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AD HOC MINISTERIAL GROUP ON IRAQ REHABILITATION
MEETING to be held in Conference Rm A
on Thursday 22 April 2004 at 11:00

ANNOTATED AGENDA

Item 1 Security

1. The security situation has deteriorated markedly. A small but effective uprising by Shia followers of Muqtada al-Sadr (MAS) has coincided with renewed Sunni insurgent activity to the north and west of Baghdad, and particularly in Fallujah, to mount a challenge to the Coalition. The Coalition has recovered control of the main Shia cities, but tense stand-offs continue between US and anti-Coalition forces in Najaf, where MAS is holed up, and in Fallujah while negotiations continue to seek peaceful outcomes. Nearly 100 US soldiers have been killed in the last fortnight. Iraqi casualties are difficult to confirm, but estimates vary between 700 and 1,500. The US has so far heeded warnings that the disproportionate use of force leading to further significant civilian deaths either in Fallujah or Najaf could have severe consequences for the political standing of the Coalition both inside and outside Iraq. Such actions would also increase the security problems faced by UK and other Coalition forces.

2. **Fallujah** has been a problem since March 2003 when US forces killed a number of local civilians perpetrating a tribal blood feud. US Marines in the town have taken a more robust approach to security than their predecessors. Before Easter they launched a cordon and search operation following the murder of four US contractors there in March 2004. Heavy casualties on both sides resulted. Recent evidence suggests that opposition in Fallujah is led by former regime elements, with some foreign fighters also present. An uneasy ceasefire continues with much of the town still in insurgent hands. Despite negotiations with local notables, which have alleviated the situation, the US military are preparing to resume offensive operations if negotiations fail to

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achieve a solution by 25 April. In **Najaf**, MAS is believed to be hiding in a mosque. The US are preparing a targeted operation if required. A negotiated solution is possible; MAS enjoys little active Shia support and is under pressure from secular and other religious Shia leaders to compromise.

3. On 21 April, there were five large explosions in Basra and at the Az Zubayr police school in **MND (SE)**. At least two were suicide bombings. Over 60 Iraqis were killed and 100 wounded. Four UK soldiers were injured. These are the first large-scale bomb attacks in Basra since the occupation began and may be unrelated to recent violence elsewhere. However, sympathy for some of MAS' objectives and images from Fallujah have undermined consent in south-east Iraq. There have been regular small arms, RPG and IED attacks on UK forces, particularly in Al-Amarah province. Several UK soldiers have been injured and over 30 attackers killed. Italian operations to regain control of Nasiriyah also resulted in Italian military and Iraqi casualties. A UK roulement is underway and a routine force review will take place in May. Informal UK/US discussion is underway about what additional military assistance the UK might provide to MND (SC), currently led by Poland, which covers the more volatile Shia heartland. Any changes to existing UK military dispositions will require full Ministerial consideration.

4. More generally, we have some concerns about **US coalition management**. We have been encouraging the US to increase briefing of Coalition partners in Washington and militarily in Iraq; Coalition forces have felt that they have not been consulted sufficiently on US military operations. Spain and Honduras have confirmed that they will withdraw their forces from Iraq as soon as possible. Other partners have indicated that they will remain in Iraq at least through transition.

5. On a positive note, the widely expected terrorist attacks during Arbreen did not happen. This may have been due to some of the potential attackers

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being engaged in fighting the Coalition elsewhere or a tactical decision by Al-Zarqawi and other terrorist leaders that in light of the Coalition's new problems, the timing was no longer right.

6. The climate of violence has generated a general outbreak of lawlessness, including the **multiple kidnapping** of non-Iraq nationals, some for political and other for criminal purposes, and attacks on supply routes. Only one UK national (Gary Teeley) has been detained for any length of time (and then released). One Italian national has been murdered. A number of countries have taken decisions to advise their nationals to withdraw. Anecdotaly, contractors are operating at 50-75 per cent staffing. Remaining expatriates are constrained in their movements. This has had some impact on reconstruction and will hamper US attempts to speed up projects unwritten by Supplemental funding which has been slow to come through. In particular, the reduction of skilled engineers will undermine the target of 6,000 MW power generation by 1 July which was already in doubt. In response to the situation, the CPA is attempting to improve security information and advice for contractors, and to create a quick reaction capability.

