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27 November 2002

POTENTIAL IMPACT ON THE UK OF OPERATIONS AGAINST IRAQ

I attach a paper by the Civil Contingencies Secretariat on the potential impact on the UK of operations against Iraq. This draws on a number of papers by individual Departments, and has been discussed by the Ad Hoc Group on Iraq.

2. CCS are following up on a number of issues, including the implications of reservist call out for staffing of the emergency services. On the consular side the FCO is holding a meeting with posts on 29 February, which CCS and the Home Office will attend given their interest in possible movement of people to the UK.

3. I am copying this paper to Private Offices in Departments represented on the AHGI for information, and to members of the group.

JIM DRUMMOND

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CIVIL CONTINGENCIES SECRETARIAT ASSESSMENT

POTENTIAL IMPACT ON UK OF OPERATIONS AGAINST IRAQ

KEY JUDGEMENTS

- I. Overall impacts will depend heavily on public and market confidence, which will themselves be affected by the course of operations and perceptions of domestic threats and dislocation.
- II. The principal economic factor will be oil price rises. General uncertainty will also affect the stock market and possibly domestic consumer spending. Dislocation of routes in the Middle East and war concerns will affect tourism and the air travel industry.
- III. Operations would increase the prospect of further protests by anti-war groups as well as ethnic groups and counter-demonstrators. There is opportunity for violent confrontations between protest groups, ethnic groups, or targeted against ethnic groups, particularly in the aftermath of a major terrorist incident.
- IV. The fire-fighters' dispute probably will go ahead even with the prospect of military operations. Concerns arising from the prospect of operations – for instance, safety issues concerning terrorist incidents on mass transportation – may influence other industrial disputes.
- V. Heightened anxiety about terrorist attacks is likely to cause an increase in disruption associated with hoaxes and false alarms. The JIC assesses that the threat from Al Qaida and Islamic extremist groups remains high. Al Qaida will not act directly in support of Iraq but Al Qaida and other Islamic extremists will seek to exploit the circumstances of a war situation. The situation also raises the probability of "fellow-travelling" lone terrorists as well as hoaxes.
- VI. Military resources would be lacking for domestic industrial action contingencies other than the fire-fighters' dispute. A call-up of medical reservists will probably impact provision of NHS services and may impact the emergency services. This could be compounded by extra demands on the provision of services.
- VII. Contingency planning by departments is in hand. In many cases, existing contingency plans are adaptable to the circumstances arising from operations against Iraq. These plans could be affected by the unavailability of military resources.

INTRODUCTION

1. The CCS Assessment Team has prepared this assessment of potential consequences to the UK of operations against Iraq to support the work of the Inter-Departmental Ad Hoc Group on Iraq. It reflects the views of the Domestic Horizon Scanning Committee.

BACKGROUND

2. Contingency planning for military operations against the current regime in Iraq is in hand. Reaction to the prospect of operations, and actual operations should they occur, has implications for the UK in a number of areas.

3. The most important factor within the UK will be public confidence and its extension, market and commercial confidence. The extent to which there is a public perception that everyday life and services have been altered and the terrorist threat increased will be a major factor. A short, successful campaign would have the minimum impact. The longer dislocation lasts, particularly if there are major terrorist incidents, the greater the likelihood of real disruptive challenges emerging. The extent to which military operations have public support is also important. A strong patriotic factor will restrain disruption and increase tolerance of minor inconveniences.

ECONOMIC CONSEQUENCES

Oil supply

4. It is possible that oil supplies from the Gulf could be disrupted for an unspecified period. However, if conflict was confined to Iraq, a significant shortfall in world oil supplies is unlikely. OPEC spare capacity would be sufficient to cover the loss of Iraqi oil and the indications are that it would act to do so.

5. If other Gulf supplies were affected - the period was prolonged - a proportion could be re-routed to terminals outside the Gulf. The UK does not rely on Gulf oil, but international obligations (International Energy Agency and EU) require UK to co-operate in the release of stocks to the market. Initially, release of supplies, in the event of any actual or anticipated supply shortfall, would be intended to reassure the world market, by demonstrating availability of reserve supply.

6. Ultimately, despite release of stocks, a shortage of supply on the world market could result in a restriction of supply to the domestic market, which could cause fuel shortages.

