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Foreign &
Commonwealth

Office

London SW1A 2AH

From Private Secretary

13 January 2009

Dear Nick,

IRAQ: STRATEGY

1. NSID on 9 December agreed that FCO should seek agreement out-of-committee on a new long-term strategy for Iraq.
2. I attach the draft strategy, which has been agreed by officials from all interested Departments, and by the Foreign Secretary. This sets out a new strategic framework for UK policy towards and relations with Iraq following military drawdown next year. It assesses our long-term strategic and bilateral interests in Iraq; considers the main areas in which HMG should focus its activities; and sets out how we can best pursue this agenda, including the level of resources which Departments plan to commit. The paper also considers trends in Iraq, strategic and operational risks, and – briefly – handling issues.

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3. The Prime Minister made clear to Parliament and more widely that the completion of our military draw down next year will allow us to move to a new relationship with Iraq. The paper concludes that the UK will retain an important strategic interest in the emergence of a stable, unitary and broadly democratic Iraq, with a functioning economy, which can contribute to regional stability and prosperity and to global and European energy security. It argues that even after military drawdown, the UK can continue to make a distinct contribution to such an outcome. In addition we will have increasingly important bilateral interests in Iraq – trade, immigration and CT – which need to be secured and promoted.

4. The strategy notes, however, that we can only retain influence in these areas if the Iraqis believe we take the relationship seriously. It is also self-evident that both our bilateral objectives and our wish to draw Iraq into a pro-Western “arc of stability” reaching from Turkey to the Gulf states are best served by a high degree of engagement. These factors all point to a normalised, substantive and broad-ranging relationship, despite the high costs of operating in Iraq. This will require the right degree of commitment across HMG.

5. In this context the FCO has been considering the future of our network of missions in Iraq. The Embassy in Baghdad will remain the focal point for delivery of UK activity in Iraq over the next few

years, as well as providing the chassis for operations by other Departments and project activity. Our Embassy Office in Erbil will also make an important contribution to delivery of the strategy by giving us access and influence to senior Kurds and supporting commercial and other relationship building activity. Its presence is also key to persuading the KRG to continue to allow the enforced returns of immigration offenders.

6. We have also given careful thought to the future of the Embassy Office in Basra. Given the likelihood that US forces will secure the Contingency Operating Base (COB) after our own drawdown, some form of diplomatic mission based at the COB should remain a viable option. But it will not be cost-effective to maintain it at its current strength. The strategy sets out two options: complete closure, or retention of a mini-mission.

7. Closure would save a total of £9.6m in running costs (of which £2.9m currently falls to FCO). But it would mean losing a large degree of visibility of the political, commercial and energy scene in the South, and the military, naval and economic significance of the Port of Umm Qasr and its nearby oil platforms. This would be particularly undesirable if Basra were to become a semi-autonomous region. There are also reputational and US-handling arguments against complete closure. The Foreign Secretary has therefore decided to maintain a mini-mission of three or four UK-based staff, with an initial commitment for FY 09-10, with the future

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of post after that to be reviewed in late 2009. This arrangement would also enable visits by DfID staff after DfID draw down from Basra in mid 2009, and by other Departments as necessary.

8. I would be grateful if you and copy addressees could confirm that Ministers are content to endorse the strategy on this basis. I am copying this letter to Private Secretaries of all Departments represented at NSID and PS/C.

Yours ever

A handwritten signature in black ink, reading "Stephen Hickey". The signature is written in a cursive style with a long, sweeping underline.

(Stephen Hickey)

Nick Catsaras
Number 10

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IRAQ: A REVIEW OF STRATEGY

Context

1. Iraq's internal dynamics have changed significantly during 2008. There has been significant progress on security; improvements – albeit uneven and incomplete – in the economy and politics; and a growing Iraqi sense of confidence and authority which the Iraqis wish to see reflected in the reality of their relations with the outside world. Linked to this, Ministers have decided that the UK's military role in Iraq should fundamentally change during the course of 2009, while completing the outstanding tasks agreed with the GoI.
2. This paper sets out a new strategic framework for UK policy towards, and relations with, Iraq in a post-MND(SE) world. Its aim is to establish the UK's main objectives, priorities and inputs in the 3 year period following military transition, based on a realistic assessment of our national long-term strategic and bilateral interests in Iraq. It also examines the risks to both Iraq's own progress and our objectives; and the level of resources HMG will need to commit.

Assumptions

3. This strategy assumes that:
 - military transition is completed in a controlled manner, without major damage to our relationships with the new US Administration or the GoI and other Iraqi parties
 - the US remains by far the largest and most influential western actor in Iraq during the timescale of this strategy

What outcomes in Iraq would best serve the UK's interests?

4. Iraq occupies a key strategic position: abutting the Gulf to the south and Turkey (a potential EU member) to the north; sitting on the Sunni/Shia, Persian/Arab fault line; and possessing the world's 3rd largest proven oil reserves. We therefore have a **strategic national interest in a strong, stable and non-hostile Iraq** that:
 - acts in accordance with international law and does not threaten its neighbours
 - provides a counterweight against Iran, ideally as a pro-Western state in a North-South "arc of stability" running from Turkey to the Gulf states
 - is able to deny AQ-I and other terrorist groups a safe haven in its national territory
 - contributes positively to stable world energy markets by maximising its potential as a producer and exporter of oil and gas; and increases EU energy security through developing new supply routes
5. In order for Iraq to be strong and stable, it is **essential** that it:
 - **remains a single entity.** Partition would be likely to cause massive sectarian violence and produce smaller, weaker states, more easily manipulated by other actors.

