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cc Tom McKane
Tom Dodd

1743

30 August 2002

IRAQ: UNINTENDED CONSEQUENCES

We exchanged notes during the summer about the need to think through the management of unintended consequences of possible military action on Iraq. At that stage you thought that work would be premature, but we would probably need to return to it in the autumn.

2. I asked Tom Dodd to use some of his August down time to start thinking about the issues. He has produced the attached note without any consultation either within the Cabinet Office or outside. Tom McKane and I have discussed and I attach a list of headings for future work. If we were to take this forward here, we would need help from MOD, FCO, Treasury, Home Office, DTI and possibly DFID. We could probably present it within Whitehall (and more widely as/when it leaked) as a background exercise necessary to help shape Government policy on Iraq. Washington report that the NSC has been tasked with similar thinking during September. If we did it in September we could perhaps aim for a meeting with the US towards the end of the month.

3. Perhaps Tom McKane and I could have a word with you about this early next week. It might useful to cover Whitehall machinery for Iraq at the same time. One option would be for you/Desmond Bowen to take a restricted group on the more sensitive decisions while I pursue the unintended consequences and similar stuff reporting to your group.

Jim Drummond

JIM DRUMMOND

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OUTLINE OF A PAPER

IRAQ: MANAGING THE UNINTENDED CONSEQUENCES

Issues

World Economy:

- Minimising effect on world growth and trade
- Securing oil supplies and viability of airlines

International:

- Securing P5 and EU support
- Keeping moderate Arab regimes supportive and stable (MEPP)
- Keeping Israel and Iran out
- Securing Turkish support while minimising damage on other issues (Cyprus, EU membership)

International Terrorism:

- Ensuring action against Iraq helps not hinders War Against Terrorism, so calming the Arab street and avoiding spread of WMD

Avoiding fragmentation of a failed state in Iraq

Environment:

- Minimising damage to eg oil fields

UK:

- Reducing economic consequences (including budget)
- Avoiding ethnic tension

30.8.02

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UNINTENDED CONSEQUENCES OF WAR ON IRAQ: SKELETON OF PAPER

Background

US planning regime change in Iraq. No final decision taken but if so then likely to involve US invasion.

Global and regional economic and political impact of war will depend on duration, number of civilian casualties, success and nature of successor regime. US conquest and occupation ensures that Iraq likely to remain unitary state at least while it remains engaged.

Saddam's survival tactics, use of terrorism, CBW, etc have been discussed more fully elsewhere. War could have a number of other side and unintended consequences. We examine below, based solely on in-house initial thinking: the global economic impact, the global political impact, the regional impact and the impact on the UK and UK interests; and then identify possible follow-on work needed to address the issues arising. Much of this work is necessarily speculative.

Global Economic Impact

A third of the world's oil comes from the Persian Gulf of which Iraq (3-4 per cent), Kuwait (2-3 per cent) and Saudi (10 percent). Approach to and start of war lead oil prices to spike. Current price already includes a small war premium of US\$5 a barrel. We could expect prices to at least double when the war starts and then fall back somewhat.

Mines in upper Gulf. Disruption for shipping. Impact on confidence. No lasting damage to int. economy if spike/hiatus is short-lived. Industrialised economies have contingency plans for price shocks/supply cuts, including action by IEA, but a prolonged war/price surge could lead to recession.

But problems of damage to oil infrastructure deliberate or otherwise during conflict. Both in Iraq and to Shatt al Arab (blocked?), which could affect Iranian production. Worse if Kuwaiti and Saudi eastern fields damaged/refineries and loading points put out of action by direct strike/CBW.

Impact on airlines. Interruption to eastern routes. Routing round Gulf cost additional fuel. Fewer air travellers at a time when airlines in poor

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financial state. Increase of losses. Knock on impact on aerospace industry.

Responses

Stockpile oil, but reserves are held by private companies in the UK and stockpiling could cause market panic. Stocks can be seized by HMG under the Energy Act.

Work needed on current UK stocks. Dialogue with UK oil companies on increasing stocks discreetly? Contingency planning for conceivable impact on the UK. (Action for CCS/DTI?)

Work required on loss of all Iraqi/Kuwait, Saudi Gulf bound and Iranian south-western supply and whether there are sufficient alternative means of supply to make up the shortfall. A rough calculation, from previous CO and HMT work, indicates that in this very worst case and extremely unlikely scenario there would be severe difficulties. Also impact then on pricing at time of winter peak demand. (Action HMT/DTI?)

Work need on possible impact on global/UK economic growth of the various scenarios? (Action HMT/DTI?)

Prepare plans to seize Iraqi oil fields by coup de main in order to prevent/minimise damage. Preparation of military/commercial engineers to repair oil fields and key oil transport infrastructure asap wherever in theatre. (Action MOD?)

Support for airline industry (UK only, see below).

Global Political Impact

If invasion a success, confirmation of US as hegemon/hyperpower and unilateralist tendency.