This position is unlikely to arise until major disruption of Gulf supplies had exceeded three months (although panic buying would lead to sporadic problems with retail supply much earlier).

7. The trend in oil prices generally has been upward, driven by a number of factors, not merely war concerns. In the last month, however, prices have fallen by around \$5 a barrel to \$24 and below, as a result of market perception of military action being less imminent and an increase in world oil supplies, particularly from Iraq and OPEC countries (including Iraq) increasing their production.
8. The prospect of imminent war, with disruption of Iraqi supplies and possibly Gulf supplies in general, will force the price upwards again. Under this pressure, oil will almost certainly rise above \$30 a barrel and may spike at over \$40. Prolonged disruption of Gulf oil supplies will exacerbate the high price. In the absence of supply disruption price rises are likely to be of short duration.
9. Political disturbances in Venezuela, a threatened (but averted) strike of Mexican oil workers have recently caused concerns over supplies. Venezuela and Mexico between them produce 25% of US oil imports. A disruption of these supplies coinciding with disruption of Gulf supplies could cause problems.
10. DTI has prepared contingency plans for release of reserve stocks in accordance with UK's international obligations. In light of the current situation, the HM Treasury-chaired Brooks Group on Oil Markets will meet on a monthly rather than quarterly basis.
11. At the moment, existing HMT, FCO and DTI estimates of likely disruption to supplies indicate that this should not cause any significant shortages although there will be effects on prices. The Brooks Group has identified the need to agree a common line on departmental messages relating to oil market issues.

Petrol Prices

12. If oil prices rise above \$30 a barrel, petrol and diesel prices will follow, and probably cross the 80-84p per litre threshold that triggered the fuel protests in 2000. The leadership of those protests will probably regard an Iraqi conflict as a reasonable cause of such a rise, but a prolonged period of high prices, particularly if it continues after the end of obvious hostilities, increases the prospects for protests. Anti-war groups may try to exploit petrol

protests as a form of direct action at an earlier stage than the transport/farming industry protestors would choose to.

Stock Market

13. General uncertainty caused by the prospect of conflict will have a negative effect on an already depressed market. High oil prices would exacerbate this. A prolonged period of prices over \$30 per barrel is assessed to have a negative effect on the global economy. HMT, FSA and Bank of England (BoE) continue to monitor the situation but do not expect an immediate crisis.

Life assurance

14. The depressed market affects the Life Assurance industry.

. FSA maintains a watch list of companies at risk of failing to maintain regulatory requirements and has measures available to address problems in companies at risk. There are no indications of companies intending to introduce restrictions on life assurance policies specifically relating to war prospects.

General Insurance

15. The general insurance industry, already experiencing problems from 11 Sep claims and trends in increasing damages claims, could suffer from additional claims arising from terrorist actions triggered by war. However, insurers will not cover acts of war except in certain specialist circumstances. Post-Sep 11, acts of terrorism have been excluded from many new policies, which limits industry exposure. The industry estimate of claims arising from 11 Sep has recently been reduced to \$40bn from \$70bn.

Insurance cover

16. Restrictions on policies could result in problems for individuals who suffer loss. Contingency plans for a government compensation scheme for Great Britain exist – Northern Ireland has a separate terrorist compensation scheme. Commercial properties are covered by the Poll-Re scheme arranged between regulatory authorities and commercial concerns,

Airline Industry

17. The airline industry has suffered in the wake of 11 Sep. It would suffer from disruption of air routes in the Middle East, reduction in travel to countries in the region and an overall fall in tourist travel. DFT regards this as a situation the aviation industry can handle. A

terrorist incident resulting in a cessation of air travel would have a more potentially damaging effect on the industry and on the wider economy.

Tourism

18. The UK tourist trade to countries perceived to be affected by a conflict will be affected. Following the Bali bomb, tourism to Far East destinations has suffered. Heightened perceptions of a terrorist risk during a conflict could influence incoming tourists to the UK, particularly from the US, which is the most valuable visitor market, spending \$2.4 billion in 2001. A major terrorist incident would exacerbate this.

