

## IRAQ: THE SHORT TERM

1. Despite the present volatile security situation, sparked by recent events in Basra, broad security and political progress has been made during the last year in Iraq. This has been the result of the US troop "surge"; the Sunni "awakening", the Sadrist cease-fire and improved US/UK/GoI outreach to militants; progress on key legislation; the improving performance of the Iraqi Security Forces; and increasing international engagement (much of it UK-levered). The immediate focus is on consolidating these gains (some of them fragile) while withdrawing the 5 US surge brigades; on handing increasing security responsibility to the GoI; on continued institutional capacity building; and on strengthening Iraq's economy.
2. The UK has handed security responsibility back to the GoI in all provinces in MND (SE). As a result we have gradually reduced the number of UK troops in theatre. Our planning until now has assumed that our civilian and military presence in Basra remains important, but current Iraqi Security Force operations in Basra have illustrated the importance of maintaining a suitable presence to maintain flexibility in an unpredictable environment. Against that background, we had intended to reduce force levels further in the May 08 roulement.
3. This paper looks at:
  - the **options for drawing down combat troops** further in the next 9-12 months, and the impact of this on our civilian effort in the south;
  - **what civilian and military tasks we should continue to do** regardless of troop draw downs, in order to continue to work towards our long term goal of security and stability in Iraq, and to contribute to the US campaign; and
  - the impact of a diminishing UK contribution in Iraq on the **UK's reputation**.

Annex A looks at **legal and political cover for military deployments** when Chapter VII authority expires; and Annex B sets out our **economic contribution** in Basra over the next 9-12 months.

## OPTIONS FOR DRAWING DOWN COMBAT TROOPS

4. Ministers will need to decide on the framework of our continued engagement in the south, to allow detailed planning on our military and civilian effort. Three broad options are set out below. They are based on the following premise:

- the security situation in southern Iraq could deteriorate between now and the end of 2009. There could also be some improvement, although it will not become benign;
- now we are in overwatch, UK forces will only be called on to re-intervene in Basra as a last resort; but we may be called on more often to provide limited air and ground support to the ISF;
- it will take 6 months to conduct an orderly withdrawal;
- the security situation means we cannot retain force levels significantly below (3350) at the COB and undertake the current range of tasks.

### a) **OPTION 1 – WITHDRAWAL BY MAY 09**

**A decision in 2008 on rapid draw down to zero by May 09. A decision could be taken any time between May and October, with the US informed either immediately (Bush) or in November (President elect).**

#### **Opportunities**

- ✓ we will retain troops on the ground through current violence and its aftermath, and provincial elections in late 2008/US elections, to offer continued support to the ISF;
- ✓ early withdrawal means less risk to troop and civilian lives. Frees up resources for UK commitments in other theatres;
- ✓ presents incoming US President with a fait accompli, rather than a negotiation;
- ✓ covers us if there is no legal base for our military presence in 2009, or if what is negotiated is inadequate (although tasks of troops remaining in theatre into 2009 will be constrained);
- ✓ Shia elements of the GoI would welcome an end to what they see as our interference in their affairs in the south (although others, e.g. Kurds/Sunni, would not);
- ✓ if US informed immediately, enables both sides to plan ahead.

#### **Risks**

- The situation could remain volatile and/or provincial elections may slip into 2009. Either way, there's a risk that violence in Basra will not have settled by early 2009. Leaving during a sustained period of

instability would make us look weak, would undermine legacy claims and would be difficult to justify publicly and with the US;

- the US would almost certainly backfill. This would have a negative impact on the UK's reputation (not done a good job and/or leaving before it is done, US have to finish off for us). US planning does not provide for forces in Basra;
- if we inform the US Administration of our decision before November, this will play into the US election campaign and go against the Prime Minister's commitment to Bush. Waiting until November to tell the President elect risks the decision leaking before then, and causing damage during US campaigning. Either way, this option would put the UK's relationship with the new US President under considerable strain;
- UK/US military, defence and security relations could be severely damaged, with potential knock-on effects in Afghanistan, for future operations and strategic co-ordination;
- domestic and international criticism of the UK's role in Iraq as claims of success enabling withdrawal may be seen to be hollow.