- **effectively represents and serves the interests of all its communities.** Stability will not be possible if significant groups within Iraq feel disenfranchised by the new order, and identify more closely with other nations than with their own state.
- **can defend its own borders and maintain internal and external security** with a much reduced need for international support.
- **has a functioning economy.** In the medium term will be driven by hydrocarbon production and export, which in turn requires agreement on a **hydrocarbons law** articulating the governance and development of the energy sector

6. It is also **highly desirable** in terms of UK national interests for Iraq:

- **to be a broadly democratic state**, which respects the rights and freedoms of the individual
- **to address critical humanitarian issues**, in particular the large number of IDPs and refugees
- **to develop a strong and open market economy**, providing jobs and growing prosperity for its people, with links into and beyond the region, in which Iraqi and international firms – including British ones – can compete on a level playing field

and, flowing from the above points

- as a stable, democratic, economically vibrant state, to **contribute more widely to regional stability** by acting as an influence for good on its neighbours, undermining the terrorist narrative, and reinforcing UK policy aims within the Middle East.

A more detailed assessment of what needs to happen for Iraq to develop in line with these interests, and of progress and obstacles, is at **Annex A**.

7. Our engagement in Iraq is also closely linked with two **wider strategic national interests**:

- *our relationship with the US.*
- *the UK's international reputation and influence*

Our strategic objectives and actions on the ground should remain broadly aligned with, or at least not undermine, those of the US. In addition, the extent of Iraq's progress (and the UK contribution) towards the outcomes in paras 4-6 will continue to impact, for better or worse, on our reputation in the region and within the international community.

UK Bilateral Interests in Iraq

8. In addition to the strategic interests set out above, the UK also has important and growing **bilateral interests** in Iraq:

- **Commercial** – we need to position ourselves to take advantage of the opportunities created by improved security and Iraqi spending power, not just in the energy sector but also in education, consultancy, infrastructure and defence sales.
- **Migration** – UKBA estimate there are over 10,000 Iraqis in the UK who do not have a right to be here. The successful and growing returns programme makes an important contribution to meeting overall “tipping point” targets.
- **Consular** - securing the release of UK hostages
- **CT** - liaison on specific threats to the UK or UK interests.

Delivering UK objectives

9. The UK, and to a large extent the US as well, are no longer in a position to dictate political, economic and security outcomes in Iraq. As set out above, however, we have a clear interest in these outcomes insofar as they affect Iraq's security, stability, prosperity and governance. We therefore need to remain politically engaged and seek to maximise our influence over Iraqi choices on issues such as reconciliation, energy sector development and Kirkuk which are fundamental to the future nature of the Iraqi state. This will only be possible if the Iraqis believe we take the relationship seriously. In addition, it is self-evident that both our bilateral objectives and our wish to draw Iraq into the pro-Western "arc of stability" are best served by a high degree of engagement. **These factors all point to a normalised, substantive and broad-ranging bilateral relationship as the best way of pursuing both strategic and bilateral objectives.** To this end, and depending on Iraqi appetite, we are considering a joint declaration to outline the main areas of future non-military cooperation.
10. UK assistance to Iraq should increasingly aim to **support the Iraqis in ways they find useful and persuade them to leverage their own resources**, while recognising that there are a variety of Iraqi constituencies with competing views and requirements. **Energising international engagement by actors such as the EU, NATO and IFIs, Turkey and Arab neighbours** should remain a high priority, in order to reduce UK exposure and allow us to concentrate on the areas where we have comparative advantage or specific interests. Elements of training and capacity-building assistance can continue to be offered outside Iraq. But overall, the strategy will require the active involvement of a wide range of Departments in country – the Iraqis take an increasingly jaundiced view of remote coverage.

Elements of the future relationship

11. This section outlines key elements of the kind of bilateral relationship needed to secure our interests and objectives outlined above. Specific objectives and activities are set out in detail at **Annex B**.
 - a) Politics/governance. We should contribute to Iraq's stability by promoting a resolution of fundamental issues relating to the nature of the Iraqi state, along with representative and accountable governance. This will mainly entail FCO-led political lobbying and education. In parallel, FCO will continue its efforts to encourage and facilitate engagement by key third countries and international institutions.
 - b) Counter-terrorism. Our aim should be to reduce the threat to Iraq's own stability and to UK interests from Iraq-based terrorist groups. This will involve working with key partners including the GoI and Coalition forces to disrupt terrorist activities, build Iraqi CT capacity (including capacity to protect critical infrastructure), and counter radicalisation. FCO and the agencies will lead; MoD will also have a key role in maintaining awareness of US-led work. Success on our wider agenda in Iraq will also help to reduce Iraq's central role in the global AQ/jihadi narrative.

- c) Security. We should contribute to Iraq's stability and security by helping it to develop professional, accountable, non-sectarian security forces which can deal effectively with both external and internal threats. This will involve MoD support to the Iraqi military through officer training and capacity-building support to IMod and its JHQ, and a continuation of training, mentoring and capacity-building support to the Iraqi Police Service, Ministry of Interior and criminal justice system through SAF projects and the civilian police mission.
- d) Economic. Our aim should be to build Iraqi capacity to deliver economic growth and opportunity, which will contribute to Iraq's own stability and to regional prosperity. This will involve DFID working in partnerships with other donors and a more effective World Bank and IMF to provide high-level policy dialogue and capacity building of Iraqi institutions responsible for public financial management, private sector development and investment climate reform. We will also seek to build on the final tranche of Paris Club debt relief by the end of 2008 to achieve comparable debt relief from all outstanding creditors, particularly Kuwait and Saudi Arabia.
- e) Energy. With the world's third largest proven oil reserves and tenth largest gas reserves, Iraq is one of the few remaining major-resource holding states that could bring significantly greater volumes of oil and gas to the market. Our aim should be to help Iraq to maximise this potential, and hence its contribution to global oil markets and EU energy security. This will involve a combination of political lobbying on Iraqi legislation, policy dialogue and education, capacity building in central government ministries (including through a specific skills initiative), and working alongside foreign investors who can inject capital and skills into the wider Iraqi energy sector.
- f) Commercial. Our aim should be to ensure a level playing field for UK firms in Iraq, and to assist them to take advantage of such opportunities. This will involve a combination of UKTI-led commercial support work and political lobbying.
- g) Migration/returns. We should seek to increase the number of voluntary and forced returns to the Kurdish Region, and begin forced returns to the rest of Iraq, security permitting. This will involve FCO-led lobbying supported by practical cooperation.
- h) Education and culture. Increased educational and cultural exchanges will serve to underpin other aspects of the relationship, and there are also commercial opportunities for British education providers. This will involve mainly British Council-led collaboration with Iraqi ministries, commercial bodies and educational institutions, outreach to Iraqi civil society and media, full-cost recovery activity (eg ELT), and working to attract Gol-funded scholars to UK institutions.
- i) Visas. Posts in Iraq only accept visa applications from a narrow list of Iraqis – mainly senior official visitors, and most of these have to be processed in Amman. This is an irritant in and constraint on the wider bilateral relationship. Post see early establishment of a VAC as a key enabler. But the high number of Iraqi immigration offenders in the UK is a serious obstacle to liberalisation; local security and post