Shipping Industry

19. Impact on shipping industry is currently not assessed to be critical. Insurance premiums for operating in a "war zone" will increase. However, DFT is examining market-calming measures. Actual disruption of shipping in Gulf and Red Sea would have greater impact.

War Insurance

20. DFT has the power to operate aviation and maritime war insurance schemes. Work is under way to have these schemes in place by December. However, introduction of the schemes requires that commercial insurance has been withdrawn or has become unaffordable, and that HMG wants traffic into the affected area to continue.

Domestic consumer spending

21. Public concerns of a serious terrorist attack, particularly CW/BW could result in concerns over entering major city centres, particularly London. This would affect domestic consumer spending, which is already low. This could be offset in part by people patronising shopping centres outside major cities (unless these centres were themselves perceived as potential targets) and shopping on-line. If such a trend occurred in the Christmas shopping season, it could have serious consequences for the retail industry.

SOCIAL STABILITY

Protests

22. The prospect of war has already produced protests from anti-war protestors, Islamicist and Arab groups. There have not been major counter demonstrations so far. The linking of the anti-war and Palestinian issue increases the scope of both the size of demonstrations and the number of groups that might be involved in counter-demonstrations. The start of actual operations will trigger further protests, many already planned and advertised, which could

generate counter-demonstrations. Prolonged conflict, major military setback, large-scale civilian suffering in the Gulf or disruption in UK would increase prospects of large-scale demonstrations.

Community tension

23. There is the prospect of inter-ethnic violence, the targeting of ethnic groups using war as an excuse, and action against US or Jewish interests. The scope for far right groups to engage in racist attacks is limited. Anti-Muslim or anti-war protests might be used as a cover for crime-related violence (in a similar way as the recent Bradford riots had an underlying drugs connection).

24. The European Monitoring Centre for Racism and Xenophobia has estimated that racially motivated violence across Europe increased three-fold in the wake of 11 Sep. Australian authorities are reporting a similar increase in the aftermath of the Bali bombing. In the wake of a major terrorist attack attributable to a Muslim organisation, there is a danger of further increases in such attacks.

25. Muslim community leaders have already expressed concerns over being scape-goated for Al Qaida (and possible Iraqi) actions. These concerns would be heightened following a successful terrorist attack. However, police assess that right-wing racist political groups would not gain significant new support as a result of an attack.

26. The Police are working to identify groups and areas likely to be affected by ethnic tensions. The Cabinet Office chair an overall information strategy co-ordination group. A number of departments and police forces already have strategies for engaging minority communities and are considering how to adapt these to address specific issues arising from the Iraq situation. An Interdepartmental Outreach Group, chaired by the CIC, is co-ordinating this discussion. The GICS are co-ordinating information strategy designed to maintain overall public confidence.

Direct action

27. Protest groups may apply direct action techniques from previous campaigns, not restricted to those with anti-war agendas. Blockading of UK military bases would probably be unpopular with the general public. However, anti-war demonstrators have begun to target US facilities. War weariness as a result of prolonged conflict or disruption may increase public acceptance of such action.

Refugee Backlash

28. Protests could be directed against refugees, particularly if there is public fear of such individuals being contaminated or infected. Depending on numbers, community tensions could be exacerbated. The arrival of large numbers of unannounced in a short space of time could risk overwhelming existing Immigration Service arrangements. There are contingency plans for dealing with unexpected large numbers of refugees. Short-term disruption in the region would probably not create a major refugee influx. A situation in which displaced Iraqi Kurds or Shias could not return to their homes, or a similar situation in Kuwait and Saudi Arabia (i.e. major chemical or biological contamination) would increase refugee numbers. Such a refugee problem would affect all European countries and probably involve international bodies, including the UN.

Terrorist attack

29. Reported hoaxes and actual terrorist attack would heighten public concern, particularly in areas considered as prime targets – i.e. London. These fears could result in increased absenteeism, avoidance of urban centres and distrust of public transport, with consequences for the domestic economy. A major CW/BW incident of a very high threat perception would probably be required for this to be a serious concern. Response to a major CW terrorist incident requires decontamination provided by the Fire Service and is potentially affected by the fire-fighters' dispute, although the FBU has indicated that its members will respond to a major emergency incident. Currently, the Press are not reporting hoaxes, but this situation could change in the face of a major incident.