7. **UK policy on the deployment of civilians** has been reviewed in light of security. Precautions are in place to mitigate the risks to staff operating in Iraq, which remain significant. As temporary measures, new deployments to Baghdad have been suspended, and staff unable to operate in the current security environment, such as those involved in forensic investigations, have been pulled out. UK staff serving in Kut, who left under fire, will not return until their security there has been reassessed. However, civilian staff generally are not being withdrawn. Contingency plans are in place for a phased drawdown should circumstances dictate. Further details are given at Annex A.

8. In light of the deterioration in security the US has now realised that the minimalist approach to **security arrangements after 30 June** will not work,

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and that there will need to be a genuine partnership between the MNF and the Iraqi armed forces. This will almost certainly mean joint decision-making and, where possible, joint operations. For now, the US seem focussed on the need for Iraqi forces to have an Iraqi command chain, hence US interest in identifying relatively 'clean' ex-Army officers. However, the US have yet to share thinking with us on how a partnership might be developed formally, or when and how they hope to engage Iraqis on it. Our thinking includes:

- A national security co-ordination body chaired by the Iraqi PM including MNF military commanders, the Iraqi National Security Adviser and Ministers of Defence and Interior (ie. an expansion of the current NSC, which is at present wholly Iraqi);
- replicating this at regional/local level with Joint Co-ordination Committees involving Iraqi and MNF commanders, linked to local political leaders; and
- procedures for addressing grievances about actions of multinational troops, providing compensation, and Iraqiising the handling of detainees.

9. The Coalition should open discussions with key IGC members, the new Interior and Defence Ministers and Armed Forces Chiefs as soon as possible. The aim should be to reach agreement and set down in writing the parameters for the relationship in order to demonstrate to the Iraqi people and international community that there has been a real change on 1 July and that Iraqi sovereignty on security matters is genuine. Senior officials will discuss these ideas in Washington next week. In the meantime, BE Washington and IraqRep will explore them with US and CPA officials. Separately, we continue to be concerned about the legal base for UK forces to undertake certain operations after 30 June. The best resolution would be through appropriate UNSCR language (see below). This will be a key item on the agenda for the senior officials' visit to Washington.

Ministers are invited to:

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- Note the deterioration in the security situation and agree that we should continue to press the US so far as possible to seek negotiated solutions to the stand-offs in Fallujah and Najaf; and
- note the significant risk to UK civilian staff but agree that they should remain in Iraq on the lines set out in Annex A, subject to continuing review.

Item 2 Political Process

10. Despite the security situation, the political process continues to make progress. Brahimi last week completed 11 days of consultations with Iraqis on the arrangements for the **Interim Government** after 30 June. The results, for further discussion, are: an appointed Cabinet of Ministers, headed by a Prime Minister (preferably Shia), reporting to a three-man Presidency (preferably Shia, Sunni, Kurd). The Ministers would for the most part be technocrats with some party representatives. Brahimi would make the appointments, with advice from CPA, on the basis of consultations with Iraqis. We judge that an Interim Government on this model can be in place by 30 June.

11. After 1 July there would be a broad-tent **National Conference** (1000 strong), which would elect a smaller Consultative Assembly (100 strong). Powers are not yet clear. Because of Sistani Brahimi is loath to allow the Consultative Assembly legislative powers (see below). Nor is the selection process for the National Conference yet clear (although the selection process for a large conference should be easier to agree than for a small one). Brahimi is due to return to Iraq in a couple of weeks.

12. The timing of the proposed National Conference is curious. We had always assumed that the purpose of a conference would be to endorse the arrangements for the Interim Government and give Iraqi imprimatur on the process. There is a risk that an Interim Government selected by the UN, with

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CPA advice, will be seen as another foreign puppet. Brahimi's argument is that the elections to the Transitional Assembly in December/January are the important political landmark that we should focus on. The National Conference would be the first step in generating interest in the electoral process.

13. The Prime Minister and President Bush welcomed Brahimi's proposals on 16 April. The Prime Minister also discussed UN re-engagement with Annan on 15 July. The UN remains concerned about the return of large numbers of international staff, given prevailing security risks, but recognise the need to remain fully involved with small political and electoral expert teams.