**Cost of retaining troops from November 08 until May 09:** c£0.75 bn, plus get out costs.

**Cost/benefit:** do the benefits of leaving early (less risk to life, cutting our losses in an environment where it is proving difficult to achieve objectives) balance the risk of serious damage to our global reputation (including accusations that after 5 years in Iraq the UK mission had failed) and to our relationship with the new US President?

#### **b) OPTION 2 – WITHDRAWAL BY MID-END 09**

**i) No decision on draw down until new US Administration takes office in 2009. Consultations in early 09 with the new US President, with a view to completing withdrawal by the end of 09 at the latest.**

##### **Opportunities**

- ✓ we retain significant force levels in Basra during a potentially volatile period and through provincial and US elections;
- ✓ we continue to deliver some political and economic progress, albeit for a limited period;
- ✓ helps protect our relationship with the new US President as we will not be taking decisions until the new Administration is sworn in;
- ✓ greater opportunity to manage the impact of withdrawal on US/UK military, defence and security relations.

### Risks

- we remain on the ground in number but our military and civilian effect is limited because our overwatch role means we are not on the streets of Basra. Unless we change our posture, we risk achieving little while remaining a target for IDF etc.
- our first conversations with the new Administration are likely to be on withdrawal from Iraq. If McCain wins, this will be difficult. He will want us to stay on at 3000 + into (at least) 2010. If we don't, it's likely the US will backfill. If the Democratic candidate wins, it's equally unlikely they will welcome us withdrawing so early in their term, and there's a risk the US in theatre will still want to backfill. Backfilling would have a negative impact on the UK's reputation (see Option 1 above);
- we will be seen not to be leaving fast enough for a) certain Shia elements of the GoI; and b) those attacking us (e.g. militants, backed by Iran). This risks the catch-22 situation of attack levels against us rising, making it harder for us to justify leaving sooner rather than later, but in circumstances where it is difficult for us to act decisively against our attackers;
- this option would involve us carrying out military tasks into 2009; we will need an adequate legal base for this.

**Cost of retaining troops from November 08 until July/August 09:** cf1 bn plus get out costs; **cost of retaining troops from November 08 until November/December 09:** cf1.5 bn plus get out costs

**Cost/benefit:** should we maintain the costs of staying (financially/in asset resource terms, risk to life, political risk (including over legal base), risks posed by increasing insecurity in Basra) into 2009 in order to protect the UK's reputation and relationship with the new US Administration?

ii) decide in mid-08 to release the COB for economic development by the Iraqis as soon as possible after November 08 and move a smaller transitional force to the Iraqi Army base at Shaibah; consult with the new US President on the timing of further draw down to zero with a view to completing withdrawal by the end of 09 at the latest.

### Opportunities

- ✓ Potentially attractive to Iraqis – retains discrete UK presence while freeing COB for economic development;
- ✓ Concentrates UK mission on training and mentoring, collocated with Iraqi divisional training centre to provide synergistic effect;

- ✓ May enable us to meet likely US requirement for UK presence inside southern Iraq during 09;
- ✓ Stepping-stone to withdrawal of ground forces and long term security relationship.

#### **Risks**

- Financial cost of repositioning force protection and infrastructure from the COB to Shaibah for a limited period;
- Would make a continued FCO/DFID/US civilian presence at the COB dependent on ISF and private security company (or US) protection. But there is no certainty that such a presence would continue to be required;
- Possibility of US backfilling in the COB with the same consequences outlined in Option 1;
- Preparations for move would quickly become public; depending upon when the decision is taken could have a negative effect during the US election campaign;
- Reliant on Kuwaiti appetite for a larger UK presence (and possibly expanded remit) at the Kuwait Support Facility;
- May not reduce attacks against the COB / BIA.

**Cost of retaining troops from November 08 until November/December 09:** c£1.5 bn plus get out costs. Significant (but as yet unquantifiable) additional expenditure on force protection and infrastructure at Shaibah.

**Cost/benefit:** does reconfiguring our forces in this way enable us to withdraw forces from Iraq by the end of 09 in a more effective way? Can civilian effect, including delivery on the Prime Minister's Economic Initiatives, be delivered during 09 if UK forces reconfigure in this way? Would the extra costs of developing Shaibah be justified?