capacity are also factors. UKBA and FCO will continue to consider how we can strike the right balance.

- j) Consular. There is likely to be an increased requirement for consular support to UK citizens in Iraq as the business environment improves. Separately, the safe release of the five UK hostages (FCO lead) should remain a high priority bilateral issue.

RESOURCES AND DELIVERY

12. This section sets out the main delivery mechanisms for these objectives and activities, and the resource implications for Departments. Primarily because of security, Iraq will remain an expensive environment to operate in over the lifetime of this strategy. But a failure to invest could have significant medium and long term direct costs (in eg combating terrorism, higher energy prices) and indirect costs (failure to exploit commercial opportunities, secure energy supplies etc).

FCO post network

13. The gross non-staff running costs of the FCO's post network in FY08-09 are c £55m, the majority of which is recovered from PAGs who retain staff at our posts and other cost-sharers (such as external tenants). The **Baghdad Embassy** will remain the focal point for delivery of FCO activity in Iraq over the next 2-3 years, as well as providing the chassis for operations by other Departments and project activity. Iraqi-isation of security in the International Zone in 2009 is likely to pose new challenges for the security of post and its ability to operate effectively, and to require significant additional capital investment (up to £10m) to improve Embassy security. Disengagement from Baghdad, however, would essentially remove our ability to influence and monitor events in Iraq - and would be widely read as an acknowledgement of failure.
14. The **British Embassy Office Basra** needs to be based within a secure military perimeter at the COB. If the US takes over this function as planned, a British diplomatic presence will remain a viable option after the withdrawal of UK combat forces. FCO believes, however, that it would not be cost-effective to maintain post at its current strength. There are, therefore, **two options**:
 - complete closure of post. This would save a total of £9.6m in running costs (of which £2.9m currently falls to FCO). But it would also mean losing sight of the political, commercial and energy scene in the South, and the military, naval and economic significance of the Port of Umm Qasr and its nearby oil platforms; this would be particularly undesirable if Basra were to become a semi-autonomous region. There are also reputational and US-handling arguments against complete closure.
 - a mini-mission of 3-4 UK-based FCO staff. The initial commitment for such a mission would be for FY09-10, with the future of post after that to be reviewed in late 2009. This arrangement would allow us to monitor the political, energy/ economic and security

situation in the South, and to enable visits by DFID staff after DFID draw down from Basra in mid-09, and by OGDs as necessary.

15. The **British Embassy Office Erbil** can make an important contribution to delivery of the strategy by giving us access and influence to senior Kurds, and supporting commercial and other relationship-building activity. Its presence is also key to persuading the KRG to allow enforced returns of immigration offenders. Against this, current overheads are extremely high (£6.5m per year for 4 UKBS, met by FCO and UKBA); there are serious security concerns about its location; and the capital cost of building dedicated premises is prohibitive. FCO therefore intends to maintain the post for now, but to review its future again in March, by when we will wish to have made progress towards more secure and cost-effective premises.
16. More detail on options for the future FCO footprint is given at **Annex C**.

DFID programmes

17. DFID's aid framework for Iraq is £25m in this FY, £20m in 2009/10 and £10m in 2010/11. By mid-2009 much of DFID's work in Basra should have come to a natural conclusion. The Basra Development Commission will have established a successful youth employment scheme, set out a Basra Economic Development Strategy and run further investment promotion events in Turkey, London and Kuwait. The Basra Investment Commission will be leading on providing advice on investment to the Provincial Council and to potential investors.
18. The Provincial Council will have finalised its third Provincial Development Strategy and published its second Annual Report. DFID's ongoing support to the Basra Provincial Council would be provided through UNDP, which already leads on the provision of some capacity building support to the Provincial Council.
19. The UK has agreed with the US to handover leadership of the PRT in 2009. DFID will respond to changing conditions on the ground, but anticipates drawing down from Basra by mid-2009, providing some ongoing support through its Basra Support Office in Baghdad. Building on our experience in Basra and Baghdad, and in partnership with central Government and with other donors, including a more effective World Bank, UN and IMF, DFID will focus on ensuring sound public financial management, capable national institutions, and an enabling environment for inward investment and private sector development. We will continue to respond to the humanitarian needs of both refugees and IDPs.

Commercial relationship

20. UKTI currently support commercial activity in Iraq through local staff in Baghdad and UK-based coverage from Amman. The PRT in Basra also provides support for investor visits (18 to date) under the Prime Minister's economic initiative for Basra.
21. With increasing British commercial interest in Iraq, and handover of the Basra PRT to US leadership in 2009, it is timely to review the case for UKTI UK-based resource in Iraq. UKTI are therefore recruiting an International Business Specialist, funded by the Stabilisation Aid Fund (NB this funding guaranteed only until end-March), to scope opportunities and

produce recommendations for the best operating model for UKTI in Iraq. These are due before April. UKTI is also recruiting a second LE staff member in Baghdad.