14. It is still early days to gauge **Iraqi reactions**. The National Conference will allow many of those who have felt excluded to play a part in the political process, particularly the Sunnis, so should prove attractive to some outsiders. But the main stumbling block could be the IGC, whose continuing role in the new Interim Government is not guaranteed and about whom Brahimi is very dismissive. (Brahimi has said the IGC will dissolve on 30 June, although some of its members may continue in posts in the new state structures. But he has told us he is keen to sideline some of the members, including for example, Chalabi). The IGC have the potential to disrupt discussions by refusing to agree an annex to the TAL endorsing Brahimi's proposals.

15. Our task now is to clarify the details of, and help Brahimi sell his plan; help him identify suitable figures for the Interim Government; generate real interest in the National Conference; and to handle any push-back from the IGC. We also need to push our ideas with Brahimi on the powers of the Interim Government. We agree that it should have less powers than the elected Transitional Government and it should not touch on constitutional issues (which should meet Sistani's demand). But we think the Consultative Council should have some powers (e.g. to debate/approve/amend although not initiate legislation and question Ministers) if it is not to be seen as toothless. We, most

of the US administration and the IFIs also believe that there are some crucial areas of economic policy making where the Interim Government will need powers including: to sign an IMF Agreement and do a Paris Club debt deal; to disburse World Bank and UN trust funds and bilateral aid; and to pass a budget and other economic legislation.

16. The Prime Minister agreed with Annan and Bush on 15/16 April that we should begin work on a **new Security Council Resolution** marking the transition to Iraqi rule on 30 June. Other Council members are supportive in principle, but the detail is likely to be difficult to negotiate. The Resolution should: endorse future stages in the political process, including the end of occupation; back Brahimi's plan for the interim government, as well as clarifying the future UN role; and authorise the continuing presence of the multinational force, with appropriate powers to ensure UK forces can continue to carry out offensive operations and detention of insurgents/terrorists. Other changes reflecting the transition to Iraqi rule will need to be accommodated, for example, amendments to the arms embargo and to the arrangements for oil sales. Elements are set out in paper attached at Annex B. We will need to agree with the US over the next few weeks a detailed approach to the Resolution, before opening negotiations with other UNSC members.

Ministers are invited to:

- **Agree that we should support Brahimi in his work to form an Interim Government; and**
- **endorse the elements in the paper at Annex B as the basis for discussions with the US on a new Security Council Resolution.**

Item 3 Transition Plan for the South

17. At their meeting on 18 March, Ministers agreed a UK transition plan for Iraq as a whole, but requested a more detailed plan for the south. Some further

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progress has been made in transition planning in Baghdad. A US Ambassador, John Negroponte, has been appointed, subject to Congressional confirmation. Edward Chaplin, currently FCO Middle East and North Africa Director, has been chosen as the British Ambassador. The announcement of his appointment will be made soon. UK and US officials have reached agreement in principle to extensive co-operation mechanisms between UK and US posts in Baghdad. The US had yet to decide on its own post-transition structures including whether State will have control of all of the US mission, how advisers in Iraqi Ministries will be managed or what sort of presence the US will maintain in the Governorates. It is hoped that the appointment of Negroponte will help resolve some of these issues.

18. A transition plan for the south is attached at Annex C. The UK will continue to play the leading international role in the south after 30 June, but the level of US non-military engagement will be crucial to success. The main challenges will be:

- To maintain security while facilitating a gradual transfer of responsibility to competent Iraqi security forces. A relatively benign security situation, certainly calmer than now, will be necessary to;
- help the people of the four southern Governorates to play their part in the national political process, including framing the new Constitution, and to build responsive local political structures; and
- promote economic recovery including job creation, and rebuilding of Governorate and local institutions.

