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12 February 2003

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#### **IRAQ : POST-CONFLICT COMMERCIAL ISSUES**

1. You may welcome an up-date on the latest developments in our contingency planning on Iraq. This follows a meeting on 7 February, chaired by TPUK, involving FCO, ECGD and Colin Adams of the British Consultants and Contractors Bureau (BCCB). Oil and Gas issues are being handled separately. The aim of our planning is to determine how best to provide assistance to UK companies wishing to pursue business opportunities in post-conflict Iraq.
2. Until now, most of our meetings have involved only internal players, and have been relatively low key, in view of our wish to avoid giving undue prominence to the commercial aspects of HMG's handling of the crisis. The participation of the BCCB in this meeting marked a new phase on our planning process. We expect to be approached directly by firms seeking confidential discussions on early access to Iraq. Alstom and Weir Pumps have already raised specific questions.

#### **UK/US ECONOMIC WORKING GROUP**

3. The meeting identified the bilateral Economic Working Group we have with the US as a key source of information about the economic and other related structures likely to be established in post-conflict Iraq. The first meeting of this Economic Working Group took place on 5 February in Washington, continuing our dialogue with the US about "day after" issues. While detailed

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arrangements were still under discussion, it was likely that the coalition or (our preference) the UN would be the key players in determining reconstruction priorities of a post-Saddam Iraq. There was likely to be overlap between the humanitarian effort and the reconstruction agenda. The Economic Working Group offers a useful means of identifying the priority sectors for the reconstruction effort and enabling us to remain closely engaged with the US in the overall planning process.

### LIKELY DEMAND FROM BRITISH COMPANIES

4. The meeting concluded that the assistance needed by British companies was likely to fall into three categories:

(i) **STAGE 1:** support on "Day One" to a small number of British companies who already have major pieces of infrastructure installed in Iraq (e.g. power generation) and who will want our help in gaining quick access to their installations. Some of this activity may come under the humanitarian agenda, rather than reconstruction, but quick access for these companies will be needed to protect their competitive advantage. Planning for this will require close consultation with the MOD. The Commercial Section of our Embassy in Amman may also be called upon to play a key role;

(ii) **STAGE 2:** will involve providing detailed, accurate information to British companies about opportunities to supply goods and equipment in the initial stages of the humanitarian reconstruction effort. This will mean compiling a new web page for Iraq with information on how to do business in the new environment and advice on procurement procedures. This is likely to include advising companies on how to access opportunities under any revised/expanded "oil for food" programme under UN auspices;

(iii) **STAGE 3:** will concentrate on helping British companies position themselves to take advantage of the short and medium term reconstruction contracts. Close contact with the Americans will be a key factor in this. This stage may include some form of scoping mission sponsored by TPUK and led by the BCCB.

5. We are likely to face considerable demand for information at all stages of this process.

### FUNDING ISSUES

6. Most assessments of the economic situation suggest that there will be a significant financing gap in the early stages of the reconstruction process. While the "Oil for Food" programme has begun to rehabilitate essential humanitarian infrastructure (eg water treatment plants) in the last couple of years, the focus of the programme (or its successor) would remain the immediate humanitarian needs of the Iraqi people (particularly post-conflict). The programme could not fund major reconstruction in Iraq, which would require new flows of finance.

7. Specific to the UK, the ECGD representative at our meeting reported that a submission had been put to Ministers (dated 6 February) outlining the policy options for them on UK cover. Essentially Iraq owes the UK some £623m (plus accumulated interest) in unpaid claims, and there is unlikely to be any ECGD cover under the standard criteria until this is settled. Some form of Paris Club solution is likely to be required. Against this background we should prepare ourselves to handle UK exporters who may well have unrealistic expectations about the commercial opportunities available in a post-conflict Iraq.

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## NEXT STEPS

8. Action over the next week or so is likely to concentrate on;
- analysing the outcome of the deliberations of the UK/US Economic Working Group;
  - establishing closer contact with the MOD and DfID, on Post-conflict commercial issues;
  - trying to get a clearer indication of US (and French) thinking on these issues;
  - liaising with the BCCB as they draw up a list of consultants/contractors involved in the likely priority sectors, who might form part of any future scoping mission (this will not be discussed with the potential participants at this stage);
  - assessing the need for additional temporary staff in TPUK's Africa/Middle East Directorate, possibly to form a separate Iraq Unit.

9. We also need to bear in mind that Mr Wilson (in his capacity as Minister responsible for construction issues) is keen to ensure that UK construction firms are given every opportunity to participate in the reconstruction process.

## LESSONS FROM KUWAIT

10. Our Middle East stakeholder organisations (MEA, ABCC) and a number of companies have expressed concerns to us about the possibility of a repeat of the situation in 1991 when UK companies lost out heavily to US companies in terms of reconstruction business in Kuwait. They argue strongly that HMG should press the Americans to guarantee a level playing field for UK companies on reconstruction contracts (including oil and gas). The degree of pressure is likely to depend on the size of any coalition which takes action in Iraq: UK companies are likely to react badly to countries not actively engaged in the coalition securing reconstruction business. In a related development, **six of TPUK's sector group Chairmen have written to you expressing concern that HMG is not extracting sufficient commercial advantage from our support for the US, in terms of business opportunities for UK companies in the US.** A draft reply has been submitted proposing a meeting.

## COMMENT

11. The contingency planning activities of all Whitehall departments are being co-ordinated by the Cabinet Office. We are represented at the weekly meetings of the Cabinet Office Ad Hoc Group on Iraq, but the relevance of this Group to our objectives is minimal. Indeed, the overall Whitehall agenda appears to attach little importance to the commercial aspects and the interests of UK companies. It is clear that the responsibility of delivering on these following any conflict or lifting of sanctions will fall to BTI and FCO.

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