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25 February 2003



Foreign &
Commonwealth
Office

London SW1A 2AH

Dear Jeremy

Iraq: Reconstruction

Thank you for copying us your letter of 24 February to Mark Bowman covering the paper produced by the No 10 Policy Directorate.

We agree that there will probably be a need to look for alternative sources of external finance for Iraqi reconstruction beyond coalition partners' budgets. We also agree that it is right that we should share our concerns with the US and explore with them the options for raising additional finance as necessary. It is very welcome that you want to do this at a high level.

But we think this paper needs improvement in places. It does not contain a balanced account of the factors which will determine the need for external finance, or even a clear indication of the range within which this financing requirement might fall. The implication that a large financing gap will emerge under all circumstances is wrong. Nor does the paper consider all the available options for raising external finance: the preferred option of an oil-backed bond is only one possibility among many.

We are concerned that if this paper is shared with the US in its present form it would undermine our efforts to build up a constructive bilateral dialogue over day after economic issues. We think that interdepartmental discussion is needed to get the complex issues touched on right. There is expertise available: work on financing is already under way under the auspices of the Treasury-chaired interdepartmental group on day after economic issues. We would be happy to offer detailed drafting comments but think a Whitehall-wide meeting would be the best way of making sure we get the message spot on.

I am copying this letter to (HMT), (DTI),
Anna Bewes (DFID) and (Cabinet Office).

(Kara Owen)
Private Secretary

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10 Downing Street

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