19. On security, although UK force levels remain under review, the UK will continue to lead and provide the majority of troops to MND (SE) through the transition and beyond. Apart from small contingents from Norway and New Zealand being withdrawn, other contributors to the division had confirmed that they will maintain their forces in place until at least the end of 2004. The main

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effort will be strengthening Iraqi security capacity and handing over security control to Iraqis first in Basra city and then more widely. Six ICDC battalions have received basic training. Half of the required 15,700 police in the south are assessed as trained. Over half of the Iraqi border police in the south have been recruited and about a quarter trained. Further training and particularly mentoring and monitoring of Iraqi forces will be required through the transition. MND (SE) will mentor the ICDC and UK contractors the police, which police training will continue at the Az Zubayr School.

20. On the dissolution of CPA South, a UK consulate general will be established in Basra to manage UK civilian operations, including police. It will have about 80 UK staff, being recruited, and will be led by Simon Collis, currently Consul-General in Dubai. In the likely absence of a US consulate in Basra until 2005, it will have a key political role in engaging the Shia and helping form democratic structures in the four southern governorates. Other Coalition partners will have limited diplomatic presence in the south.

21. Until such time as a suitable international organisation can take over, the UK will lead donor co-ordination in the south. With the UN and IFIs reluctant to deploy on the ground, this could be for some time. Good progress has been made in reconstruction so far, given the constraints. Power production has improved sharply, ports are operating well above pre-war capacity and the private sector is active. The next phase will require new capital investment, with longer lead times, and more job creation for Iraqis. UK-funded infrastructure projects should be completed by 1 July. About 50 DFID consultants involved in these projects will leave progressively from mid-June, although some will remain in new guise. A DFID-funded Transitional Advisory Team will be established to transfer CPA South knowledge to the new, large US Project Management Office (PMO), with 300 consultants, which is expected to take over the CPA South compound on 1 July. The PMO plans to spend \$3bn over the next three years in southern governorates, mainly on

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water, power, transport, health and education infrastructure, but PMO plans are not fully formed. Significant trust fund, Japanese and other donor funding will be available. Follow-on DFID projects (£20-25m over two years) will concentrate on capacity building within the governorates, where existing performance is mixed and a problem which most other donors are not tackling. The south will also benefit from DFID national level programmes centred on economic policy support for key Ministries and political participation.

Ministers are invited to endorse the transition plan for the south at Annex C and agree that we should press the US to reach decisions on their future support in southern Iraq post-transition.

Item 5 Next Meeting

22. We propose that the Group next meet on **6 May**.

Ministers are invited to agree that on 6 May they receive updates on security, the political process and other issues as appropriate.

Cabinet Office

21 April 2004

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ANNEX A: IRAQ: STAFF: CONTINGENCY PLANNING

The recent deterioration of security in Iraq, and the assault on the CPA compound in Kut, have prompted us to look again at our policy on staff deployment and contingency planning.

We believe we are doing all we can to mitigate the risks for staff who are deployed, with the combination of static perimeter security for the Green Zone in Baghdad and other CPA sites, hard cover accommodation where there is a serious risk of rocket/mortar attack, and armoured vehicles and armed protection teams for travel outside secure areas. Every movement outside secure areas is approved case by case, and the composition of convoys for different routes, and the routes themselves, are kept under constant review.

But, even with these precautions, there is a significant level of risk. We should not therefore keep staff in Iraq unless there is good reason for them to be there. For this reason, we are withdrawing, at least temporarily, those staff – such as the mass graves forensic excavation teams – who are unable to do their jobs in the current security environment. We are also withdrawing a little early a few staff who are close to the end of their tours and whose early departure would not do serious operational harm. Governorate staff from Kut are now back in the UK and will not be returned until we are confident that they will be secure.

In Baghdad, these measures have the added advantage of easing pressure on the limited space in our hard cover living accommodation. For the same reason, we are reviewing carefully each proposed new deployment to Baghdad.

We have also reviewed plans for evacuation back to the UK from Baghdad and Basra, and CPA has been doing the same for the governorates. These are essentially straightforward, since armoured vehicles and armed protection, and military escort and transport, are already on hand. We would hope to call on US military back-up if necessary as well. Further work is in hand on assessing what the requirement might be if an evacuation of all British nationals were necessary. This would need to include journalists, businessmen and private security personnel and other nationals for whom we have responsibility (eg the many South Africans currently working in the security sector). CRG and Armor Group would have a role in any evacuation by armoured vehicle in providing transport security, but otherwise they should be treated as other civilians. In Basra we would also need to be prepared to evacuate all CPA South staff, irrespective of nationality.

