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FCO Distribution	eD MENAD;eDL IRAQ/KUWAIT	
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Military Info Imm		
Military Info Rtn		
Subject	LOCSEN; NOSEC: IRAQ: PROSPECTS FOR THE AUTUMN	
Summary	An assessment of developments over the summer break; prospects for the Autumn; and some longer term trends. This is the background to the work starting in Whitehall on a "whole Iraq" strategy and UK transition in 2009. The arguments for sustaining our investment in the 'New Iraq'.	

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1. This eGram is a snapshot of what has gone well and badly over the summer break and the prospects for progress this Autumn and into 2009. There is much unfinished business in the construction of the new Iraq. Internal political failures and miscalculations leading to renewed sectarian and/or ethnic violence is the main threat. A short paper on 'Prospects for the Autumn' is attached, providing greater detail on: security; national reconciliation; the legislative agenda; economic development and reconstruction; and the SoFA negotiations.

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Recent Developments: What went well over the summer.

2. The broad security situation continued to improve. The statistics for attacks and casualties Iraq - wide are at four year lows and, despite occasional major incidents, the trends remain further downward. In Basra, improved security is allowing wider freedom of movement for the Consulate and PRT. On the pattern of earlier successes in Basra, Sadr City, Maysan and Mosul, the ISF established GoI authority throughout Diyala. The declaration of Provincial Iraqi Control on 1 September in Anbar Province was a highly symbolic success for the US and broadly for the image of national reconciliation, as had been the Sunni Tawafuq front's mid-July return to Government. The new Sunni DPM, Rafi'a Issawi, proved a solid choice and has worked well with DPM Barham Saleh. On the back of record oil revenues, the Council of Representatives (CoR) passed a \$23 Bn supplemental budget before the August recess, releasing more funds for investment. Iraq is awash with resources: the 2009 budget may top \$100bn. Regionally, more Ambassadors were appointed (Kuwait, Jordan, Bahrain and the UAE) and senior visits made (King Abdullah of Jordan; PM Siniora; and the UAE Foreign Minister). Bilaterally, Maliki has agreed to open negotiations with us on a legal base for UK forces beyond 2008 to complete their present tasks.

Recent Developments: What went badly.

3. The Iraqi Army's operations in Mosul stalled for lack of manpower and will have to be re-launched. In Basra, relations deteriorated between Governor Wa'ili and the local Iraqi army command. The ISF's operations in Diyala brought them into confrontation with Kurdish Peshmerga units long stationed in the (mixed Kurdish - Shi'a) north of the province. Clashes there were averted (just) but tensions continue around Khanaqin, one of the disputed internal areas,

. This came on top of the increased bitterness in Kurdish-Arab and KRG-GoI relations from the prolonged pre-recess battle in the CoR over Kirkuk and the failed Provincial Elections Law. The political opportunity of Masoud Barzani's August visit to Baghdad was wasted. Resentment of Maliki's imperious handling of executive authority deepened and not just among the Kurds. US-Iraq SoFA negotiations became deadlocked, missed all deadlines and were suspended until mid-September. Reconstruction efforts showed little result and have made little impact on the public consciousness, including in Basra, despite hyped GoI commitments of emergency funding. Budget execution by Ministries and Provincial Councils is improving but too slowly. Poor services remain everyone's concern and complaint. Oil and electricity production is rising slowly but there has been no movement on the negotiations of short-term service contracts with the International oil companies, which increasingly appear to have broken down completely. There is little hope of any significant increase in Iraqi oil production in the short to medium term.

Prospects for the Autumn

4. The CoR returns to Parliament on 9th September, in an acutely tense atmosphere. The new session presents a series of tough legislative challenges: passage of a SoFA; Elections Law, Hydrocarbons Law; and the 2009 Budget - in addition to the ongoing Constitutional Review Process. The parliamentary battle lines are being drawn and there are few illusions that any will pass easily, if at all. Despite a

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general recognition of the need to build on recent security gains - through economic progress, reconstruction, democratic consolidation through elections and continued coalition military support - political leaders lack the strength of common vision required to make the political compromises demanded. Against the background of politically charged negotiations over the future of the coalition, emerging UN recommendations on Kirkuk and other disputed internal borders, overconfidence and authoritarianism at the centre and Arab-Kurdish tension, there is ample scope for miscalculation, political deadlock and even clashes between the Iraqi Army and the Peshmerga.

5. As stated, the attached paper sets out the prospects for the Autumn in more detail.

The New Iraq: Unfinished Business: Will it hold?