Normalised defence relationship

22. Our intent is to move from a mission focused on large-scale support of Iraqi Security Forces' operations in Basra to a normalised bilateral defence relationship with Iraq. We will focus efforts in strategically important areas to which British Service personnel can bring particular expertise and which support the overall Coalition mission. Further detail on the activities the UK Service personnel may undertake after transition in Basra in 2009 are set out at Annex B.
23. The forecast for the net additional costs of Operation TELIC – including the activities set out at Annex B - in FY 2008/09 is £1,270M (near cash). Initial rough order of magnitude estimates, subject to further clarification and the outcome of negotiations over the future legal basis of UK forces in Iraq, indicate that TELIC costs may fall to around £500M in FY 2009/10, decreasing further to around £180M by FY 2010/11 as tasks are completed and the capability of the Iraqi Security Forces increases. The figures for 2009/10 and 2010/11 are exclusive of recuperation and remediation costs which are not yet available.
24. The net additional costs of the activities after transition will – as core elements of ongoing military operations in Iraq - require continued access to the Reserve for funding. MOD will continue to engage with HM Treasury to discuss and agree future costs as they mature. In time, the intention is that UK military support should increasingly be borne by the Iraqis themselves.

Stabilisation Aid Fund (SAF) and Peacekeeping Budget (PKB)

25. The SAF and PKB¹ are essential sources of funding for HMG programme activity in Iraq. The SAF funds a range of advisory and capacity-building work in the security and justice sectors, and civilian consultancy expertise in other important areas (Basra airport, inward investment, supporting economic growth). The PKB funds the UK civilian police mission in Baghdad and Basra, and the UK contribution to the EU Justlex mission.
26. Effective policy delivery in Iraq will require continued support from programme funds in order to preserve access and influence in areas of Iraqi life which matter to us. The PKB is funding £7.5m of Iraq projects in FY08-09 but it is likely that discretionary spending will be withdrawn in the next FY as a result of wider pressures on the PKB. In anticipation of this, MoD, FCO and DFID are agreeing a reprioritised programme for FY09-10 to be funded entirely from the indicative SAF allocation of £15m (versus £48m for Afghanistan and £10m uncommitted). Prioritised programmes will cover three broad areas including: a) initiatives which support key Prime Ministerial deliverables and provide conditions for a successful transition from Basra; b) Rule of Law initiatives, which form a central pillar of HMG's

¹ The SAF is jointly owned by MoD, FCO and DFID, and sits on MoD's baseline. The PKB is formally a part of the Africa and Global Conflict Prevention Pools, and is jointly owned by the three Pool departments (MOD, FCO and DFID) and managed by FCO.

strategy in Iraq; and c) international support to UNDP and EUJustLex as key partners in security and economic reforms in Iraq which would support a transition of our programme work in future.

RISKS

27. The main **strategic** risk over this period is the inability of the Iraqi leadership and parties to rise above sectarian or partisan motivations and work in the interest of the whole of Iraq. This risk currently presents most strongly in the form of Arab-Kurdish tensions and Maliki's distrustful and autocratic style. But all parties remain prone to a zero-sum approach which could slow or even reverse progress in a wide range of inter-related areas, including politics & governance, security, the economy and Iraq's external relations. We should mitigate these risks through a high level of engagement and influencing work with the main parties, and by promoting a joined-up approach among external actors to support and facilitate compromises. We should retain as an option greater conditionality in UK and international community support to Iraq. The specific risks in these areas, and suggested mitigation, are set out in detail at Annex D.
28. The main **operational** risk to delivery of the strategy is that the security situation remains inimical to normal civilian operations. By keeping the costs of operating in Iraq high, this will act as a disincentive to Departments – and international actors who could act as multipliers for UK effort - to retain or expand their presence on the ground. The risk is that our rhetoric about the relationship outstrips our capacity or appetite to put in place the necessary delivery mechanisms. There is no single or straightforward mitigation option: Departments will need to continue to look creatively and rigorously at the most cost-effective ways of delivering, and to be transparent about decisions which – because of cost-share - have resource implications for PAGs.

PRESENTATION and HANDLING

29. The MoD is coordinating separate cross-Whitehall work on strategic communications in the period until military transition. The message that the fundamental change of military mission will mark a new chapter in UK engagement in Iraq, rather than an end to it, needs to be an integral part of all pre-transition communications and presentational activity, irrespective of the audience. As transition approaches, we will need to consider activities or events which will visibly demonstrate to Iraqi and regional audiences that the UK is committed to a forward-leaning, substantive bilateral relationship.

ANNEX A

Desired outcomes in Iraq, and progress towards them

1. What needs to happen for Iraq to reach an end state matching our objectives?

- 1.1. A sustainable and peaceful settlement of outstanding political issues, including Kirkuk, constitutional amendments, hydrocarbons and revenue sharing legislation, and federalism/regions, underpinned by acceptance among Iraq's main communities that their future lies in power-sharing within a united Iraq;
- 1.2. Growth of democratic, accountable governance at national and local levels, underpinned by free and fair elections, effective GoI outreach to reconcilable insurgent groups, and a functioning Council of Representatives;
- 1.3. Development of a coherent, proactive strategy for long-term economic development, diversification and job creation, with an appropriate balance between social protection and promotion of growth, with broad high-level political support; and of the capacity to implement that strategy;
- 1.4. Improved Iraqi capacity to spend their own money effectively in support of the wider economic strategy; this will better enable the GoI inter alia to address humanitarian needs (including reintegration of refugees/IDPs); to provide high-quality services and infrastructure contributing to better living conditions and improved economic opportunity; and thus to reinforce security improvements;
- 1.5. Sustainable development of Iraq's oil and gas production and export capability, underpinned by resolution of underlying political issues and open-ness to external investment;
- 1.6. Development of professional, apolitical, non-sectarian Iraqi Security Forces which are able to deliver internal and external security and defeat irreconcilable armed groups, especially those such as AQ-I which pose the most serious threat to western interests, while upholding the rule of law and democracy. This will also require an appropriate division of responsibilities between the Armed Forces and the police.
- 1.7. Closer economic and political links between Iraq and its Arab neighbours, Turkey and the EU, complemented by greater UN and IFI engagement
- 1.8. Iraqi rejection of malign Iranian activity