Business continuity

30. A wide range of measures have been developed by HMT, FSA, BoE and major financial concerns to ensure business continuity in the face of disruption of existing premises. However, a major CW/BW incident could discourage people from entering the affected area or similar commercial/urban centres. Work absenteeism will have an impact on the domestic economy. This would have to be widespread and prolonged for major impact.

Fire-fighters

31. The fire-fighters' dispute will continue irrespective of the prospect of conflict, although this judgement may be affected by the outcome of ongoing talks with the FBU. The likelihood of other industrial action may increase as a result of concerns arising from the

prospect of military action. For instance, the safety issues raised by ASLEF and RMT in connection with the fire-fighters' dispute, which led to some LUL staff refusing to work on the recent strike days, could also be applied to the possibility of CW/BW terrorist attack. London is most likely to be affected by such action.

32. MoD is giving priority to OP FRESCO - the provision of fire-fighter cover. It is currently working on measures to deconflict the fire-fighter and potential Iraq commitments as far as possible. The combination of a potential Iraq commitment and OP FRESCO means that MoD has no resources within the Regular Armed Forces for other aid to the community tasks, such as oil tanker drivers. The MoD will not use Volunteer Reserves for industrial action contingencies.

33. In a natural emergency situation such as flooding, volunteer reservists could be made available and military units in the vicinity would engage. However, units may have been deployed from normal locations, either for FRESCO or in support of the Iraq contingency and therefore be unavailable.

Returning expatriates

34. The British community in Kuwait is 4,500 strong, with 30,000 in Saudi Arabia, 6,000 in Bahrain and 40,000 in the UAE. It is not known how many of these individuals would come to the UK in the event of conflict in the Gulf, or what proportion would need housing or other welfare assistance. Many expatriates work for major multi-national companies that have their own contingency and employee support arrangements, which will alleviate this problem. FCO is asking posts in the region to investigate likely numbers.

35. Plans developed for the India/Pakistan and Zimbabwe contingencies are adaptable to this problem. An influx of 20,000 would pose severe problems for the ability of UK infrastructure to provide transport, housing and other assistance. The situation would be exacerbated if such an influx coincided with an exodus from another region (i.e. India/Pakistan, Zimbabwe). This could be further exacerbated if prison over-crowding issues also put a demand on available emergency accommodation.

PUBLIC SERVICES

Reservist call-up

36. Call up of reserve medical personnel is likely to affect NHS provision of services, resulting in delays in the provision of services and heightening public discontent. This will

be exacerbated the longer the disruption continues. The NHS will also be affected by the need to provide for military casualties, although the scope of potential military action will dictate how large this requirement actually is. Public anxiety over CW/BW attack may increase demands for stress-related treatment, adding to pressure on the system. Over the winter months, this could coincide with additional pressures arising from a flu epidemic. There may be problems of public perception of a reduced level of service. There have been comments in the Press about the impact of a call-up.

37. Call-up could affect some key personnel in the civilian emergency services. Work is currently in hand to identify potential problems for the NHS and the emergency services. A requirement to call up reservist HGV drivers could have implications for the road haulage industry.

38. MOD will co-operate with relevant OGDs to assess the impact of reservist call-up.

Infected refugees

39. The need to treat individuals with infectious disease entering the UK, either refugees or military personnel could put further pressures on the NHS. The NHS also may have additional pressures arising from an unknown infectious disease imported to the UK by refugees or military personnel as a result of a deliberate release in the Gulf or a deliberate release in the UK when UK citizens could be infected.

Food Supplies

40. If fuel supplies are severely restricted, there could be issues related to food distribution. For this to occur, Gulf oil supplies would have had to be disrupted for a considerable period.

In neither event would a catastrophic dislocation of vital food supplies be likely. Public concern about possible shortages or food safety could lead to panic-buying and hoarding, creating local shortages.

Delivering Public Services.

41. Responding to possible incidents will affect the emergency services and the NHS. Responses will probably require the diversion of financial and personnel resources to emergency and public order sectors. This particularly applies to the Police and the NHS. There are stringent public service delivery targets to be met and these could be seriously affected by a need to address ongoing operational contingencies.