#### **c) OPTION 3 – STAY ON**

**Retain troop presence of c3000 or above at the COB with no fixed timeframe for drawing down further, in order to provide continued support to the ISF, a secure platform for political and economic work and to protect the UK's relationship with the new US President.**

#### **Opportunities**

- ✓ the US wants us to stay. In theatre, they see continuing security risks (Shia on Shia violence, Iran, borders, their exit route) as well as related political and economic risks in Basra; and they want us to stay to grip them. In Washington, a new Republican or Democratic

President will not want to deal with the withdrawal of UK forces early on in their term. Staying on into 2010 would protect our relations with the new President;

- ✓ we will continue to work on our political, economic and security legacy in southern Iraq. Depending on what we can achieve, we may avoid accusations, both inside and outside the UK, that we would be leaving before the job is done;
- ✓ the US won't backfill, and we won't run the associated reputational risks of this.

#### Risks

- we cannot consistently project force into the city from the COB. Now in overwatch, our forces act as a deterrent, train and mentor the ISF, and support the operation of the civilian airport. But if the situation remains volatile, it will be difficult to keep forces on the ground maintaining this posture while staving off accusations from Parliament/the press that we should do more;
- our political and economic work is presently constrained by the poor security situation. We are dependent on Iraqis coming to the COB/civilian airport for meetings with us, which limits what we can achieve;
- not maintaining momentum in our withdrawal will embolden militant attacks against us, and malign Iranian activity to the same end;
- a guaranteed UK presence in the medium term risks taking the pressure off Iraqi local and central government to do the work it needs to do to improve security, politics and economics in Basra, although this risk is mitigated by the mentoring approach that we have taken, focused on sustainability;
- lives (soldiers and civilians) will remain at risk;
- it is not clear we will get a secure legal base for post-2008. We may not be comfortable at retaining a significant troop presence in southern Iraq over an extended period;
- reduced military capacity for other operations and force regeneration.

**Annual cost of retaining 3000 + troops:** c£1.5 bn

**Cost/benefit:** do the costs of remaining (financially/in asset resource terms, risk to life, political risk) without a timeframe for withdrawal balance the benefits we would gain from a continued presence (possible political, security, economic progress; reputational (staying the course); better relations with new President)?



**WHERE SHOULD THE UK CONTINUE TO CONTRIBUTE, IN THE ABSENCE OF A SIGNIFICANT MILITARY PRESENCE IN BASRA?**

5. This section looks at where the UK should continue certain existing work, irrespective of the option chosen on troop levels in Basra. This work contributes to our long-term goal of a stable and secure Iraq, as well as demonstrating our continued commitment to the broader US campaign. We should focus on areas where we have highest influence and impact.

**a) progressing politics, top down:**

We should continue our intensive diplomatic efforts, focussed on pushing the GoI and leaders from Iraq's three main communities towards more effective and inclusive government. 2007 saw painful but significant progress (e.g. formation of the Executive Council (3+1), de-ba'athification legislation). This year has already produced a budget and other legislation. Working with Iraqis across the board and alongside the US, UN and others, we should continue actively to encourage this process (e.g. including in 2008 securing agreement on a hydrocarbons/revenue sharing law, holding provincial elections and preparing the ground for more inclusive national elections in 2009, and making progress towards resolving Kirkuk and the Constitutional review). We will focus on areas where we have greatest influence, including encouraging the Kurdish leadership to play a more constructive role in central government. We should continue to influence US policy towards strategic reconciliation goals. The UN is well advanced on the technical work to allow provincial elections to be held across the country. We need to press the political parties quickly to agree the new electoral law during the current session of the CoR. That law will set out the framework for elections to be held before the end of 2008.

**Importance:** high. This process is slow and iterative, but without it the spectre of civil war looms large.

**UK impact:** medium. 50% through influencing Iraqis, 50% through influencing US policy.

**Cost:** neutral, while we have posts in Baghdad and Irbil.

**b) progressing politics, bottom up:**

2007 demonstrated that real progress towards reconciliation is most likely to stem, at least in the short term, from momentum generated at a grass roots level. The Sunni "awakening" and more recent developments in Baghdad where Coalition forces (and to a lesser extent the GoI) have come to accommodations with local communities and insurgent/militant groups have resulted in significant reductions in

violence. The evolving and fracturing of Sunni and Shia militant groupings creates opportunities we can exploit. Where gains have been made, improved local security has encouraged local leaders to engage more constructively with central authorities. But these gains are fragile, and continued engagement with key local and national players will need to continue and to grow if this new found security is to be sustained.