2. What is on track?

- 2.1. Security: ISF capabilities are growing steadily, as is the Iraqi Army's *esprit de corps*. Violence is at a 5 year low, with the majority taking place in North around Mosul and

Kirkuk (underlying the growing significance of the threat posed by Arab-Kurdish-minority tensions in the area of the Green Line). Maliki's decision to take on JAM, thus far largely successfully, may mark a key turning point. The Gol's approach to SOFA negotiations suggests that it believes ISF COIN capabilities will be substantially complete by 2011. The Gol is increasingly able to plan and execute sophisticated COIN operations with reduced MNF-I support, as in Basra. This trend is likely to continue, although challenges remain in developing fully capable, professional, non-sectarian security forces. The ISF still needs MNF-I mentoring and advice (particularly in more specialised areas), logistic support, intelligence, naval and air support. The eventual transition of responsibility for internal security to the police, with the armed forces focussing on territorial defence, will also be another key hurdle.

- 2.2. Regional relations: Constructive engagement by Iraq's neighbours is essential to many aspects of the agenda: reconciliation between different ethnic groups; economic development and future regional stability. **This year, we have started to see the first real steps in such engagement by most of Iraq's Arab neighbours**, with King Abdullah's visit, the commitments by Jordan, Bahrain and the UAE to open Embassies, the UAE's cancellation of Iraqi debt and Kuwaiti interest in economic cooperation. This is probably down to the combined effects of Maliki's crackdown on Shi'a militias; events in Lebanon, which crystallised regional concern about Iran's role in Iraq; and the economic opportunities created by improved security and Gol spending power. Like much other recent progress in Iraq, however, the process is eminently reversible.
- 2.3. International engagement: Since it received an expanded mandate under SCR1770 and a new SRSG (Staffan di Mistura), **UNAMI** has become much more active and committed. The rest of the UN family is also more engaged. **EU** engagement is also moving in the right direction, albeit from a low base, now that France is no longer a block on progress. The next year should see EU-badged projects on the ground, a Trade & Cooperation Agreement, and more frequent high-level political dialogue. The **IFIs** remain semi-detached, however: the World Bank have a small resident presence, and the IMF none.
- 2.4. The macro-economy: This is a mixed indicator. **Iraq's macro-economy is stable**, and high oil revenues (plus under-spending on investment) have led to **large fiscal surpluses**. But there are many serious economic challenges and risks – see 3.2 below.

3. What are the problem areas?

- 3.1. Fundamental questions about Iraq's future have not yet been settled. There is still no broad agreement between a critical mass of Iraqi actors on the extent of centralism versus devolution (both economic and political); the nature of the relationships between Sunni and Shia, and between Arabs and Kurds (particularly on energy sector development / revenue sharing); or Iraq's future democratic development. In addition, serious doubts remain about the willingness and ability of Iraqi leaders to effect reconciliation between Iraq's main communities and encourage an inclusive and fair political process. There are signs of progress on this agenda: the return of Tawafuq to government, and the increasingly robust and influential role of the CoR. But the style of Maliki's personal rule, his personalised command of the Iraqi military, and his continued

dependence for advice on a small Da'wa clique, continue to arouse real concern. The US SOFA negotiations have exposed (again) the depth of mutual suspicion between the UIA and Tawafuq; between the main Shia Islamist parties, particularly Da'wa and ISCI; and between the Kurdish Alliance and Arab parties.

- 3.2. Slow progress in delivering basic services and sustainable economic growth. Living conditions for most ordinary Iraqis remain difficult, with unemployment high. The Gol's previously strong fiscal position is not matched by its ability to provide services, humanitarian relief and economic opportunity for its people. This is due not only to security and political constraints but to the lack of a clear economic vision. Iraq needs a much better strategic sense of budgetary scale and priorities, and to avoid (politically-motivated) wrong economic policy choices, such as spending the surplus on recurrent commitments like subsidies or salaries. Iraq is devoid of strategic economic direction (apart from IMF advice to the Central Bank) and senior Ministers and politicians, with a few exceptions, do not understand the importance of economic reform. The collapsing oil price is potentially very damaging. Oil revenues currently provide more than 90% of Government revenues, and without private sector activity to produce alternative revenues, a protracted period of low oil prices could even impact on the Gol's ability to fund operational expenditure. In addition, incompetent and corrupt administration means that overall performance in execution of designated budgets, while improving, remains poor. Iraq thus faces formidable challenges in capacity-building; construction and restoration of all areas of its infrastructure, including the oil industry, which is in a parlous state; improving the currently unfavourable environment for private sector activity; and attracting essential international investment.
- 3.3. Iran cleaves to its strategic agenda of securing a pro-Iranian, anti-Western Iraq by backing a wide range of Iraqi horses, often through covert means. These include illegal armed groups, in the short term as a tool to fight the coalition by proxy, in the longer term as a potential means of influencing Iraq's political process and policy choices. The success or failure of Iran's efforts to persuade Iraqi parties to reject a SOFA with the US may provide important insights into the levels and limits of Iranian influence.

ANNEX B

Activities from 2009

1. Political/governance

Objectives: to contribute to a stable Iraq by promoting a resolution of fundamental "state-building" issues, and representative, accountable and democratic governance. To increase international support for Iraq and improve Iraq's relations with the UK's friends in the region.

HMG activities (FCO lead, also British Council):

- political lobbying and facilitation of progress on issues such as DIBs, reconciliation, constitutional reform, human rights and free and fair elections
- political education, for example by supporting the development of links between Iraqi political institutions and UK/international counterparts
- capacity-building support for human rights institutions and civil society organisations
- encourage and facilitate engagement by key third countries (Turkey, Arab neighbours, EU) and international institutions

2. Counter-terrorism

Objectives: to support the GoI's efforts to deny AQ-I and other terrorist groups safe havens and recruits within Iraq. To reduce Iraq's role in AQ propaganda in the UK and worldwide. To safeguard specific UK CT interests in Iraq-based networks posing a threat to the UK or to UK targets in Iraq. Iraq is a CT Priority 1 Country.

