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From the Secretary of State

The Prime Minister
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Dear Prime Minister,

Ahead of the 1st April NSID(OD) meeting on the Iraq Strategy, I thought it would be helpful to update you on the economic initiatives for Basra which my department is working to deliver, with support from the FCO and MoD.

The Basra Development Commission

Over the past few months, excellent progress has been made. The flagship for our effort is the Basra Development Commission (BDC), launched in December last year, for which Michael Wareing has provided invaluable leadership. Apart from two successful visits to Iraq, Michael was the driving force behind the *Invest Basra 2008* conference, held in Kuwait on 12-14 March. As the Defence Secretary reported, this meeting brought together a unique group of Iraqi and Kuwaiti leaders, including the Governor of Basra Province and several Provincial Councillors. The event underlined the mutual interest of Kuwaiti and Iraqi businesses in improving economic relations between the two countries and revealed growing interest among regional and international companies. We are now planning follow-up work to translate this promising start into concrete investment.

Wareing is working on a list of key deliverables for the Commission, which will be with you before your meeting with General Petraeus on 22 April. This is likely to include:

- a. Further high profile investor events for Iraq / Basra;
- b. Launch of a youth employment taskforce and employment initiatives (in June);

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- c. Opening of the Basra Investment Promotion Agency by the Autumn;
- d. Opening the Basra Development Fund, to be capitalised by the Govt of Iraq and to provide credit to small and medium sized enterprises;
- e. Establishment of a Basra Support Office in Baghdad;
- f. Progress towards renovation of Basra International Airport, financed by Govt of Iraq, supported by UK technical assistance;
- g. Progress on economic relations between Kuwait and Iraq;
- h. Launch of a Basra Economic Development Strategy and Working Groups on specific sectors including agriculture, infrastructure and education / training;
- i. Advice on key policy and regulatory issues, including commercial law and investment promotion;
- j. Progress under US and Govt of Iraq leadership towards renovation of Umm Qasr port;
- k. Initial plans for a development zone at the border, airport or port.

Improving Ties between Iraq and Kuwait, and Promoting Investment

The Defence Secretary and Michael Wareing have proposed a diplomatic push to improve economic ties between Iraq and Kuwait. Diplomatic work will be led by the Foreign Office, but the Basra Development Commission has a role to play, perhaps through a trilateral forum involving Iraq, Kuwait and the UK.

We need to do more to draw in investors: the reception for CEOs which you will be hosting on 28 April will be an important opportunity.

The Basra Investment Promotion Agency and Development Fund

Recent investor interest has raised the urgency of establishing the Basra Investment Promotion Agency. We have secured the appointment of Trevor Killen, a Director of Northern Ireland Invest, to accelerate this work. The Basra Development Fund will provide credit to Iraqi small and medium sized enterprises, generating employment particularly for young men. Iraqi Deputy Prime Minister, Barham Saleh, recently reiterated that the Government of Iraq will provide US\$ 30 million to capitalise the Fund.

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Renovating the Port and Airport

Our work on both Umm Qasr port and Basra International Airport is challenging, as both are Iraqi-run institutions with strong vested interests at stake. The US is leading international efforts to revive Umm Qasr, and has plans for a management contract or concession. The Basra Development Commission will assist where appropriate – for example, Wareing will be speaking to senior officials in Tokyo in mid-April about implementation of Japanese loans for the port. As proposed by Paul Fox, a BAA Director, in his initial report on Basra International Airport, a civil aviation specialist is being recruited to help bring the airport up to international standards.

Resources for the Economic Initiatives

Since January, my department has boosted its resources for the Basra economic initiatives from 4 to 10 full time equivalent staff. New posts include a banker with experience of small business lending and an adviser to promote investment from the Embassy in Kuwait. As an effective lobbying presence in Baghdad is also critical to success in Basra, we will be creating a new Basra Support Office at the British Embassy. We are recruiting within DFID to staff this Office and are discussing the role which other government departments can play, including FCO, MoD and UKTI. Michael Wareing has stressed that this level of UK staffing is fully adequate to deliver on the initiatives.

While this work is progressing well, we need to be realistic about the extent to which the UK is able to drive economic progress in Iraq. The primary responsibility for unlocking Iraq's potential lies with its own leaders. As events of the past week have underlined, progress on the political and security fronts is essential for Iraq to achieve its potential.

I am copying this letter to the Foreign Secretary, the Defence Secretary, 'C', Sir Gus O'Donnell, Simon MacDonald, Christopher Prentice (Baghdad) and Richard Jones (Basra).

Yours ever,



DOUGLAS ALEXANDER

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