We see no need to reduce the numbers of civilian staff further in current circumstances. Should the security situation deteriorate, a phased drawdown would be based on bringing out first those at heightened risk (eg remaining Governorate teams); and second those who were unable to carry out their functions (eg the forensic scientists, above). A third category could be those not deemed to be essential to transition, leaving core staff as those involved, for example, in governance, security policy, finance and to staff IraqRep. But exact criteria – and whether making such a distinction was feasible in deteriorating security conditions – would need to be assessed at the time.

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ANNEX B: NEW SECURITY COUNCIL RESOLUTION ON IRAQ

1. Our aim is to agree a resolution that:

- i. Looks forward to the end of the Occupation on 30 June, including ending the specific responsibilities given to the UK/US by previous SCRs. This is important as a political signal of the clear break with what has gone before, but will also ensure that there is no dispute over the changed legal situation.
- ii. Ensures CPA laws in force at the end of occupation continue to have effect. This will ensure continuity, preserve reforms made by the CPA, and assist with certain status of forces issues which may not be covered by agreement with the Iraqi government.
- iii. Endorses progress in the political process, recognising in particular:
 - the Transitional Administrative Law;
 - the March 2004 exchange of letters between the IGC/CPA and the Security Council;
 - the outcome of Brahimi's consultations;
 - the timetable for the political process.

This would consolidate the political process in Iraq and ensure that the UN and Member states will do business with the interim Iraqi government. Specific endorsement of the TAL may be difficult for some in the Council, but endorsement of individual elements may be easier. If the idea of an international conference gains ground, this might also be mentioned.

- iv. Reaffirms the authorisation of the multinational force. We want a mandate that ensures our troops retain powers to conduct offensive operations to combat terrorists and insurgents, and to detain terrorist suspects. The mandate should be placed in the context of the need for continuing international assistance to the Iraqis in creating conditions of peace and security and a general obligation to combat terrorism. We will also want the resolution to refer to Iraqi consent to the MNF's presence.
- v. Clarifies the future UN role, in particular the Special Representative's role in facilitating the political and constitutional processes. This role will need discussion with the UN and with the Iraqis.
- vi. Sets out new arrangements for the Development Fund for Iraq, oil revenues and frozen assets. An ideal solution might:
 - give the Iraqi government control over revenues/assets;

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- maintain immunity from attachment of oil revenues;
 - ensure continued transparency of oil sales;
 - maintain international oversight through the IAMB.
- vii. Lifts the arms embargo on relevant Iraqi authorities, and ensures that it does not apply to the MNF. Controls will need to remain to ensure weapons cannot be supplied to undesirable non-state actors (e.g. militias), with appropriate exemptions e.g. to ensure protection of international humanitarian and reconstruction workers.
- viii. The resolution may need to refer to disarmament issues outstanding from previous resolutions, and other Security Council members will raise UNMOVIC's future role.
2. There are a number of secondary elements that could be covered in the resolution. These might include calls for additional international assistance in particular areas (e.g. policing) and recognition of the regional role. We should probably allow other Council members to bring these forward as part of the negotiation.
 3. The need for a new Security Council resolution seems to be generally accepted, both by Security Council members and by other key players (the UN Secretary-General, the EU, the Non-Aligned Movement). However, some of the elements we are seeking are likely to prove controversial.
 4. There will be reluctance from some on the Council (in particular France and Germany) to appear to endorse actions taken by the CPA or the IGC, including the Transitional Administrative Law. A clear, leading role for the UN is likely to be the main issue for the middle ground in the Council.
 5. While there is general acceptance of the need for continued international assistance with security, others may seek to dilute US control, and the issue of Iraqi consent for the force's presence is likely to figure strongly in negotiations.
 6. The question of Iraq's outstanding disarmament obligations could prove controversial, although how far other Security Council members will be prepared to push this remains unclear at present.
 7. The broad elements outlined above have already been floated in private Council discussions by Emyr Jones Parry. The next step is a detailed discussion with the US on their aims for the new resolution. We expect this to begin at senior official level in the next week. Agreement with the US should be followed rapidly by discussions with key Security Council members. Romania has already offered itself as a co-sponsor. Zapatero told the Prime Minister on 18 April that Spain would be supportive.

