey and Syria** would also be **willing in principle** to consider incorporating existing **oil smuggling under UN controls**. Provided abuse of OFF does not increase, this would significantly reduce sanctions erosion and illicit revenues accruing to Saddam rather than the UN escrow account. But there are **considerable obstacles**:

- the smuggling is well established, lucrative to those involved and important to frontline states' economies, especially for Jordan;
- Saddam would try to play off one country against another, threatening to trade only with those who will do so outside the UN account; and
- all would need to be assured of equal treatment.

Iran and [...] are unlikely to admit any official involvement in smuggling or demand compensation. But **Jordan, Turkey and Syria and the Kurds of northern Iraq would want guarantees of compensation** should they bear the financial brunt of Saddam's response. Income lost could be in excess of **\$1 billion per year**.

#### **P5 unity and UNSCR 1284**

14. If Saddam judged that he could no longer deflect blame for Iraq's humanitarian plight or maintain his sources of income, he might be forced re-assess his policy of non co-operation with UNSCR 1284. We judge that the effect of smarter sanctions is likely to fall short of this. There are indications that **Russia, France and China would feel obliged to welcome the concept of smarter sanctions** because they would free civil trade and could be portrayed as relieving the humanitarian situation. But they will take into account Iraqi pressure and other political factors. There is also a risk that they will insist on linkage to other issues. **Rebuilding P5 consensus will be difficult**. Nevertheless, a UNSC resolution passed with P5 unanimity would **significantly increase pressure on Iraq**. It would in addition help to rebuild UK public support for our policy.

15. Iraq resumed talks with the UN on 26 February. [...], we judge that Saddam is more likely for now to use **renewed discussions at the UN** as a means **to delay both progress on UNSCR 1284 and the introduction of smarter sanctions**. If Saddam were forced to consider re-admitting UN weapons inspectors, he would still seek to weaken the inspection provisions, an agreed timetable for the lifting of sanctions and abolition of the NFZs.