Further weakening of the UN if not included. Respect for international law damaged if US attacks without internationally understood legal justification.

EU divided. Further set back to/illustration of weakness of CFSP and EU.

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Russia moves closer to West. Need Coalition help to get Iraqi debt paid back.

China sees further need to establish good relations with US. But will redouble its efforts to accelerate improving the capacity of its armed forces in order to offset US military power in the Pacific.

'Rogue' regimes more amenable after illustration of US power.

Further justification to Islamic extremists. US-led war on Iraqi people. AQ and other groups inspired to launch attacks. Risk of terrorists seeking to gain control of Iraqi WMD. Increased risk of outflow of WMD/WMD components and expertise in aftermath of collapse of Iraqi regime and transition to new, national stable government.

Long-term, retaining US bases in Gulf after war over more difficult to justify to populations even if Gulf leaders want them to stay as guarantee against Iran.

Responses

Need persuade US to act as part of a Coalition. Try to minimise damage to UN and EU. Prepare units/UNMOVIC to seize control of Iraqi WMD. Watch/arrest leading Iraqi WMD experts. (Action FCO work on consequences of war both internationally and in the region, SIS work on tracking Iraqi WMD expertise?)

Regional Impact

Most Arab governments obliged to acquiesce in US attack. Protests on Arab street. Some severe. Threat to stability. Containable, but further wear on authoritarian regimes i.e. Egypt. If Baghdad capture without great civilian loss of life, then pictures of Arabs jubilant at fall of Saddam could neutralise much of public discontent.

Jordan Threat to King in particular.

Public

reaction to US attack. Dependent on Iraqi oil, therefore withdrawal would have adverse impact.

Saudi Arabia. Depends on whether Saudi Arabia directly attacked by Iraq or not. If not attacked, then Saud weakened. Conversely oil spike would help revenues ease economic problems.

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Syria. More amenable in future without Iraqi oil. Fall of Iraq could help Bashir and the reformers within the regime.

Kuwait. Threatened by possible Iraqi action against US troops concentration and supply lines, including by CBW.

Iran. Depends on nature of regime in Baghdad. Short-term US attack on Iraq likely to strengthen conservatives around a nationalist banner. Risk of collateral damage in south-western Iran (flooding, environmental, etc) Medium-term, democratic moderate govt. in Baghdad (with US forces withdrawn) could lead to improvement in bilateral relations. Could assist the moderates in reforming Iran.

Turkey. Price for support US backing for positions on Cyprus and other areas contrary to our interests. With greater US support,

Israel. At least emboldened in its own unilateralist policy against 'terrorism'.

Palestine. Anti-US atmosphere would give further encouragement to the rejectionists, but nature of regime in Baghdad has little direct impact on Arab-Israeli conflict.

Depending on length of war, outflow of refugees would have an impact on neighbours.

Environmental impact of damaged oil wells/flooding on vast scale. Also if CBW used.

Responses

Need to be supportive of co-operative regimes diplomatically and with financial assistance/oil where necessary cf Jordan, (although the Saudis may help here.) Assure them of objective of unitary Iraq and demonstrate commitment to it. Restraint imposed on Israel. (Action FCO?)

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Humanitarian relief for refugees. (Action DFID to prepare?)
Environmental clean-up pre-prepared. (Action DEFRA?)

Direct Impact on UK and UK Interests

Besides global economic and political impact.

Advantages.

UK reconfirms US alliance. Iraqi WMD neutralised into medium-term.

But

Risk of Iraqi inspired and Islamic extremist terrorist attacks, including CBW use. Threat to UK posts, businesses and nationals (40,000 in Gulf)?

Possible official or unofficial boycott of UK products by Arab states/people. Arab prejudice against future contracts with UK companies.

War risks insurance needed for airlines/shipping. Global decline of air travel hit UK airlines. Particularly impact on BA and Virgin out east and from drop in transatlantic market. Impact on NATS due to fall in revenue. Tourism recovering from food and mouth crisis and 11 September will be hit again.

UK armed forces not available for any other contingencies i.e. what happens if fire brigades' strike when a UK division et al deployed to Gulf?

Upsurge of asylum seekers/economic migrants from Iraq.

Opinion divided in UK. Muslim community against. Protests at least. Exploitation by far right, particularly if UK troops engaged.

Responses

Various actions:

- Additional security measures in Gulf. NBC preparations. Travel advice. Contingency evacuation planning for UK nationals. (Action FCO/CCS/MOD?)

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- Prepare for emergency support for UK airline industry subject to Commission rules. (Action DfT?)
- Support for tourism industry (Action DCMS/ODPM?)
- War risks insurance cover for UK airlines and shipping in region. (Action HMT?)
- Planning for covering other emergencies. Backfill regular Army with TA/or prepare TA for call-out? (Action MOD/HO?)
- Reassure Muslim community. Balm on inter-communal relations. (Action CCS/HO?)
- Prepare for asylum wave (Action HO?)

Cabinet Office
28 August 2002

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