The Coalition's outreach efforts are led by MNF-I's Force Strategic Engagement Cell (FSEC), which is led by a 2\* British officer. We should continue to provide high level UK input into the cell, retaining the lead and existing levels of UK military/civilian staffing (some 50% of the cell's personnel). FSEC's work is key:

- in drawing militants away from violence and into politics, while
- isolating irreconcilable elements, and
- encouraging substantive GoI engagement to the same ends.

UK input enables us to help shape US policy in an area where their instincts tend to be more rigid than ours. It is also an important way of ensuring our outreach work in the south is properly integrated into overall Coalition policy. UK OGD work on Shia engagement complements this work, providing additional niche expertise.

Outreach at this level is risky: accommodations may not hold; cease-fires may not be achievable; those with whom we deal (including members of the GoI) may not do so in good faith; Iraqi and Coalition lives remain at risk. But MNF-I judges that these risks are worth taking if recent security gains are to be sustained; and we judge that while this work continues the UK contribution is valued by the US and levers us positive influence.

Despite Prime Minister Al-Maliki's security offensive in Basra, the mainstream of JAM in the city have continued to observe the cease-fire on attacks on MND (SE), not wanting to bring MND (SE) directly into the battle. MND (SE)'s previous main interlocutor, is at present abroad

But the

mainstream JAM and OMS leadership have nonetheless maintained contact with MND (SE) through established channels. As well as reassurance, these channels also relayed warnings that direct intervention by MND (SE) would mean the end of any restraint in attacks on the Airbase by the mainstream of JAM.

MND (SE)'s message back has been that HMG continues to see a place in Iraqi politics for a peaceful Sadrist trend and that only those criminals, who were continuing to act the coalition and damaging Iraqi interests, would be targeted. This was in line with the declared aims of



Al-Maliki's initiative. MND (SE) re-supply convoys into the city have not been attacked by the JAM mainstream. 's absence at this crucial point may mean that he is now yesterday's man. But there may still be scope for the engagement with JAM. That said, JAM are likely to be less willing than ever to give up heavy weapons and control of their core areas of the city and will see the cease-fire now agreed with the GoI as a victory for their resistance. Both the GoI and the US will continue to be at best ambivalent about British engagement of JAM, concerned that it is driven by a desire for military withdrawal. But as recent events have shown, they do not have a better alternative approach.

**Importance:** high. FSEC and OGD work has increased Coalition understanding of the drivers of sectarian/anti-Coalition violence, and our ability to influence this.

**UK impact:** high, through UK leadership of FSEC and because approximately half of its staff are British. Also through OGD work. Both enable us to introduce UK thinking and influence US policy.

**Cost:** deployment of c.15 UK personnel; OGD assets.

c) **economics:**

We should continue to make an important contribution to Iraqi-led growth and economic reform. In Baghdad, the UK has carved out a niche role alongside the massive US effort. Our projects build capacity for economic policy and public finance/budget management at the centre of government. This work is highly valued by Iraqi officials and has given us a seat at the Coalition policy-making table, providing critical leverage to lobby for greater engagement from the major multilateral institutions – notably the World Bank.

The Prime Minister's economic initiatives in Basra are making real progress under Michael Wareing's leadership as co-chair of the Basra Development Commission. The Commission is overseeing the establishment of two other institutions:

- the Basra Investment Promotion Agency, which will advise the Provincial Council on the investment climate and inward investment;
- and the Basra Development Fund, which will provide loans to small and medium sized enterprises.

The Commission will also advise on economic policy, including commercial law, access to finance, and youth employment.

The UK, with input from the Commission, is also supporting coalition efforts to rebuild Basra's transport infrastructure – Umm Qasr port and Basra International Airport.

Annex C contains a detailed breakdown of HMG's economic work in Basra in the coming 9-12 months.

