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Lord Chancellor's Department

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20 January 2003

IRAQ: DOMESTIC IMPLICATIONS OF MILITARY ACTION

Permanent Secretaries have asked for work to be done on the key domestic risks arising from any possible military action in Iraq and the actions needed now or in the future to manage these.

At last Friday's ad hoc on Iraq, it was agreed I would take this forward, assisted by the Civil Contingencies Secretariat in the Cabinet Office. The work will continue to be under the aegis of the existing Ad Hoc Group on Iraq but will necessarily involve a wider cast list.

- To help, CCS have produced, in consultation with key departments, an initial assessment of the domestic implications of military action (the assessment has been sent to you in hard copy only by immediate post today). This exercise should confirm that assessment, fill in any gaps, sharpen our estimates of impact and take it a stage further by identifying the key actions that need to be taken to manage and mitigate risks. Comments on the draft assessment will be invited separately through the ad hoc group. Please restrict circulation of this assessment to your nominated point of contact (see below).

Each department now needs to:

- Nominate a senior Director level official to co-ordinate this work (names should be passed to Civil Contingencies Secretariat, e mail

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- Using the draft assessment as a starting point provide CCS with a summary of key risks and actions to manage these, as set out in the proforma attached, by 17.00 Wednesday 22 January.
- Attend a 'Domestic Implications Sub-Group', which will meet at 15.30 on Friday 24 January in the Cabinet Office (conference room A), to consider a CCS paper pulling together department's returns.

Some key points to bear in mind:

- This exercise is about domestic implications.
- Departments should consider risks to delivery of each PSA target.
- And also other risks which are not covered by PSA targets but would carry significant implications for the Government.
- Departments should particularly highlight actions that need to be taken now, or in the event of military action, to manage these risks.

I or John Fuller (CCS –) or (CCS –
e mail:) will be happy to answer any
questions.

Copies to go to Permanent Secretaries attending the Wednesday morning meeting, Michael Barber and Simon Virley (NO 10).

Jonathan Stephens
Director, Public Services

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DOMESTIC IMPACT OF AN IRAQ OPERATION – RISK TO PSA TARGETS					
DEPT	RISK			MITIGATING ACTION	
	ITEM	PROB.	IMPACT		

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17 January 2003

CIVIL CONTINGENCIES SECRETARIAT ASSESSMENT

POTENTIAL IMPACT ON UK OF OPERATIONS AGAINST IRAQ

KEY JUDGEMENTS

- I. Overall impacts will depend heavily on public and market confidence, which will themselves be affected by the course of operations and perceptions of domestic threats and dislocation. The information campaign is crucial.
- II. War with Iraq could reduce UK growth, and raise unemployment and inflation over the next 2 to 3 years, driven by rises in oil prices and falls in world equity prices and world trade. But this effect would probably only be significant if the war and its effects are more drawn-out than markets currently believe. In this case, there would be challenges for both fiscal and monetary policy.
- III. The principal immediate economic factor would be further oil price rises. General uncertainty would also affect the stock market and possibly domestic consumer spending. Dislocation of routes in the Middle East and safety concerns would have a strong effect on tourism and the air travel industry.
- IV. Operations would increase the prospect of further protests by anti-war groups as well as ethnic groups. There is opportunity for violent confrontations between protest groups, ethnic groups, or targeted against ethnic groups, particularly in the aftermath of a major terrorist incident.
- V. The prospect of military operations will not influence the FBU Executive to avoid strike action. Concerns arising from the prospect of operations – for instance, safety issues concerning terrorist incidents on mass transportation – may influence other industrial disputes. Activists may try to influence industrial action to support an anti-war agenda.
- VI. Heightened anxiety about terrorist attacks is likely to cause an increase in disruption associated with hoaxes and false alarms. The terrorist threat level remains high and groups may seek to take advantage of the circumstances of a conflict with Iraq.
- VII. Military resources would be lacking for domestic industrial action contingencies other than the fire-fighters' dispute. The call-up of medical reservists will impact provision of services at the six NHS hospitals with military staff but be containable elsewhere. Impact on the emergency services should be limited. Impacts could be compounded to some extent by extra, war related demands on the provision of medical and police services.
- VIII. Any large influx of refugees or expatriates requiring assistance would pose severe problems for the reception infrastructure and could further exacerbate the asylum issue. However, current assessment is that actual numbers seeking entry to the UK will be relatively small. FCO and Home Office have outline contingency plans in review.