HMG activities (FCO/agencies lead, also MoD):

- PURSUE: work with key partners, including GoI and MNF-I (or any successor force), to disrupt terrorists' use of Iraq as a base from which to plan attacks against the UK and UK interests overseas, and to disrupt the flow of radicalised foreign fighters returning from Iraq to third countries. Maintain awareness of US-led CT work and identify future CT capacity-building opportunities for UK, using small UK military presence embedded in relevant coalition structures.
- PREVENT: work with key Iraqi partners (including the GoI, media outlets and civil society) to counter radicalisation and the causes of radicalisation, including through British Council civil society programmes
- PROTECT: assist Iraqi protection of critical national infrastructure

3. Security and Justice

Objectives: to increase Iraq's capacity to defend its borders and maintain internal and external security with reduced international support. To promote democratic governance in Iraq by supporting development of professional, accountable, non-sectarian security forces and agencies.

HMG activities (MOD and FCO lead):

HMG activities (MOD and FCO lead):

- By continuing to lead the Coalition Naval Training Team (including around 60 UK personnel), help develop the capacity of the Iraqi Navy until it is fully operational and able to ensure the security of its territorial waters and two oil platforms, currently expected around 2012;
- Royal Naval participation in Coalition maritime operations in the Northern Arabian Gulf; Royal Air Force participation in Coalition air operations over Iraq, and the provision of UK personnel to fulfil Coalition roles in Baghdad (all subject to review once we know the agreed tasks and permissions in the final agreement on the legal basis of UK forces in Iraq);
- Lead a NATO-badged Iraqi Army officer training and education programme at the Iraqi Military Academies, Joint Staff College and War College, centred on Ar Rustimiyah near Baghdad. The programme will be designed to 'train the trainer', with the aim of creating a self-sustaining Iraqi officer training capacity by 2014. It is estimated that the programme will require around 50 NATO Service personnel, with a UK contribution of around 30 personnel;
- Training places for around six Iraqi officers per year at Dartmouth, Sandhurst and Cranwell, funded from the Stabilisation Aid Fund;
- Capacity-building in the Iraqi Ministry of Defence and Joint Headquarters in Baghdad, delivered by UK military and MoD civilian personnel (with precise numbers and roles to be reviewed in 2009 as Iraqi requirements and future Coalition structures are clarified);
- Training and mentoring for Iraqi Police Service, in targeted areas such as senior leadership and forensics
- Capacity-building support for Ministry of Interior in planning and management
- Training and advice to other elements of Iraqi criminal justice system (judiciary, prosecutors, detentions system) to build an evidence based judicial system in Iraq

In terms of MoD and military activity, the overall objective is to move from a mission focused on large-scale support to Iraqi Security Forces' operations in Basra to a normalised bilateral defence relationship with Iraq. As we make this transition, we will look to focus our resources in strategically important areas, to which British Service personnel can bring particular expertise. The intention is that UK military support should increasingly be provided by personnel on Loan Service terms, with costs borne by the Iraqis themselves.

Similarly in terms of FCO activity, the objective is to work with the Iraqis within a normal bilateral relationship in helping Iraq move its judicial system away from a confessional to an evidentiary base as forensics and other non-confessional based evidence is increasingly being presented and accepted before the courts.

4. Economic

Objectives: to build Iraqi capacity to deliver sustainable economic growth, basic services and jobs for the Iraqi people, in order to increase stability and security; address humanitarian needs; and develop Iraq's contribution to regional prosperity.

HMG activities (FCO and DFID lead):

- Through economic education and high-level policy dialogue, support development of a clear economic strategy, consistent with federal arrangements and enjoying broad, high-level Iraqi political support, which can provide the framework for growth²
- Building on our experience in Basra and Baghdad, our aim should be to work in partnerships with other donors and a more effective World Bank and IMF to build Iraqi capacity for strategic planning and delivery
- This will involve high-level policy dialogue and capacity building of Iraqi institutions responsible for public financial management, private sector development and investment climate reform.
- Encourage and facilitate full engagement by the IMF (in conjunction with HMT), World Bank, UN and EU in this agenda
- Capitalising on the forthcoming delivery of the final tranche of Paris Club debt relief by the end of 2008, seek to achieve comparable debt relief from all outstanding creditors, particularly within the Gulf (Kuwait and Saudi Arabia). This will help to support Iraq's reintegration in to the region.

5. Energy

Objectives: to assist Iraq to develop an agreed national energy policy and legislative framework that maximises its potential as a producer and exporter of oil and gas; to include transparent market practices, equitable distribution of revenues and openness to international investment. Also, to assist Iraq in contributing positively to stable world energy markets by providing enhanced oil and gas supply capacity and increases EU energy security through developing new supply routes.

HMG activities (FCO/DECC lead, also MoD):

- Political lobbying for passage of Hydrocarbons and Revenue-Sharing Laws
- High-level energy and climate security policy dialogue
- Capacity building in Iraqi Ministry of Oil and Electricity
- Joint activity with IOCs to enhance skills base of Iraqi energy sector
- Continue to support MNF-I infrastructure development and security activity (Energy Fusion Cell)
- Contribute to protection of Iraq's oil infrastructure through participation in North Arabian Gulf naval task force
- Encourage regional initiatives to support Iraqi energy sector development

² There is a strong case to be made, based on experience elsewhere, that it is in Iraq's interest that such a strategy should be broadly liberal, with a limited role for the state, few market distortions, and openness to foreign trade and investment. But the important thing is that there should be a clear and politically credible strategy; it is for the Iraqis to decide just how liberal it should be.

6. Commercial

Objectives: to encourage an Iraqi economy open to foreign commercial interests and to assist UK companies to take advantage of commercial opportunities in Iraq - or risk losing market share in the longer term. To encourage employment, upskilling and economic growth in Iraq (and hence stability) by supporting UK investment.