6. Overall, Iraq and the Iraqis have still not settled their national vision. In the last year the CoR have begun to enact some of the laws needed to frame the national political and constitutional settlement but these have been the easier preliminaries, the low-hanging fruit. The most difficult issues have been postponed: the nature of Iraqi federalism; the KRG's relationship with Arab Baghdad; Kirkuk /other DIBs; control of Iraq's oil and gas. The first term of the CoR in which all these, wrapped into the broad issue of constitutional reform, were supposed to be resolved now has only 16 months to run. There is unresolved tension between the need for majoritarian democracy and the fear of breaching consensus.

7. Maliki himself increasingly symbolises the problem. His moves to recover security and political authority for the central government and to centralise that authority in the Prime Minister are taking on an authoritarian cast. That is resented both in the provinces and by his (theoretically senior) partners in government but at neither level have his opponents seriously confronted him. Earlier, when he was weak, the US protected him from them. Now, he rides high on his own and believes he can afford to kick the coalition away - at any time a populist move here. Some see an Iranian hand in this process. There is something in that but it is more simply the "Iraqisation" of politics and decision-making, with attendant risks.

8. The greater threat to Iraq's stability is no longer violent insurgency but internal political failures leading to renewed sectarian and / or ethnic violence. The failure of the CoR to pass the provincial elections law and the Kurd - Arab rancour in which that happened brought the fragile political momentum of 2007 to a halt. That could turn out to be a turning point. The political achievement of August 2007, after intensive US efforts, was a joint declaration of the Iraqi leadership ahead of the first Petraeus - Crocker testimony. The bare political achievement of August 2008 was to prevent Iraq Army - Peshmerga face-offs in Northern Diyala accidentally triggering Kurd-Arab conflict, with the coalition a concerned spectator. There is an Arab rump in the CoR who believe that it is time to confront the Kurds, at least politically. Maliki has done little to discourage this trend.

9. These tensions reflect the realisation on all sides that critical decisions for Iraq's future are imminent. Vice President Abdel Mehdi describes them as the problems of progress, not the symptoms of failure.

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There are still strong reasons for the KRG to stay engaged with Baghdad. The lure of an assured share of the third largest oil deposits in the world combined with extensive autonomy is potent. So the "grand bargain" may still be achievable. Whether Iraq comes through intact will increasingly depend on an Iraqi-Iraqi dynamic, with the coalition able to exert less and less restraining influence.

Comment

10. Last September, my first impressions were of an Iraq developing better than expected. I argued for sustained UK engagement. A year later, as Iraqi politics enters a long election year, the prospects are more clouded. The summer of 2008 might be seen in retrospect as the highpoint of Iraq's recovery and stability. But there are strong chances the other way too: for Iraq finally to strike its internal national bargains, finally let go the coalition's hand without stumbling, hold national elections at the end of 2009 and achieve a peaceful political transition. Iraq's strategic importance and potential is undiminished and the case remains strong for sustained UK engagement beyond the major transition in our relations planned in 2009.

11. It is against this background that work in Whitehall and here (Baghdad, Basra and Erbil) will shortly be coming together on:

i) Our opening position for bilateral negotiations with the GoI on a legal base for our forces to stay in Iraq beyond 2008, to complete their present tasks. I have advised already that this should be the least challenging and demanding bid we can make.

ii) The redesign of our economic and institutional development effort in Basra to take advantage of improved conditions to deliver accelerated effect with full military-civilian co-ordination.

iii) A longer term 'Iraq Strategy', setting out the rationale for the broad-based relationship with the whole of Iraq, for which we are aiming post-transition. There is a strong appetite for this form of UK connection among many Iraqis, in contrast to the (inevitable) irritations which have become associated with our / the coalition's long military presence. Iraq will be an enormously wealthy country with huge needs and long-suppressed demand. The opportunities for UK engagement in so many sectors - education, health, energy, services - will be mouth-watering. And beyond the bilateral interest, there is the strategic interest that the "New Iraq" should develop as a pro-Western, broadly democratic and secular regional power, exercising its influence helpfully in world energy markets and acting as a link from Europe through Turkey to the Gulf and not from revolutionary Iran through Syria to Hizballah.

iv) We will also need to plan and fund the right long-term platform for HMG in Iraq to take best advantage of these opportunities. There are good arguments for sustaining our investment. Given the continuing security constraints and costs, at least through the transition this should be seen as a continuing shared departmental interest and charge.

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