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- IX There is a need to confirm that Departments have revised and coordinated plans to meet the risks identified here.

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INTRODUCTION

The CCS Assessment Team has updated the assessment of potential consequences to the UK of operations against Iraq to support the work of the Inter-Departmental Ad Hoc Group on Iraq. It focuses on the risks of major disruption to the UK as a whole or to important sectors of the economy. The draft assessment is being circulated to assist practical work on major risks to government objectives consequent on an Iraq conflict.

BACKGROUND

1. Contingency planning and preparations for military operations against the current regime in Iraq is in hand. Reaction to the prospect of operations, and actual operations should they occur, has implications for the UK in a number of areas.
2. The most important factor within the UK will be public confidence and its extension, market and commercial confidence. A short, successful campaign would have the minimum impact. The longer dislocation lasts, particularly if there are major terrorist incidents, the greater the likelihood of real disruptive challenges emerging. The extent to which military operations have public support is also important. Limited public support could significantly decrease public tolerance of minor inconveniences and encourage protests.

ECONOMIC CONSEQUENCES

3. The main impacts of a war in Iraq on the UK economy would be of global origin; changes in oil prices (affecting manufacturing and transport), world equity prices (affecting UK equity prices, and thus investment and consumption), and world trade (affecting UK exports). But any changes in public expenditure - and thus in fiscal policy - would also have an impact. Domestic consumer and investor confidence could also be affected, as expectations of world security prospects were revised (declines in consumer and investor confidence are assumed to occur abroad - these drive declines in world trade). A short and decisive war (as expected by markets) would slightly lower world equities and trade, and raise oil prices. A protracted war involving use of WMD, would produce much sharper and more enduring effects, in the same direction.
4. These effects could lower UK growth in 2004 and 2005, raise unemployment in 2005 and 2006 and see inflation rise in 2004 and 2005, but fall in 2006. But in all cases, these effects would only be very marked in worse case war scenarios. The two key challenges that this would raise would be for fiscal policy (if the economy slowed, reducing revenues and raising expenditure) and for monetary policy (if the slowdown in the economy coincided with an oil-driven rise in inflation). HM Treasury has prepared a more detailed paper 'Economic Impact of a War in Iraq' for the Ad Hoc Group.

Oil supply

5. It is possible that oil supplies from the Gulf could be disrupted to some degree. If conflict was confined to Iraq, a significant shortfall in world oil supplies is unlikely. OPEC spare capacity

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would be sufficient to cover the loss of Iraqi oil and the indications are that it would act to do so. However, the market is currently short of a significant amount of Venezuelan oil. If this situation overlaps with a conflict in Iraq, the market outlook would be tighter.

6. Ultimately, despite release of stocks, a shortage of supply on the world market could result in a restriction of supply to the domestic market, which could cause fuel shortages. This position is unlikely to arise until major disruption of Gulf supplies had exceeded three months (although panic buying would lead to sporadic problems with retail supply much earlier).

7. The prospect of imminent war, with disruption of Iraqi supplies and possibly Gulf supplies in general, will force the price upwards ahead of conflict. Under this pressure, oil will almost certainly rise above \$30 a barrel and may spike at over \$40. Prolonged disruption of Gulf oil supplies will exacerbate the high price. In the absence of supply disruption price rises are likely to be of short duration.

8. Although the UK does not directly rely on Gulf oil, international obligations (IEA and EU) require UK to co-operate in the release of stocks to the market. DTI has prepared contingency plans for release of reserve stocks in accordance with UK's international obligations. In light of the current situation, the HM Treasury-chaired Brooks Group on Oil Markets is meeting on a fortnightly basis, as is a complimentary DTI group.

9. The Brooks Group has identified the need to agree a common line on departmental messages relating to oil market issues. DTI is to consult with CIC on co-ordinating oil issues with overall Iraq questions.