DfID is working closely with Michael Wareing to carry forward and implement the Commission's initiatives. This will involve an increase in staff resources over the next six weeks, including the creation of a new Basra Support Office in the Embassy in Baghdad.

- a new Basra Support Office, based in the British Embassy Baghdad, staffed and led by DfID, to support Basra economic initiatives including the Development Commission.
- two additional economic advisers based in Basra to support economic initiatives, including support to the Basra Development Commission and the Provincial Council.
- one additional economic adviser in Kuwait, working closely with the British Embassy to promote investment in and trade with Basra.

Michael Wareing is content with this level of staffing to translate his initiatives into practice. We will stay in close liaison with him to ensure that adequate resources are available as needed to implement sensible policy initiatives.

We judge that progress is possible on all of these projects – but many are complex and challenging, not least due to vested interests or local / regional politics. We therefore need to be realistic about what can be achieved by HMG - or any external actor - particularly in a short time frame.

If we can no longer operate in Basra itself, we will continue to support the economic initiatives from Baghdad and overseas. Useful work will still be possible, though our impact is likely to be reduced.

**Importance:** high. A successful economy is an important driver for stability.

**UK impact:** low to medium. The UK's economic work remains niche, alongside the massive US effort in this area. And ultimately real progress will have to be GoI-driven.

**Cost:** c. £22m over two years for DfID's technical support programme.

d) security

British forces have been training the 14<sup>th</sup> Division Iraqi Army since its inception in mid-2007. A new division conceived from scratch, there have been a number of challenges to its development and the ease with which it can be trained. Starting from a very low level (less than 2 months training in US doctrine and tactics) and deployed over a number of locations, the difficulties of gaining systematic access to all levels of the Division has made coordination of advanced training difficult. A fragile non-commissioned officer ethos and cadre has also slowed progress and highlighted leadership issues to be overcome. As a result and until recently, British efforts have necessarily focussed on basic soldiering techniques rather than the counter-insurgency urban operations training that we have recently started to deliver. The support of the Divisional Training Centre and an increasingly close integrated training relationship should overcome many of these difficulties through-out the rest of 2008. In addition, training outputs can only be fully effective if the ISF are operating against the background of a robust political consensus to support the rule of law; otherwise, they risk being seen by many Iraqis as one more actor in the power struggle between factions, albeit in uniform. Our work to promote political reconciliation is therefore a crucial complement to training and capacity building for the ISF.

We should continue our other military/security contributions to Iraq, which provide valuable niche assistance to efforts to build Iraqi capacity, protect Iraqi territorial integrity and infrastructure, and combat terrorist groups. These include:

- maritime – a destroyer or frigate and a support ship protecting Iraqi oil platforms in the northern Gulf, with up to 50 RN personnel training the Iraqi Navy at Umm Qasr;
- air – in addition to 10-15 support helicopters operating in support of the COB and C130 transport aircraft deployed from the UK, up to 8 fast jets based at Al Udeid in Qatar;
- Coalition HQ personnel and supporting elements in Baghdad;
- Special Forces;
- OGD work on Shia outreach and countering Iranian influence.

In addition, as we transition to a more normal bilateral military relationship other capacity building options should be investigated. Our naval training delivers added value to the development of Iraqi naval capacity long-term, and our support helicopter and transport aircraft commitments are closely linked to our ability to conduct force protection in Basra. These, together with embedded UK personnel in Coalition headquarters, and options including support to the Iraqi Staff

College and junior officer training, will need to be reviewed as we consider any further draw down. The constraints on the activities of UK troops (paragraph 1 of Annex B) because of the absence of a Chapter VII mandate will equally apply to Special Forces. But draw down or withdrawal from Basra need not necessarily commit us to withdrawal of our fast jet or naval northern Gulf contributions to MNF-I.

**e) governance and security/justice sectors:**

We should continue capacity-building projects in Baghdad, focussed on security and justice sector reform. Both the US and the GoI value these. 2008 will see structural changes in how our capacity-building projects are delivered (DfID's Ministry of Interior programme and the FCO policing mission are being integrated and DfID's Support for the Centre of Government programme will be integrated into DfID's wider programme of technical support).

