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To: Iraq Directorate (Telegrams)
From: Swift Incoming Telegrams (Machine 2)
Subject: LEAD: OO FCOLN/BAGHD 73: IRAQ: VISIT OF ALLAWI: MEETING
WITH FOREIGN SECRETARY, MR
Sent: 20 September 2004 21:29:34 GMT

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OF 201656Z SEPTEMBER 04
INFO IMMEDIATE BASRA, EU POSTS, MIDDLE EAST POSTS
INFO IMMEDIATE SECURITY COUNCIL POSTS, CABINET OFFICE, HM TREASURY
INFO IMMEDIATE DFID, MODUK, PJHQ
INFO PRIORITY MNF IRAQ POSTS, NATO POSTS, ISLAMIC POSTS
INFO PRIORITY UKMILREP CENTCOM, UKTI,

FROM IRAQ POLICY UNIT

SUBJECT: IRAQ: VISIT OF ALLAWI: MEETING WITH FOREIGN SECRETARY, MR
BENN AND MR HOON

SUMMARY

1. IIG frustrated at limited progress on reconstruction, and lack of World Bank/IMF/UN presence in Iraq But content with DFID programme. Cautiously optimistic about an IMF programme and debt reduction, but ask for our help with French and Germans. Mr Benn stresses need for progress on subsidies. Confirms we will give \$10 million to fund IECI protection. Allawi stresses he wants UK companies involved in major trade and development projects.

DETAIL

2. After a short private meeting with the Foreign Secretary, during which he discussed his political strategy (recorded separately - not to all) Allawi had a round-table discussion with the Foreign Secretary, Mr Benn and Mr Hoon centred on reconstruction. Before the press conference with Islamic media, he also paid a short, much appreciated, impromptu visit to Iraq Directorate to thank staff personally for their efforts.

Reconstruction

3. Allawi's main theme was the importance of progress on reconstruction and its link to security. He asked for continued assistance with others with finding a debt solution.



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* Debt

4. Mehdi Hafez, Minister of Planning, reviewed progress on a debt settlement. The IMF debt sustainability analysis advocated a 90-95% write off (comment: in fact the DSA shows debt sustainability for a range of debt write off scenarios from 50-95%, and makes no recommendation).

Discussions with the Arab world had gone well. During Allawi's visit to the Gulf both Abu Dhabi and Qatar had agreed to write off all public debt, and the Saudis had been supportive. The Kuwaitis were, alone among Gulf countries, less forward, making sympathetic noises but no firm commitment.

5. Mr Benn stressed the importance of progress on fuel subsidies to agreement on an IMF programme. Mehdi Hafez agreed, commenting that subsidies accounted for 50% of government expenditure. The IIG was committed to removing subsidies over the next few years, but there were political sensitivities. The IIG was examining ways of mitigating the effects of reducing subsidies on the poorest. The government was also looking at ways of monetising the food basket.

Trust Funds

6. Mr Benn encouraged Allawi to press the UN on deploying staff and speeding up disbursement during UNGA week. Mehdi Hafez said this was a source of frustration. The World Bank worked faster than the UN, but none could work properly based outside Iraq. The IIG had suggested they look at using Iraqis or expatriate Arabs to run projects. Dr Alaawan, the Health Minister, said World Bank/IMF reluctance to engage raised questions about the value of multi-lateral assistance versus bilateral assistance. The IIG needed to pay more attention to the latter, particularly now the capacity of the Ministry of Planning had improved. Mr Benn said that DFID was concentrating on bilateral projects with 2004/5 money. Hafez confirmed that the IIG was content with the DFID programme. Mr Hoon commented on the importance of power and water programmes.

Bilateral Trade

7. Allawi made a point of saying he was keen for UK firms to play a central role in trade and development, eg. the Iraqi Government Port facility in the Faw peninsula, a theme he returned to in the press conference.

Elections

8. Mr Benn confirmed that DFID were prepared to provide \$10 million to help with IEI protection. This would cover the costs of the contract, and provide some armoured vehicles.

9. Mehdi Hafez welcomed this, but said the IIG were unhappy about the level of co-ordination with the IEI. The IIG wanted the IEI to be more proactive: they needed urgently, for example, to start their education programmes.

10. The Foreign Secretary said he would press Kofi Annan on the need for substantive UN engagement in the elections process. The UN's current hesitation risked their relevance being called into question. He recalled being told a year ago that the security

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situation in Afghanistan would make elections impossible, but that had not proved to be the case. Edward Chaplin said the immediate priority was to get UN electoral observers on the ground, but we should not forget development staff. We needed to tackle the UN over their self-imposed ceiling of 35 and encourage them to think imaginatively about redeploying in parts of the country where it was safer than Baghdad, like Basra. Allawi said he would be making these points during his visit to New York and his speech to the General Assembly on 24 September.

STRAW

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MAIN 8

IRAQ/KUWAIT 8

IRAQ DIRECTORATE 0

CONSULAR D 0

PROTOCOL D//PALACE 0

PS MR ALEXANDER 0

PS MR RAMMELL 0

ADDITIONAL 1

.IRAQ/KUWAIT 0

.(IRA) 0

ATT GEN//C ADAMS 1

BANKE 0

CAOFF 0

CAOFF1 0

CAOFF2 0

DFID1 0

DFID2 0

ECGD 0

FSA 0

HMT 0

MOD 0

NO 10 0

UKTI1 0

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