Petrol Prices

10. High petrol and diesel prices increase costs to business. There is also the prospect of protests aimed at disrupting distribution. If oil prices rise above \$30 a barrel for a prolonged period, petrol and diesel prices will follow, and could cross the 80-84p per litre threshold that triggered the fuel protests in 2000. Average prices are currently 75p per litre for petrol and 76.5p for diesel. Police information indicates that the disparate groups that formed the body of the 2000 protests are divided. In any event, the leadership of those protests will probably regard an Iraqi conflict as a reasonable cause of such a rise, but a prolonged period of high prices, particularly if it continues after the end of obvious hostilities, increases the prospects for protests.

Manufacturing Sector

11. The manufacturing sector will be affected by increased costs (particularly energy) and lower demand for goods. This will further reduce or eliminate profit margins, already at a 10-year low. If inflation, and subsequently interest rates, rise, this would add to the current high level of corporate debt, further adding the problems of the sector. This is unlikely to cause an immediate crisis within the period of an Iraq operation.

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12. General uncertainty caused by the prospect of conflict will have a negative effect on an already depressed market. High oil prices would exacerbate this. HM Treasury (HMT), the Financial Services Authority (FSA) and Bank of England (BoE) continue to monitor the situation but do not expect an immediate crisis of confidence in financial markets. In the event of a major market fall, they would review the consequences for the financial sector as a whole.

Life assurance

13. The life assurance industry is not exposed to direct threat from operations against Iraq. However, it is affected by the depressed market.

FSA maintains a watch list of companies at risk of failing to maintain regulatory requirements and has measures available to address problems in companies at risk. There are no indications of companies intending to introduce restrictions on life assurance policies specifically relating to war prospects.

General Insurance

14. The general insurance industry, already experiencing problems from 11 Sep claims and trends in increasing damages claims, could in certain circumstances suffer from additional claims arising from actions triggered by war. However, in most cases insurers do not cover acts of war and terrorism has been excluded from many new policies. The circumstances in which large scale claims could arise from an Iraq operation are therefore limited.

Transport Sector**War Risk Insurance**

DFT, with HMT approval, has the power to operate aviation and maritime war insurance schemes. Work is under way to have these schemes in place shortly, should they be needed. However, introduction of the schemes requires that commercial insurance has been withdrawn or has become unaffordable, and that HMG wants traffic into the affected area to continue.

Airline Industry

15. The airline industry has suffered in the wake of 11 Sep. In the event of conflict in the Gulf, it would suffer from disruption of air routes in the Middle East, reduction in travel to countries in the region and an overall fall in tourist travel. This would particularly affect the important trans-atlantic trade. Airlines have made plans to limit disruption to routes transiting the Middle East. DFT regards this as a situation the aviation industry can handle – British Airways has made provision for reserves to cover a shortfall in revenue, although a prolonged conflict would cause problems. A terrorist incident resulting in a cessation of air travel would have a more potentially damaging effect

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on the industry and on the wider economy. On past experience, business travel would be considerably less affected than tourism – in 1990/91, business travel fell by only 6%. [further DFT input requested]

Shipping Industry

16. Impact on shipping industry is currently not assessed to be critical. General maritime insurance premiums are reviewed internationally and nationally in mid-February, the current expectation being an increase of up to 30% for structural reasons in the industry. There could also be short-term or local panics in the event of direct or retaliatory destruction of ships. DfT and FCO, with expert advice, are pursuing market-calming strategies. It is important for its own credibility that this international market is not seen to be overly influenced by HMG.

Tourism

The UK tourist trade to countries viewed as affected by a conflict will be reduced. Following the Bali bomb, tourism to Far East destinations has suffered. Heightened perceptions of a terrorist risk during a conflict could influence incoming tourists to the UK, particularly from the US, which is the most valuable visitor market, spending \$2.4 billion in 2001. During the 1990/91 Gulf War, tourism from the USA was reduced by 30%. Previous experience indicates that tourism from other European countries would be less affected. A major terrorist incident would exacerbate reductions in visitors to UK.

Business continuity in the event of terrorist incidents

17. A wide range of measures have been developed by HMT, FSA, BoE and major financial concerns to ensure business continuity in the face of disruption of existing premises. However, a major CW/BW incident could discourage people from entering the affected area or similar commercial/urban centres. Work absenteeism will have an impact on the domestic economy. This would have to be widespread and prolonged for major impact.