**Importance:** medium. These projects represent niche added value.

**Impact:** medium.

**Cost:** £10 million for Security and Justice work (through the Stabilisation Aid Fund) for 08/09. DFID projects funded out of overall DFID programme (see c) above).

**f) pressing for more substantive multilateral and regional engagement:**

We should continue to focus on increased, substantive UN, EU and World Bank engagement. With the UN our focus will be: increased support to the Iraqis on elections (provincial and national); Kirkuk and disputed territories; constitutional review; and handling the Kurds. With the EU our focus will be: on energising the EU/Iraq Trade and Co-operation Agreement negotiations; improving EU delivery on capacity-building; agreement with Kuwait on reparations; and securing WTO membership for Iraq. With both organisations, we will continue to lobby for larger, better-led delegations. We will continue to press for greater regional engagement, particularly through the Neighbours' process. With the World Bank our focus will be: increasing the number of Bank international staff in Baghdad focusing on public finance management, governance, and energy sector reform.

We will also continue to work with the US on encouraging more substantive regional engagement, including through opening Embassies and strengthening trade links. Progress, albeit slow, is being made.

**Importance:** high. More substantive engagement by multilateral organisations will ease the burden on US/UK. Positive regional engagement is crucial for Iraq's longer-term stability.

**Impact:** high. We have more leverage with the EU, UN and World Bank than the US.

**Cost:** neutral, while we retain an Embassy in Baghdad.

#### UK REPUTATION

6. Reducing UK effort in Iraq risks accusations that we are drawing down or leaving prematurely and before the job is done, whenever we do it. The risk is more acute if we make significant further reductions this year, leaving the ISF to deal with any spikes in violence around the provincial/Presidential elections, and if the US backfill. Next year the risk will be (somewhat) mitigated by reductions in the US's own force levels, if the security situation continues to improve, and if the US can be persuaded not to backfill.
7. Either way, we will need to work up a strong public script, setting out the positive aspects of the work we have done in Basra since 2003, and why the situation on the ground justifies Ministers' decisions on UK draw down/withdrawal.

**Iraq Group**  
**FCO**  
**March 2008**

ANNEX A  
OPTIONS FOR LEGAL BASE

1. UNSCR 1546 under Chapter VII of the UN Charter (extended until 31 December 2008 by UNSCR 1790) allows MNF-I to perform its current tasks.
2. The US has not yet shared with us full draft texts of the proposed US-Iraqi Strategic Framework Agreement and Status of Forces Agreement, claiming Congressional constraints.

Subject to further legal advice on these when we get them, it is possible in principle that "opting in" to a US-Iraq agreement could give us the formal agreement referred to in paragraph 1.

3. A non-Chapter VII resolution welcoming either the continued presence of coalition troops in 2009 or the Strategic Framework Agreement could provide international political cover, but would have no legal benefit. The US recognises the importance of UN endorsement, even if non-binding, for coalition partners and is reviewing the options. We will feed in to this process.
4. The obstacles to securing an agreement which meets our needs are:
  - **Iraqi opposition:** many Iraqi parties want the end of the Chapter VII mandate to signal a clear change in the status quo, ie reduced powers for foreign forces. They are likely to drive a hard bargain on many of the tasks the US (and by extension we) want to pursue, which would have to be listed explicitly.
  - **Is "opt in" an option?**

Legal Advisors are considering whether this offers us a relatively simple way of "opting in" to a US-led agreement. But the Iraqis are likely to string out negotiations with the US until the 11<sup>th</sup> hour, and there is a risk that we will run out of time in which to confirm our subscription to the agreement. In addition, it is not certain that the GoI will agree to the US proposal in general, or its application to the UK in



particular. Ultimately, the Shia elements of the GoI are likely to accept the US presence as a necessary bulwark against AQI and Sunni insurgency. They are less inclined to regard Shia militia-led violence in Basra as an existential threat which needs to be constrained by foreign military support for the ISF, and hence may be unwilling to grant the UK similar powers and immunities to the US.

- **The risks of a treaty-based approach:**

Tactical choices by option

5. The nature of the agreement we pursue, and the extent to which we seek to align ourselves with US efforts, will depend to some extent on our future military plans in MND(SE). In all cases, however, if we want to continue to contribute to Coalition air and naval operations, we would need the GoI to grant authority for these tasks. The US plans to obtain Iraqi authority for its own air and naval operations in the "military operations" annex to the SOFA.