HMG activities (UKTI/FCO lead):

- UKTI support for trade missions and related events
- High level dialogue with investors and other UK commercial interests through eg Basra Development Commission
- Political lobbying to ensure level playing field for UK exporters/investors

7. Migration/Returns

Objectives: to increase the number of voluntary and forced returns to the Kurdish Region, and to extend the forced returns programme to the rest of Iraq.

HMG activities (UKBA lead, also FCO):

- Political lobbying of KRG and Gol, plus liaison over logistics
- Capacity-building assistance to KRG (and in future, Gol?) immigration authorities

8. Education and Culture

Objectives: to underpin other aspects of the relationship by increasing educational and cultural exchanges. To increase the number of paying Iraqi students in the UK, and Iraqi (commercial) uptake of British-provided ELT.

HMG activity (British Council lead):

- BC collaborative activities with Ministries of Education and Higher Education and key Iraqi institutions eg global Connecting Classrooms Project and Iraq - UK Higher Education Links Scheme
- BC outreach to Iraqi institutions, civil society and media under Intercultural Dialogue Programme
- Increase traditional BC work on education and English Language Teaching, using grant funds and full-cost recovery activity (i.e. Direct Teaching and UK Examinations)
- Work with Gol and Iraqi educational institutions on PM Maliki's \$1 billion Prime Minister's Education Initiative (includes new government funded scholarship scheme to send 10,000 students a year for overseas studies for the next 5 years)

9. Visas

Objectives: to underpin other aspects of the relationship with a visa regime for Iraq which decreases obstacles to legitimate Iraqi visitors to the UK, while preventing abuse of the entry clearance system.

HMG activities (UKBA lead):

- present arrangements only allow us to accept visa applications from a narrow list of Iraqis (mainly official visitors) in Baghdad and Erbil, with the rest being directed to either Amman, Damascus or Beirut.
- subject to progress in a number of areas, including increased returns of immigration offenders to Iraq, UKBA and FCO should continue to consider possible expansion of the visa-issuing operation in Iraq.

10. Consular Support

Objectives: to provide the necessary consular support for British citizens in Iraq.

HMG activities (FCO Consular Directorate lead): Formal Consular provision is limited (in terms of manpower charged to the Consular budget), reflecting the relatively low call on Consular services. The FCO's CTD leads on kidnapping cases. Increased activity in the above areas is likely to require more Consular resources to provide in-country support for British Citizens engaged in commercial and consultancy activity, even if the level of support that can be offered remains restricted.

ANNEX C**FCO network in Iraq: costs and options****Baghdad**

In order to deliver the strategy, HMG will need to keep a substantial footprint in Baghdad: significant disengagement would remove HMG's ability to influence and monitor events in Iraq and would be widely read as an acknowledgement of failure. The UK would lose its ability to deliver policy in areas like CT and energy. It is likely that commercial opportunities would favour states with an active presence in Iraq.

Annual running costs of post are c £38m, of which FCO recovers around 75% from cost sharers: DfID, MOD, the SAF and Peacekeeping Budget, and tenants (Commission, Canada and World Bank). FCO assesses that the security situation permits us to use road moves as the default method of travel between the Embassy and Baghdad International Airport, rather than the RAF helicopter airbridge, which will result in admin savings of around £5m a year. Iraqi-isation of security in the International Zone from 2009 onwards will require additional Investment Programme-funded security-driven estates work in Baghdad. It is not possible to provide accurate cost estimates at this stage but the total could be up to £10m. Potential stricter security procedures for movements within the former IZ may also add to Baghdad's non-staff running costs, in the short term at least.

Subordinate posts

Based on parallels with other large-market oil-producing states, reference points for the UK's future representation in Iraq through the FCO network might be the two posts that we have in the UAE, the three in Saudi Arabia, or the five (including liaison offices) in Nigeria. However, there are also instances where the UK has a relatively modest representation relative to the size or production of the country: the Russian Federation (three); Iran, Angola, and Algeria (one each, where security and political issues are relevant); or Libya and Kuwait (also with one each). Size of country, security, internal and external communications, and the extent to which power is centralised in the capital are all important factors.

The arguments for retaining representation in Basra and Erbil are different in character. In Erbil, we are essentially seeking to protect and build on current equities, such as the returns programme. In Basra, we would be betting on the area fulfilling its massive future potential, and also acknowledging presentational and transatlantic sensitivities about our legacy.

If either post were closed completely, it would be extremely difficult to cover political, economic and commercial developments in those areas effectively. We might be able to undertake occasional visits with others providing security and transport *gratis*. But regular visits from Baghdad or elsewhere would require pre-positioned security teams and vehicles, which would cost almost as much as maintaining a small resident presence.

Basra

In Basra, gross non-staff costs are £9.6m in 08-09, of which FCO recovers about 70% of cost-sharers.

FCO does not believe that it will be cost effective to maintain a civilian presence at current levels in Basra after the departure of UK combat forces, even if the COB endures as a secure location under US military protection. Once the UK is no longer leading MND(SE), the US is likely to become the public face of the coalition in Southern Iraq, although the relationships we have built up in the last five years should continue to allow a reasonable degree of access. In addition the security situation does not yet permit independent (of the military) movement into Basra from the COB, although the FCO, DFID and PRT are able to move independently within Basra City. By the same token, FCO does not yet consider a "normal" consulate within Basra a realistic option on either cost or security grounds.

Provided that the US continues to provide perimeter security at the COB, there is a viable option for a **reduced FCO presence in Basra** of 3-4 x FCO UKBS (down from 9 at present). This team would have designated office space alongside the US at the COB, and have its own vehicles and close protection teams. Running costs will vary depending on configuration. But it is highly likely that we would be able to attract sufficient cost-sharers to bring down the running cost of a mini-mission to current levels or less. DFID have confirmed that although they will not keep resident UKBS in Basra past June 2009, they will pay the cost of 2 "virtual" UKBS slots until March 2010, in order to guarantee visiting DFID staff access to our accommodation, life support and security. The UN have also given a written expression of interest in accessing our accommodation, security and life-support on a repayment or full cost-share basis for 8 staff, rising to 20 during the course of FY 09-10.