SOCIAL STABILITY**Protests**

18. Protests from anti-war protestors, Islamicist and Arab groups have already occurred. The Police have no indications of planned large-scale counter-demonstrations. A number of major demonstrations are planned for the next few weeks, including a Lobby of Parliament on 21 January, the date of the 24 hour Firefighters' strike. Police estimate the Stop-The-War March on 15 February could attract up to 500,000 participants. The start of actual operations will trigger further protests, many already planned and advertised. Prolonged conflict, major military setback, large-scale civilian suffering in the Gulf or disruption in UK would increase prospects of large-scale demonstrations.

Direct Action

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19. There are no indications of anti-war groups intending to adopt disruptive tactics of the sort seen during the fuel protests. Blockading of UK military bases would probably be unpopular with the general public. Demonstrations are already under way against US bases connected with the Missile Defence programme and protests and blockades of UK bases in connection with Iraq. A demonstration at PJHQ Northwood is planned for this weekend, with the intent of trespassing on the base. War weariness as a result of prolonged conflict or disruption may increase public acceptance of such action.

Community tension

20. There is the prospect of inter-ethnic violence, the targeting of ethnic groups using war as an excuse especially if there were to be a major terrorist attack attributable to a Muslim group. Muslim community leaders have already expressed concerns over being scape-goated for Al Qaida (and possible Iraqi) actions. These concerns would be heightened following a successful terrorist attack. However, police assess that right-wing racist political groups would not gain significant new support as a result of an attack.

21. The European Monitoring Centre for Racism and Xenophobia has estimated that racially motivated violence across Europe increased three-fold in the wake of 11 Sep. Australian authorities are reporting a similar increase in the aftermath of the Bali bombing. Police do not report a similar rise in UK, but this could change in the wake of a major terrorist attack attributable to a Muslim organisation

22. The Police are working to identify groups and areas likely to be affected by ethnic tensions. A number of departments and police forces already have strategies for engaging minority communities and are considering how to adapt these to address specific issues arising from the Iraq situation. An Interdepartmental Outreach Group, chaired by the CIC, is co-ordinating this discussion. GICS is co-ordinating an information strategy designed to maintain overall public confidence on terrorist issues. Measures to co-ordinate action on other domestic issues are under consideration.

Insurance cover

23. Restrictions on insurance policies could result in problems for individuals and private households suffering loss from terrorism or acts of war. Contingency plans for a government compensation scheme for Great Britain exist, which could be introduced if the circumstances arise. Northern Ireland has a separate terrorist compensation scheme. Commercial properties are covered by the Poll-Re scheme arranged between regulatory authorities and commercial concerns.

Returning expatriates

24. The British community in Kuwait is 4,500 strong, with 30,000 in Saudi Arabia, 6,000 in Bahrain and 40,000 in the UAE. It is not known how many of these individuals would come to the UK in the event of conflict in the Gulf, or what proportion would need housing or other welfare assistance. Many expatriates work for major multi-national companies that have their own contingency and employee support arrangements, which will alleviate this problem. FCO is asking posts in the region to investigate likely numbers.

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25. Plans developed for the India/Pakistan and Zimbabwe contingencies are adaptable to this problem. An influx of 20,000 would pose severe problems for the ability of UK infrastructure to provide transport, housing and other assistance. The situation would be exacerbated if such an influx coincided with an exodus from another region (i.e. India/Pakistan, Zimbabwe). This could be further exacerbated if prison over-crowding issues also put a demand on available emergency accommodation

Refugees

26. The arrival of large numbers of unannounced in a short space of time could risk overwhelming existing Immigration Service arrangements. There are outline contingency plans for dealing with unexpected large numbers of refugees, but these would need to be developed in liaison with local authorities if the situation became imminent. Short-term disruption in the region would probably not create a major refugee influx. A situation in which displaced Iraqi Kurds or Shias could not return to their homes, or a similar situation in Kuwait and Saudi Arabia (i.e. major chemical or biological contamination) would increase refugee numbers. Such a refugee problem would affect all European countries and probably involve international bodies, including the UN. Protests may be directed against such refugees, especially in the face of fears of contamination or infection. Community tensions in the areas where refugees are housed could be exacerbated.