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ANNEX C: UK TRANSITION PLAN FOR SOUTHERN IRAQ

Introduction

Ministers have agreed a transition plan for the centre but asked for a plan for the south for their meeting on 22 April.

2. This Plan sets out proposed arrangements for managing the transition in the south when UK/US occupying power responsibilities end on 30 June 2004 and CPA South dissolves. Our focus should be on helping the Iraqis to take responsibility for their own future. The main challenges will be:

- to maintain security while facilitating a gradual transfer of responsibility to competent Iraqi security forces;
- to help the people of the four southern Governorates to play their part in the national political process, including framing the new Constitution, and to build responsive local political structures;
- to promote economic recovery including job creation, and rebuilding of Governorates and local institutions.

3. The paper assumes that the security situation will calm down. If it does not and consent erodes the gains from reconstruction can quickly be lost leaving a difficult summer and possible surge in humanitarian needs.

4. We hope that the US will retain a strong presence in Basra through State Department and PMO (or a successor organisation). But it has not decided whether to open a Consulate, or where the PMO would be located in Basra. It is looking unlikely that it will retain staff in the other three southern Governorates. The Italians are expecting to retain forces and civilians in Dhi Qar, and the Dutch and Japanese in Muthanna. The main UK involvement will be led by the Consulate General and the Commander of MND(SE)

Security

5. The security situation in the South is quiet relative to other parts of Iraq, but violence may increase in the run up to 30 June. Across Iraq plans are in place to manage the transfer of responsibility for security from the Multinational Force to the Iraqi security forces. This allows for the assumption of Iraqi control first locally, then regionally and nationally as conditions and Iraqi capability allow. Local control of Basra should be passed to the Iraqi police in the coming months, with the Iraqi Civil Defence Corps and the multinational Force available in support. This will lead to a corresponding drawdown in the UK military presence in the city of Basra. The back-up capability will be based largely outside populated areas. This approach is dependent upon Iraqi ability to handle the task, so it will happen at different times in different parts of the south.

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6. There are currently around 8000 UK military personnel in MND(SE), amounting primarily to six battalions of soldiers including all of the command and control and support elements. Two of these are high readiness surge battalions normally based outside Iraq and, we have always said, will be withdrawn when conditions allow. A routine force level review will take place next month, before the Chiefs of Staff decide the appropriate force levels for the next six months, subject to any significant changes in the intervening period.

7. We expect that, subject to parliamentary ratification, all coalition partners in MND(SE), except the Norwegians and New Zealanders will maintain approximately their current force levels until the latter half of 2004, again subject to regular review. The small Norwegian and New Zealand contingents are being withdrawn in July and October respectively. This means that in the presence of multi-national forces on the ground on 1 July is unlikely to look significantly different from now. The UK will continue to command the four provinces of MND(SE) overall, controlling Basra and Maysan operationally, with the Dutch (1,300 personnel) and Italians (2,900) controlling Muthanna and Dhi Qar. Denmark, Romania and Japan are the only other coalition countries with 500 or more people in MND(SE).

8. Much work will still be required to develop the capability of the Iraqi security forces in the south in order to achieve the regional transfer of authority. Basic training of all six ICDC battalions (5,500 personnel) has been completed and leadership training will begin shortly. However mentoring by the Multinational Force is likely to have to continue well beyond the end of occupation.

9. 50% of the required 15,700 policemen are assessed as trained and all of the former policemen in the south should have done reintegration training by the end of June. New recruits however will not have completed basic training by then and it will be some time before we see a coherent police capability, as opposed to individually trained policemen. A private company will soon begin monitoring the new police force under a 6-month contract. The Consulate-General in Basra will oversee this. Police capability is likely to be fragile for some time to come. Recent events have confirmed this. Of the requirement for 4,100 border police in the south, only 61% have been recruited and 26% trained, although the management of the borders is already an Iraqi responsibility.

10. Key to making the security arrangements work locally will be joint coordination centres which allow the police to call upon support as required, whilst respecting police primacy, civilian control of the armed forces and Iraqi sovereignty.

