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IRAQ: PHASE IV ISSUES

1. In addition to the resolution (see separate brief), we need an agreed US/UK approach on a number of other important Phase IV issues (some of which link back to the resolution).

Political issues inside Iraq

Political process: a Baghdad conference

2. The US has in mind a conference of senior representatives of the Iraqi people, on the lines of the Bonn conference for Afghanistan, from which will emerge an Iraqi interim authority (IIA). Any such conference needs to include a genuine broad-based representative group of Iraqis. **Exiles and those 'free Iraqis' in the KAZ should not dominate.** Though we need to be sensitive to ethnic and sectarian balances, secular/religious mix and the role of the tribes, we must be careful not to reinforce or reinvent divisive elements of Iraqi society. Getting the diaspora to return should include both technocrats (doctors, engineers etc) and religious charitable organisations as well as oppositionists feted in Washington. We should encourage the diaspora in the Arab world as well as that in the West.

3. The US is still thinking in terms of a Coalition conference with the UN playing a supporting role (the opposite of Bonn). This is the wrong way round for international acceptability. **The Coalition's guiding hand must not be too visible.** We must work from behind the scenes with the UN Special Co-ordinator being seen to be in the lead (as Brahimi did for Afghanistan).

4. On timing, US thinking is moving towards holding the conference very soon after the conflict. We **may need to wait some weeks** to check out with whom within the country it would be useful to work.

Identifying the UN Special Co-ordinator

5. We want a UNSC badge for post-conflict activity. That requires a substantial UN role and a UN figurehead. We both have confidence in **Sergio Vieira de Mello**. We need to persuade Annan to release him from his job as High Commissioner for human rights. If he can't or won't be released, then where else to look? (There is a good Thai, **Surin Pitsuwan**, a former Foreign Minister and a Muslim. US educated and well known on the international scene, he may appeal to the Americans. And there are also some good Scandinavians and Central Europeans.)

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6. The Iraqis themselves will be keen to resume control of their own affairs as soon as possible. An **early statement of intent** to hand over power to an interim Iraqi authority while we help the Iraqi people build a democratic future should go down well.

7. **We would undermine our case, however, if we insisted on putting any interim Iraqi authority under the line management of the Coalition.** But nor should we let it have unfettered executive authority. The UN Special Co-ordinator should have a veto power over its decisions. We shall have quite a lot of *de facto* influence over the IIA anyway through our security presence on the ground.

New Iraqi constitution and elections

8. The Iraqi interim authority should be encouraged to **create a constituent assembly** to draw up a new constitution, to be put to a referendum, providing for elections. The 1925 constitution could be a good place to start (excising the references to the monarchy and taking account of Kurdish aspirations for autonomy within an integral Iraq).

9. Setting up of the Interim Authority and the Constitutional Assembly must be accompanied by **wider efforts to kick-start political debate**: a free press, formation of unions and NGOs etc. Again if these focus on technocratic and practical matters it could help cement a sense of national unity and identity amongst the whole population.

Régime criminals

10. Best left for the Iraqi courts or for some Iraqi truth and reconciliation process to deal with. But anyone using WMD against Coalition troops would be tried by our military courts.

Humanitarian issues

11. UK has earmarked an initial £90 million for humanitarian relief; £20m has already been allocated to UN Agencies and NGOs for preparations. The UK military, supported by two DFID advisers, also have £30m for addressing immediate humanitarian needs until civilian agencies are able to operate. US efforts also substantial: we should play them up in the media.

12. Until a permissive security environment is established, the main humanitarian providers will be military, Red Cross, and local staff working for the UN and NGOs. These people are able to respond to low intensity

humanitarian needs. However, they will prove inadequate in the event of a protracted conflict (particularly around Baghdad or the North), significant damage to infrastructure and/or large-scale movements of people. The threat/use of CBW could trigger a humanitarian disaster.

13. There are already humanitarian needs in Iraq. 60% of the population are dependent on the Oil for Food programme. It is essential that it recommences as soon as possible, and we are working with Security Council partners on a resolution transferring authority to the UN Secretary General to facilitate this.

Economic issues

Financing reconstruction

14. After more than 20 years of Saddam's rule, several wars and 12 years of sanctions, the reconstruction bill will be very heavy. Iraq's oil revenues will not be able to pay for all of this, particularly in the short-term. We need to share this burden with other developed countries, including the G7 and the OECD. But contacts with them tell us that they will make **their contribution conditional on there being an authorising UNSC resolution for phase IV.**

15. Before anyone commits to particular sums, the **World Bank** will need to prepare a rigorous needs assessment and prepare to play a major role in donor co-ordination. But once again, **UN cover will probably be needed** for this. Iraq also needs to be protected from its creditors: it is currently not servicing its debts, and this position needs to be formalised through the Paris Club –initially through a debt moratorium, and then, once the IMF is involved, through a formal debt rescheduling deal. There will be pressure on many creditors to write off debts. On the other hand, a satisfactory deal for some major creditors, e.g. Russia, will be an important element in getting their support for post-conflict arrangements.

Oil sector management

16. We are agreed on the **overarching principles**: we should seek to minimise the disruption to the flow of Iraqi oil; Iraq's oil wealth should be used for the benefit of the Iraqi people; and Iraqi oil business should be handled in as transparent and even-handed a manner as possible.