Terrorism

27. The terrorist threat remains high. Whether or not there are actual terrorist attacks, hoaxes and false alarms will increase, heightening public concern, particularly in areas considered as prime targets - i.e. London. These fears could result in increased absenteeism, avoidance of urban centres and distrust of public transport, with consequences for the domestic economy. For this to be a serious concern, a major CW/BW incident of a very high threat perception would probably be required. Currently, the Press are not reporting hoaxes, but this situation could change in the face of a major incident.

Fire-fighters Dispute

28. The prospect of military action is unlikely to influence the FBU executive to avoid strike action. MoD will continue to support OP FRESCO - the provision of fire-fighter cover. Units required for an Iraq contingency are in the process of rotating out of OP FRESCO duties. This will be completed on 28 January.

Other Industrial Action

29. Other industrial action may be affected by concerns arising from the prospect of military action. For instance, the safety issues raised by ASLEF and RMT in connection with the fire-fighters' dispute, which led to some LUL staff refusing to work on the recent strike days, could also be applied to the possibility of CW/BW terrorist attack. London is most likely to be affected by such action. Anti-war activists may try to influence strikes in pursuit of their own agenda, although union executives will be aware of legal constraints. The combination of a potential Iraq commitment and OP FRESCO means that MoD has very limited resources within the Regular

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Armed Forces for other aid to the community tasks, such as oil tanker drivers. The MoD will not use Volunteer Reserves for industrial action contingencies.

Natural Emergencies

30. In a natural emergency situation such as flooding, volunteer reservists could be made available and military units in the vicinity would engage. However, units may have been deployed from normal locations, either for FRESCO or in support of the Iraq contingency and therefore be unavailable.

PUBLIC SERVICES**Medical Services**

31. **Reservists.** So far 200 medical reservists and 120 regular medical staff have been mobilised – the potential figure if the full mobilisation plan is implemented is a further 900 regulars and another 400 reservists. For the six NHS hospitals providing MDHU facilities, from whom the regulars will be withdrawn, the impact will range from significant to severe. DOH is working with the relevant NHS trusts to prepare plans to offset the effect on service provision. Elsewhere, the impact should be containable.

32. The NHS will also be affected by the need to provide for military casualties, although the scope of potential military action will dictate how large this requirement actually is. Public anxiety over CW/BW attack may increase demands for stress-related treatment, adding to pressure on the system. There may be problems of public perception of a reduced level of service. NHS performance targets in some areas may not be met.

33. **Infected refugees.** The need to treat individuals with infectious disease entering the UK, either refugees or military personnel could put further pressures on the NHS. The NHS also may have additional pressures arising from an unknown infectious disease imported to the UK by refugees or military personnel as a result of a deliberate release in the Gulf, or a deliberate release in the UK when UK citizens could be infected.

Police and Fire Services

34. Police resources already face increased demands for counter-terrorism issues. Firefighters' strikes require resources for escorting Green Goddesses. In the Iraq context, resources are required for policing of protests, many large-scale; security liaison with MoD on mobilisation arrangements; and additional intelligence and security requirements. Some forces may face resource problems in certain situations. A mutual aid mechanism exists to address such issues and Home Office is monitoring the situation.

35. Police and Fire Services should not be seriously affected by the mobilisation of reservists. For non-medical specialities, MoD is principally using volunteer reserves (RNR, RMR, Territorial Army, RAuxAF) and there are very limited numbers of such reservists. The Metropolitan Force has a total of 137 out of 24,000 police officer, and not all of these would be mobilised. Some key

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specialists could be affected, but there is an appeals procedure which can be used to address problems.

Food Supplies

36. The Gulf area is not critical to UK food supplies. However, if fuel supplies become severely restricted, there could be issues related to food distribution. For this to occur, Gulf oil supplies would have had to be disrupted for a considerable period. A catastrophic dislocation of vital food supplies is not likely. Public concern about possible shortages or food safety could lead to panic-buying and hoarding, creating local shortages. There is no specific intelligence to indicate a terrorist intention to contaminate food supplies.

Devolved Administrations

37. The Territorial Departments are not currently aware of any Iraq-related concerns specific to their responsibilities, but are monitoring the situation.