**OPTION 1: withdrawal by May 2009.**

6.

7. If we were openly committed to full withdrawal of ground forces from Iraq by May 2009, there might be presentational advantages in concluding a separate, lighter UK-Iraq agreement,

Against this, securing a bilateral agreement using different language than the US-Iraqi agreement could be

resource intensive for both us and the Iraqis, and we could be pressed to conclude it in time.

**OPTION 2: withdrawal by mid-end 2009.**

8. With no decision on drawdown taken until the new US administration takes office in 2009, we would need a 'full' agreement. This option implies that for at least the first months of 2009, UK forces would be conducting (or want the ability to conduct) similar tasks to those they currently perform. Pursuing a lighter agreement (as in para 7) would have no practical or political benefit and could be interpreted by the Iraqis or the US as a lack of commitment by us.

**OPTION 3: stay on.**

9. In the absence of any firm decision this year to withdraw British ground forces from 2009 onwards, there are strong arguments for seeking to align ourselves as closely as possible, from an early stage, with the US approach. This would maximise our traction with the US on the text of their agreement, and also reduce the risk of the Iraqis trying to foist less favourable terms on us in a bilateral negotiation.

ANNEX B

FOCUS OF UK ECONOMIC WORK IN BASRA OVER NEXT 9-12 MONTHS

Basra is crucial to the development of the Iraqi economy as 60% of Iraqi oil is in Basra, and Iraq's main seaport, Umm Qasr, is nearby. The keys to unlocking Basra's potential are to help the provincial authorities to invest and spend their own resources, to support the creation of an enabling environment for investment and growth, and to improve economic links between Basra and Kuwait. Our focus will continue to be on capacity building for the provincial government on budget and public finance management, and support for the Prime Minister's Economic Initiatives, on which we will be working closely with Michael Wareing, co-chair of the Basra Development Commission. Good progress has been made on both these areas, though we need to be realistic about what can be achieved, particularly in circumstances where the security situation prevents us from operating outside the COB (and this is unlikely to change).

In this context, our objectives over the next 12 months are:

- Several high-profile investor events for Basra, spearheaded by the Basra Development Commission, and drawing in regional and international investors. The first two events will be the *Invest Basra 2008* (which took place in March) and a reception for international CEOs to be held at No 10 on 28 April.
- Basra Development Fund up and running capitalised with US\$ 30 million for the Government of Iraq, and providing loans to Small and Medium Enterprises. (to be operational by third quarter of 2008)
- Basra Investment Promotion Agency established. We have contracted Trevor Killen, a Director of Northern Ireland Invest who has highly relevant experience promoting investment in a post-conflict environment.
- A further increase in Provincial government spending during budget years 2008 and 2009.
- Progress towards improved economic relations between the Governments of Iraq and Kuwait, through promoting business links and discussions with both governments.
- Publication by the Basra Development Commission of the Basra Economic Development Strategy. This will set out the key projects on which the Commission will work over the coming year, and will list the Working Groups, which the BDC will set up and support. (Economic development strategy to be issued by June).
- A Youth Unemployment Task Force established under auspices of the Basra Development Commission.
- Progress towards renovation of Basra International Airport, financed by central government, supported by UK technical assistance. We will deploy a civilian airport specialist to Basra, to follow the work

programme recommended by BAA Director, Paul Fox, who made an initial study of the airport in February. (adviser to be deployed in May).

- Progress, under US and GoI leadership, towards renovation of Umm Qasr port. Ideas currently being considered include commercialisation through a management contract for North Port and concession for the South Port.
- Progress with implementation of Japanese development loans, including one for development of Umm Qasr.
- Progress toward the creation of a development zone, likely to be at Basra International Airport or at the border with Kuwait (by year-end).

Progress is possible on all of these, but many are complex and challenging. There are, for example, entrenched vested interests at Umm Qasr port and serious management challenges at the airport, which cannot easily be resolved from outside. And the obstacles to improved relations with Kuwait are largely political and likely to take some time to resolve. We therefore need to be realistic about what can be achieved by external assistance over a twelve-month time horizon.