Political

11. As agreed by Ministers, we will establish a Consulate-General in Basra with a staffing complement of around 81 UK based staff (including police) and 30 national staff. A key area of activity for the Consulate-General will be to keep the Shia onside as an indispensable part of the political process. We will

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need to influence the emerging political players to ensure they develop solid democratic structures, a constructive relationship with the national government, and good links with the region, particularly the Gulf States. We will also need to provide liaison as necessary between the UK military and local government. DFID's Political Participation Fund can be used to encourage disadvantaged groups to participate in the political process.

12. The remit of the Consulate-General will cover the four southern governorates, with political staff travelling out from Basra. We have considered the possibility of posting FCO political staff to the other Governorates but judge that the cost would be prohibitive. General Stewart has already placed political advisers in each Governorate.

Reconstruction

13. Good progress has been made on reconstruction in the south, given the constraints. Power production has improved sharply, the ports are operating well above pre war capacity and the private sector is active particularly in Basra. The next phase will require major new capital investment, and the creation of more jobs for Iraqis.

Current UK Support

14. DFID's current programme in the south includes reconstruction projects and staff for CPA-South. Projects include the rehabilitation of government buildings and CPA facilities in the southern governorates, and the restoration of essential power, fuel and water services. These projects should complete by 30 June provided that the security situation remains stable. A new media project costing £5 million over two years has just started, managed by the BBC World Service Trust.

15. There are about 50 DFID funded staff in CPA-South, including support to the CPA governorate offices in Basra and Nasiriyah. Consultants fill most of these posts and funding will end on 30 June. FCO also supports a range of HMG secondments, including from the Department of Health (DoH). A phased exit is planned with staff leaving from mid June onwards. Between now and then staff have been tasked with helping the Iraqis with medium term planning issues, and ensuring that the local knowledge that they have built is transferred.

Other Donors

16. Other donors (and the private sector) will provide the main funds for investment in infrastructure after 1 July.

17. The US, through its Project Management Office (PMO), will be by far the largest donor in southern Iraq from July. Over the next three years it is likely to spend at least \$1.78bn in Basra governorate, \$194m in Maysan, \$267m in Al-Muthanna and \$797m in Dhi Qar. These funds will mainly be

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allocated to water and power projects, transport and the construction of health clinics and schools.

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18. The PMO is expected to take over the CPA South compound from 1 July and will base up to 300 staff there. These will be almost entirely primary contractors with little knowledge of the local context or sector specific issues. The PMO has shared some of their reconstruction plans with the Iraqis, but only briefly so far. None of the contracts issued by PMO have any community or capacity-building elements. The basic model is that projects will be managed entirely by the primary contractors from inception to completion and then handed over to the Iraqi authorities.

19. US decisions on the establishment of a consulate in Basra will be taken around the end of the year. Other agencies managing US assistance in the south include USAID, and Research Triangle International (RTI) who have been contracted by USAID to manage a nationwide local governance capacity-building programme. RTI will be an important development partner in the south in future.

20. The other main bilateral donors operating in the region are the Japanese, Danes and Italians. The Japanese have already pledged several hundred million dollars of funding, including rehabilitation and equipment for hospitals, mobile electricity sub-stations, fire and refuse trucks and police cars. The Italians are planning a consulate in Basra, focused mainly on trade, plus a small development programme (\$10 million) centred on enterprise development. The Danes have no plans to establish a consulate but are likely to retain a small programme in the agricultural sector.

21. The South will be eligible to benefit from programmes under the International Reconstruction Financing Facility for Iraq, which will have funds of about \$1bn managed by the World Bank and UN. Both are managing their efforts mainly from outside Iraq because of security concerns at present.

22. UN international staff visit Basra from Kuwait by road and some national staff continue to operate in-country. Compound and office space has been identified in the port of Basra but it will require considerable security strengthening. Meanwhile New York remains cautious about a mass return of international staff because of wider security concerns. Unless security improves dramatically it is unlikely that the UN will make a substantial impact.

23. The UK will take the lead on coordinating the donors in the south until a suitable international organisation can take it over.

