

DECLASSIFIED

500344

From: Jon Cunliffe  
Date: 6 June 2003  
Extn:  
Room  
:

CHANCELLOR

cc: Gus O'Donnell  
Ed Balls

### **IRAQ RECONSTRUCTION**

1. **UN Resolution 1483 makes the US and UK jointly responsible, as occupying powers, for the government of Iraq. This includes economic and finance policy generally and, specifically, the use of resources from the Development Fund for Iraq, DFI, (oil revenues and confiscated assets).**

2. **This changes the basis on which we engage with the US on economic and financial issues in relation to Iraq. Ultimately we (UK) now share responsibility for what is done in Iraq, and are jointly accountable with them.**

3. **The current framework for making and implementing decisions in Iraq does not reflect this. It is a mess as far as economic and financial policy is concerned.**

- i. **There is no clear delegation of responsibility to Bremer and the Coalition Provisional Authority (ORHA's successor). It is not clear what decisions he can take and what needs approval by Washington.**
- ii. **Bremer reports to Rumsfeld. There is no clear framework in Washington for involving other Departments, such as Treasury, or resolving differences.**
- iii. **The UK has no clear involvement in decision-making. What UK – US consultation there is tends to be done between No.10 and the White House. The Treasury is 'consulted' in an ad hoc and intermittent way on some**

DECLASSIFIED

PERSONAL  
**DECLASSIFIED**

issues by the US Treasury but they themselves are pretty powerless.

4. This matters for 2 reasons:
- i. **We have responsibility without power.** If for example money is wasted on a large scale, or there is an economic policy failure (e.g. a botched currency change) or the CPA acts in a way which cuts across its mandate from 1483, as occupying powers we (UK) are accountable and in the UK, the Treasury is seen as being in the lead on many of these issues; and
  - ii. **We have no way of ensuring that the right economic and financial policies, for Iraq are pursued.** Attempts to give the IMF and World Bank a direct role in the use of the DFI (Development Fund for Iraq) have failed. And our own advice and that of the US Treasury (e.g. on creating a budgetary structure and system of audit and accountability) seems to fall on deaf ears. A striking example is the current CPA proposal for the organisation of its economic functions and of the DFI.

5. **Next Steps**

I raised these concerns in the Ministerial Group on Iraq yesterday. Jack Straw and Valerie Amos were sympathetic. Very similar issues arise on the political policy side particularly in relation to the creation of an Iraqi interim authority. Straw said these issues should be 'near the top' of the agenda for the PM's call with Bush today: we had to tell the US plainly that they could "not take the UK for granted". I understand No.10 are thinking of proposing some joint White House/No.10 group to which the CPA would report. This could be developed into the right structure using the existing Ministerial Group here to ensure the UK side is coordinated.

6. My guess is this will need a sustained push. So, if the position is not resolved by today's call, it would be helpful if you could raise these issues once the EMU

PERSONAL  
2  
**DECLASSIFIED**

PERSONAL  
**DECLASSIFIED**

statement is out of the way. Baroness Amos touched on them in her recent letter to the PM – attached. You could write in response to that.

It would also be worth talking through some of these issues with John Snow who is, I think, looking for support, to help him get some purchase on these issues in Washington.

will let you have separately a round up of where we stand on the economic and financial issues, including the DFI and currency change.

**Jon Cunliffe**

PERSONAL  
**DECLASSIFIED**