Arguments **for** retaining a presence in Basra:

- reputational loss in UK & US media if military and civil activity cease simultaneously, to be replaced by exactly the same US structures;
- complete withdrawal could be exploited against the UK as a propaganda victory for Shia militias and international terrorists alike;
- support legacy activities from the Basra Economic Initiatives
- others will come in and benefit from the security environment the UK has created, particularly in the commercial area, where we cannot look to the US to safeguard our interests;
- possibility of federal region status, which would give greater economic and political economy; local engagement with key figures will be invaluable;
- 60% of oil is from Basra region, and over 80% of oil is shipped through Basra: strategic and commercial importance (with infrastructure improvements, Basra should top \$100 bn of oil per year, as well as substantial amounts of gas); . The Southern Oil Company (SOC) already shows signs of independence from Baghdad and, as the economic enabler of southern autonomy, is inextricably bound with regional politics;
- Difficulty in current circumstances of covering adequately from Baghdad or Kuwait.

Arguments **against** retaining a presence in Basra:

- Savings of £9.6m per year;
- costs are high, and security measures make it difficult to make the impact we would want;
- Key decisions in the oil and transport sectors are taken in Baghdad (though this could change, particularly if Basra becomes a region);
- PM Maliki has frequently expressed suspicion or irritation about various aspects of the UK's role in Basra, including non-military.

Erbil

In **Erbil** (4 FCO UK-based staff), current non-staff costs of £6.4m are borne by FCO, although UKBA have committed to fund one of the four UK-based staff positions until the end of FY09-10 in recognition of the importance of post's contribution to the immigration agenda through the enforced returns programme.

The policy case for retaining a presence in Erbil is strong. The Kurds have a major and distinct influence over Iraq's future. Helping to support an improved relationship with Turkey is in our strategic interests on both conflict resolution (Turkey/PKK) and energy security. We also have a real equity to protect in the form of the returns programme, which we would lose if we closed the post.

Against this, the costs per head of operating in Erbil are extremely high, and post's current location in the Khanzad Hotel is not sustainable on security grounds. The scale of capital investment needed to build dedicated premises means this is not a realistic option.

FCO therefore intends to seek further progress towards a more secure, sustainable and cost-effective set up in Erbil. We have secured expressions of interest from Germany, Italy and Denmark in co-location. We will review the future of post again in March 2009 the light of progress on these issues – at which point future costs in Basra and Baghdad should also be clearer.

ANNEX D

Assessment of strategic risks in Iraq, 2009-12				
Risk	Impact	Likelihood/Impact	Risk Treatment	
<ul style="list-style-type: none"> - Democratic institutions including Government, Provincial Councils and Parliament are rendered ineffective as parties and individuals work in their own interests, or subvert the democratic process 	<ul style="list-style-type: none"> - Failure to agree outstanding nation building legislation leading to continued suboptimal functioning of Iraqi state; ineffective distribution of wealth amongst Iraq's communities - Reconciliation stalls. Tension between Iraqi communities increases. Rejection of new order and return to violence by some of those involved in reconciliation processes, eg Sons of Iraq and former Sunni insurgents 	<p>Likelihood: Medium Impact: Medium/High</p>	<ul style="list-style-type: none"> - Continue to lobby all communities over need to pursue consensus politics to avoid returning to previous levels of violence - Work with UNAMI, US and other stakeholders in support of "grand bargains", such as an "oil for soil" deal between the KRG and central government - Continue capacity building support through individual ministries, Parliament and Cabinet Secretariat, in order to increase professionalism 	
<ul style="list-style-type: none"> - Mishandling of security portfolio by Iraqi parties for sectarian, populist or "nationalist" gain. 	<ul style="list-style-type: none"> - Over-confidence in ability of Iraqi Security Forces leading to overstretch and tactical reverses - Al Qaeda and/or FRE and/or Special Groups able to regenerate capabilities - Over-hasty rejection of Coalition support degrades ISF capabilities - ISF become beholden to one party or interest group rather than the state, subverting the rule of law 	<p>Likelihood: Medium Impact: High</p>	<ul style="list-style-type: none"> - Work with Iraqi security technocrats to promote a realistic understanding by Gol of the ISF's ongoing limitations and needs. - Maintain links with senior military leadership through training for officer cadre and various elements of Iraqi armed forces. 	

<ul style="list-style-type: none"> - Shia majority government follows sectarian interests rather than consensus politics. 	<ul style="list-style-type: none"> - Withdrawal by Sunnis as serious players in Gol, causing Arab region to disengage with Gol and increase support to Sunni rejectionists. Gol turns to Iran for support. - Recrudescence of sectarian violence, threatening a sectarian split 	<p>Likelihood: Medium Impact: High</p>	<ul style="list-style-type: none"> - See above - Ensure moderate Iraqi Sunnis travel overseas as representatives of Iraq rather than just Sunni community - Lobbying and influencing work with both Arab neighbours and Iraqi stakeholders on the political and economic benefits of engagement (for the Arabs, countering Iranian influence; for the Gol, maximising their options for external partnerships). 	
<ul style="list-style-type: none"> - Mishandling of economy through sectarian policy choices; populist but unsustainable recurrent spending; failure to create an attractive investment environment (including through lack of hydrocarbons legislation) 	<ul style="list-style-type: none"> - Budget execution remains low and corruption high - Foreign companies limit their investment due to lack of legal framework, especially in energy sector, reducing Iraq's production and export capacity in oil and gas - Lack of jobs/economic opportunity means that violence remains an attractive cost-benefit option 	<p>Likelihood: Medium Impact: Medium</p>	<ul style="list-style-type: none"> - Support for "grand bargains", as above - Economic education and building Iraqi capacity to formulate strategic economic policy - Coordinated messages and pressure from international investors on impact of current blockages 	