17. Post-conflict, the first priority will be preventing further damage to oil infrastructure (e.g. tackling oil well fires) and restarting production. Thereafter the focus will be on rehabilitating infrastructure to maximise existing production capacity. After years of sanctions and under-investment, this will be a massive task over a number of years.

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18. The intention is to **work with existing Iraqi structures and personnel to achieve these objectives**. Iraq's oil industry is relatively well run given the circumstances and its personnel have unmatched knowledge of the infrastructure and how it has been maintained under sanctions. Outside help should not look like a Coalition take-over of Iraq's oil industry.

19. We also agree with the Americans that all decisions on the future development of the Iraqi oil industry (e.g. possible privatisation, exploration of new fields) should be deferred until a new Iraqi Government is in place.

Trust fund

20. The US are thinking of setting up a trust fund into which to put oil and other revenues (including from the sale of frozen Iraqi assets). This would accompany lifting sanctions and the winding up of the UN escrow account.

21. Whether a Trust Fund or some other arrangement (e.g. an account in the Iraqi central bank) is used, the key point is that **decisions on using the funds should not be taken by the Coalition**. Until the Iraqi interim authority has the capacity to operate a budget, the UN Secretary General (or the UN Special Coordinator) should continue to decide on spending priorities, as he will do under the amended OFF arrangements.

22. Whatever model is chosen, it will be important to continue to protect Iraq's oil revenues from claims.

Lifting sanctions

23. Under existing Security Council resolutions, the technical requirement for removal of sanctions on Iraq is a Security Council decision, based on full Iraqi compliance with its disarmament obligations.

24. We have made a commitment to the Iraqi people, in our vision statement, to lift sanctions quickly. We should do so as soon as possible.

25. We will probably want to **lift sanctions in stages**. We envisage a requirement for an embargo on arms and WMD precursor material for some time. We will also need to handle carefully lifting sanctions on export of Iraqi oil. Under the current arrangements oil can only be exported under the Oil For Food programme. Once sanctions are lifted this control will no longer apply. So we would not wish to lift them until new arrangements were in place, including decisions about who should control Iraqi oil revenue.

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Frozen Iraqi assets

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26. As is required by existing Security Council resolutions, the UK has frozen Iraqi assets in banks in the UK. Cross-Whitehall discussions are underway to determine what to do with these. **Unfreezing the assets would require a new Security Council resolution.** The US has announced it will seize frozen Iraqi state assets in the US and use them for reconstruction and development.

27. We do not have provision under UK law to do the same here. And there are strong arguments for continuing to hold Iraqi funds in trust for a new Iraqi government. But we are committed to take whatever steps are necessary to ensure funds frozen in the UK linked to Saddam Hussein and his régime are used for the benefit and welfare of the Iraqi people. HM Treasury is working with US Treasury on this.

UK Commercial opportunities

28. There has been a good deal of speculation in the British media that UK companies would be left out of reconstruction work in post-conflict Iraq. That followed reports of large US Government funded contracts.

29. It is clearly crucial that there is a level playing field and transparency for companies interested in reconstruction work. UK companies have extensive knowledge of Iraq and expertise in reconstruction issues. Patricia Hewitt was reassured following her conversation with Andrew Natsios of USAID last week that the interests of UK companies would be taken into account.

Bilateral UK effort

Our longer term contribution to wider reconstruction

30. Clare Short is considering where the UK might help further with reform and reconstruction. Two areas of UK comparative advantage are security sector reform and reform of the public administration.

31. UK public finances are tight. If we are to keep armed forces in Iraq, the scope for a major effort on reform and reconstruction will be limited.

Medium term UK military effort

32. Our armed forces are fully stretched. Between a third and a quarter of them are committed to the military action in the Gulf. We cannot keep that up for more than a few months. **By the autumn, we shall need to scale down to about a third of current levels.**

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33. No doubt, the President will have similar concerns about the scale of US forces in Iraq. So **we both need an exit strategy**. The key to that will be to get new Coalition partners, **which needs an authorising UNSCR**. US/UK officials are working up a lobbying strategy. But we must be realistic. The number of countries who have real capability to offer is small.

International political issues

Getting support from the wider region and internationally

34. We need to think about the Middle East and Gulf region. Iraq's neighbours and other **Arab countries need reassurance about our intentions**. We should also encourage them to be involved in reconstruction. Part of the answer will be through the right action at the Security Council. But we may need to create some kind of local consultative machinery, at least for the neighbours, as we did for Afghanistan.

UN Weapons Inspectors

35. The US seem to be coming round to the idea of a post-conflict role for the Iraqi weapons inspectors. We need to build on this. The success of our military campaign will be judged internationally according to how we are seen to be uncovering and destroying Iraq's prohibited weapons programmes. UNMOVIC /IAEA inspectors, working alongside Coalition teams, would provide independent verification that Iraq posed a WMD threat. The UN inspectors would carry an impartial, objective weight that the Coalition lacks.

Coalition victory conference

36. A bad idea. We need to heal wounds and adopt an inclusive, not an exclusive, attitude to post-conflict business. Other sorts of conferences, however, will be necessary – e.g. a Baghdad conference to kick-start the political process and an international donors conference to raise reconstruction finance.

Foreign and Commonwealth Office
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