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From: WILLIAM NYE (DDI)

Date: 11 October 2002

Extn:

Room:

CHANCELLOR

cc: Chief Secretary
Gus O'Donnell
Nick Macpherson
Jonathan Stephens
John Dodds o/a

IRAQ: DECISIONS NEARING

Issue: MOD will provide more details next week on the options for a campaign against Iraq.

Recommendation: take note. If you want to influence the Prime Minister in considering the scale of the UK commitment, you should talk to him next week.

Timing: immediate

Background: Geoff Hoon's letter to Chancellor, 25 September, submission to 1 October on UORs.

We have now established good communications with MOD on the developing planning for a campaign against Iraq, and on the financial implications. You have agreed an initial tranche of £150 million for Urgent Operational Requirements (UORs), and we expect to receive the first requests to draw down this money next

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week. We will process them at official level, referring any we consider to be contentious to Ministers.

2. We understand that the Chief of Defence Staff, Admiral Sir Michael Boyce, will be minuting Geoff Hoon this weekend with his formal recommendations for forces for a campaign, and that Mr Hoon will be writing to the Prime Minister in the first half of next week.

3. As you have discussed with Mr Hoon previously, there are four potential elements:

- a) a package of special forces, which MOD assume would participate in any operation;
- b) "Package 1" – making use of British air and naval forces already present in the region (RAF in Turkey and Kuwait, Royal Navy in the Gulf, the Cyprus bases etc);
- c) "Package 2" – this is an enhanced air and maritime package, up to around 14,000 personnel in total. MOD considers that this would be a material military contribution to the campaign;
- d) "Package 3" – this would be a land package, in addition to the enhanced air and maritime package, enabling the UK to deploy a divisional headquarters, an armoured brigade and associated support. The total of packages 2 and 3 together would amount to around 41,000 personnel.

4. MOD will provide options for each of these packages. They will press for an early decision – by around 21 October – on whether the UK would do package 3 if the US decided to launch a military operation. In order to be ready for a land campaign, equipment

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needs to be bought, personnel have to be trained and then deployed, and reservists need to be called up. Although MOD have tried to suggest earlier this year that decisions were needed urgently, and appeared to be crying wolf, the demands of the timetable are such that the decision point is now getting close. The US needs to know whether it should base its plans on a British land contribution, or not.

5. All this is based on the prudential assumption that the US will continue to prepare for a potential military campaign at some time between January and March. We cannot assume that diplomatic developments, weapons inspectors etc, will necessarily put this off.

Costs

6. MOD officials assure us that the Prime Minister will be presented with cost information. There are still huge uncertainties involved in forecasting costs. However, MOD have provided some indicative breakdowns which we are scrutinising. The bottom line is they assess that:

a) Package 2 is likely to cost up to £1 billion in cash terms; and

b) Package 2 + 3 is likely to cost between £1.5 and £ 2 billion in cash terms - we would guess closer to the upper end.

7. Most of these costs will fall in 2002-03, but there will be some impact on 2003-04. This does not cover any follow-on costs, e.g. for participating in occupation of peacekeeping forces (discussed briefly below). You will want to study the MOD's discussion of each option, and consider whether the extra political impact for the

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UK of package 3 merits the additional £0.5 to 1 billion cost (and of course the additional risk to British troops).

Some detailed points on costs

8. It may be worth flagging up two other issues arising from our discussions with MOD. First, a slightly technical point. From April next year, resource budgeting means that capital expenditure scores twice in our aggregates, once in capital DEL when it is procured, and once in resource DEL – generally over a longer period – as the resulting assets are depreciated or written down. MOD have asked whether access to the Reserve for UORs entitles them to both a capital DEL Reserve claim when the UOR is purchased, and resource DEL Reserve claim to cover its depreciation. We are considering the options, and will provide advice and recommendations to the Chief Secretary shortly. We will need a treatment that avoids any perverse incentives for the services, while promoting reasonable financial control.

9. Secondly, we will need to think about the potential long-term costs of post-conflict Iraq. The “aftermath” is of course very uncertain. But it appears that the US envisage the possibility of a quite lengthy occupation / reconstruction effort. Although some in MOD hope that British participation in the original conflict would exempt us from having to play a large role in the subsequent peacekeeping (“we do wars, you do peacekeeping”), this is not realistic. The usual other countries like Germany, Turkey, Egypt etc are unlikely to be able or willing to lead in Iraq, so the UK may well face a situation like Kosovo, having to be involved in policing

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an occupied country post-conflict: possibly £0.5 billion a year extra cost for several years.

10. If so, the logical thing in military and financial terms would be for the UK to withdraw from the Balkans so as to release forces for peacekeeping in Iraq, leaving the Balkans to other European countries. The Foreign Office are likely to oppose this strongly, because of the impact on our relations with EU allies. But assuming that larger Middle East deployments are unavoidable, we should aim to push for this.

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