Future UK Support

24. From 1 July Iraqi central and local government institutions will assume full executive authority in all areas where CPA South has led. Existing capacity within the southern governorates is mixed. There is reasonable technical expertise, particularly in key utilities sectors, but the Governorates' overall performance is constrained by a hierarchical culture, poor planning and coordination, and weak financial, management and leadership skills:

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25. PMO funds, IRFFI funds, and to a lesser extent Japanese funds, will significantly improve infrastructure in the south. But only RTI has been making any real attempt so far to help build Iraqi local government capacity to manage these resources, and they are withdrawing most of their staff from Iraq on security grounds. Failure to do more is likely to have a negative impact on the prospects for sustainability, economic regeneration and a stable political process.

26. DFID will fund a project to build capacity in the governorates and provide a Transitional Advisory Team, which would aim to build links between the Iraqis and the PMO. Elements of DFID's national programme will also benefit the south over time. Details of these plans are set out below.

Capacity Building Support for the Governorates: a two year programme totalling £20-25 million has been agreed in principle. We expect to support planning, financial management, management development and improving internal coordination. The programme would complement RTI's work. A one month inception phase is due to start in May and the implementation phase would begin in July. Subject to the security situation, long term technical experts would operate in all four governorates.

Transitional Advisory Team: the PMO has confirmed that it wants UK support with transferring CPA South knowledge in the following areas: water, power, school construction, health, integrated transport planning, quantity surveying and construction management. We intend to create a Transitional Advisory Team (probably 8 staff, excluding health) whose main role would be to bridge the local knowledge gap between PMO contractors and Iraqi technical directorates in the governorates. They would also provide technical and general advice to PMO contractors, and encourage effective working relations with the Iraqi directorates on sector planning issues. The team would be co-located with the PMO but would report to the Iraqis. The team would be established for 6 months initially and then reviewed. The existing DoH secondees (4 in total) would be incorporated in this plan and DFID would take over responsibility for their support costs from the FCO.

27. DFID is preparing a detailed support proposal for further discussions with senior PMO officials in London in late April.

Centre-South Programme Linkages: DFID's new Emergency Public Administration Programme (EPAP) works with three central ministries: Finance, Planning and Development Cooperation; and Municipalities and Public Works. Their regional departments should benefit from this support over time, and it will be important to ensure good linkages between this work and the governorate capacity building programme. Similarly DFID's new economic policy support to key central ministries should make a positive impact on the south. DFID has already agreed to support a Political Participation Fund and also plans a major civil society capacity building project. Many of CPA South's political, human rights

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and other NGO contacts should be able to access these funds from July onwards. All of these projects will continue to be managed from Baghdad but close liaison with the Consulate-General will be required to ensure effective impact in the south.

Consulate General

28. Staff for the Consulate-General have all been identified. Some are already serving in CPA South, and others will arrive before 30 June. This will help ensure continuity. The Consul-General will be Simon Collis (not yet publicly announced). He is an Arabist, and is just completing a four year posting as Consul-General in Dubai. The Consulate General will also house a DFID office (see below) and cover the UK's commercial interests. Basra is Iraq's gateway to and from the Gulf and private investment is critical to Iraq's future. Trade is already developing quickly and will increase as transport links are improved. The southern oil fields and the port at Umm Qasr will need considerable investment in infrastructure.

29. A contract has been signed for refurbishment of the building we have chosen for the Consulate-General. We expect to have fully equipped office space for at least 20 staff by 1 July. FCO is still negotiating with contractors to build staff accommodation, which is not expected to start coming on stream until August. We will therefore need to continue using what is now CPA South office and living accommodation for some weeks after 30 June. We have conveyed this need to the Americans. They have indicated that it should not be a problem. But we need to make sure that they do not change their minds.

Next steps

- Brief Ministers to press the US to make decisions on its future role in the southern Governorates, in particular on the levels of support it can provide to us.
- Step up the preparation of Iraqi security structures to take over from the multi national force.
- Complete preparation for the DFID Governorate Capacity Building Programme and Transition Team.
- Confirm detailed arrangements for liaison between the different parts of the UK presence in the south after 30 June eg on security; and between the US, UK and other contributors.
- Make contingency plans for a more difficult security situation.

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