

## *Submission to Ministers*

To : 1. Michael Anderson (agreed; verbal briefing is also available for the military/political parts of the Iraq Strategy - MA 25/3)  
2. PS/Secretary of State

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Date: 25 March 2008  
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### **IRAQ: INFORMAL MINISTERIAL DISCUSSION 26 MARCH 2008**

#### **Issue**

1. Meeting with the Defence Secretary and the Foreign Secretary to discuss the HMG Iraq Strategy.

#### **Recommendation**

2. That the Secretary of State note the key questions for discussion (**Flag A**), and the latest draft of the strategy document (**Flag B**).

#### **Communications and parliamentary handling**

3. None at this stage.

#### **Timing**

4. The meeting is on 26 March between 5.00 pm and 6.00 pm at room W4 in the House of Commons. It will cover Iraq and Afghanistan. A Prime Minister-chaired NSID(OD) is scheduled for 1 April to agree the final HMG Iraq Strategy. General Petraeus and possibly Ambassador Crocker will visit London on 22 April after their testimony to Congress, providing an opportunity to explain UK plans.

#### **Information**

5. Michael Anderson (Head of Iraq & Middle East Group) will accompany the Secretary of State. Discussion will focus on the questions proposed by Cabinet

Office (Flag A) and the revised HMG Strategy (Flag B). This draft focuses on HMG plans for the coming 9-12 months, presenting three options for troop drawdown, and proposals for ongoing political and economic work. The economic sections are on pages 8-10, and details on the Basra economic initiatives are in Annex C. The meeting is an opportunity to show that we have a clear plan for our economic work, and are increasing our resources in a measured way to deliver it.

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**Information (not for proactive disclosure)**

6. We expect that the bulk of the discussion will focus on the size and function of the UK military profile in Basra. Recent violence in Basra and Baghdad may also raise questions for UK policy. On the economic front, the key question is whether we have the right plans in place to deliver the Prime Minister's economic initiatives in Basra, particularly in light of General Petraeus' view that the UK is not doing enough.
7. The Defence Secretary wrote to the Prime Minister on 18 March, praising the efforts of Michael Wareing and the Basra Development Commission (BDC). The letter relays the concerns of General Petraeus that the UK economic effort is "under-gunned" and sets out that the UK can make contributions in four distinct areas:
  - a. Putting in place a reinforced team in Baghdad and Basra to translate Michael Wareing's efforts into tangible effect;
  - b. Redouble our efforts in Baghdad to unlock the investment and hydrocarbon laws, and to promote international investment in Basra;
  - c. Promote stronger Iraq-Kuwait economic ties, with a particular diplomatic focus on shifting Kuwait's approach from negative obstructionism to active partnership, possibly through a UK-Kuwait-Iraq trilateral forum;
  - d. Engage more actively with the US to tell our story on economic progress.

These contributions are consistent with DFID plans already in place, although more work will need to be done with the FCO to explore the idea of a trilateral UK-Kuwait-Iraq forum.

8. ***What is our current economic effort?*** The Strategy sets out (para 6c and Annex C) our objectives and work-plan for the coming twelve months in two areas:
  - a. continuation of our work in Baghdad, mainly capacity building on economic management for central government institutions; and
  - b. an increase in our effort in support of the Basra economic initiatives
9. The DFID work in Baghdad is addressing the key challenges facing Iraq over the long term. The UK has a niche role alongside the US, and our advice on key economic issues has been highly valued by the Iraqi government in the past (e.g. on debt, budgeting, inflation, centre-provincial links, financial management, project approval and execution, etc.). After UK military drawdown in Basra, our economic work will be increasingly focussed on Baghdad. This work also gives

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us a seat at the coalition policy-making table, which we are using – among other things - to promote greater international engagement in Iraq, particularly from the World Bank.

10. The Basra economic initiatives are at an early stage but are making good progress. The Basra Development Commission is now functioning well, under the leadership of Michael Wareing. Milestone events so far include the inaugural meeting of the BDC in Basra (February) and the *Basra Invest 2008* conference in Kuwait (March). These will be followed by the No 10 Reception for international CEOs (on 28 April).
11. Key 'deliverables' and milestone events for rest of the year are under discussion with Michael Wareing and the BDC, and will be firmed up in time for the Prime Minister's meeting with General Petraeus on 22 April. Ideas under discussion, and mentioned in Annex C of the draft Iraq Strategy, include:
  - a. Several high profile investor events for Iraq / Basra, spearheaded by the BDC;
  - b. Opening of the Basra Investment Promotion Agency (BIPA) to provide sustainable, Iraqi leadership for investment promotion;
  - c. Basra Development Fund capitalised by the Govt of Iraq and providing credit to small and medium sized enterprises;
  - d. Progress towards renovation of Basra International Airport, financed by Govt of Iraq, supported by UK technical assistance;
  - e. Progress, under US and Govt of Iraq leadership, towards renovation of Umm Qasr port;
  - f. Progress towards improved economic relations between Kuwait and Iraq, supported by BDC events to promote business contacts.
  - g. Launch of Basra Economic Development Strategy and BDC Working Groups to develop policies and projects for specific sectors, and a Roundtable meeting on Business Enabling Environment;
  - h. Launch of a youth employment taskforce.
12. ***What are we doing to deliver our economic objectives?*** Since January, DFID has increased its staffing profile from 4 to 10 full time equivalent staff/consultants working on economic issues. These include:
  - a. 4 Full Time Equivalent (FTE) working on economic reform in place at end 2007
  - b. 3 additional FTE contractors deployed in January on the Basra economic initiatives, including one post working full time on the BDC (individual profiles include investment promotion, private sector development)
  - c. 3 new posts approved by the Secretary of State in February 2008:
    - i. one DFID / HMG post to lead on Basra work from Baghdad; this person could head up the Basra Support Office discussed below; (*recruitment process underway*)
    - ii. two additional posts in Basra; staff have been appointed and will deploy in April –
      - (1) Trevor Killen, previously Director of Invest NI (Northern Ireland)

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(2) Mary Beth Theissen – a private sector banker, who previously worked in Canada and Afghanistan, with experience in small business lending

13. In addition to the ten posts above, we are planning two other deployments:

- a. relocation of an adviser to British Embassy in Kuwait to work on investment promotion and follow up on the investment conference; *(to start in April, for initial 3-6 month period)* [the individual is previously an investment promotion adviser for Scottish Enterprise]
- b. a civilian airport specialist to work as full time project manager in Basra International Airport, following the diagnostic study of from BAA. *(Stabilisation Unit identifying suitable person, likely to deploy in May)*

14. This increase in resources in Basra and Baghdad has been discussed with Michael Wareing and is – in his view – the right level to deliver the economic initiatives.

15. ***What are the options for doing more?***

- a. A Baghdad office. The Secretary of State already agreed to an extra staff member to be based in the Baghdad Embassy to support the Basra initiatives. A minimal approach would re-badge this effort as a "Basra Support Office", as set out in the HMG Strategy. An effective lobbying presence in Baghdad is critical to success in Basra - and is in any case a significant part of DFID's on-going work in Baghdad. Increased effort is now needed, both to support the growing momentum behind the economic initiatives, and to raise their profile with HMG and coalition colleagues. This should meet the first two points made by the Defence Secretary (see para 7a & 7b, above).
- b. Increase the staffing levels for the Basra Support Office. More staff or more senior staff could be deployed in addition to the anticipated new DFID staff member. Michael Wareing has cautioned against an effort that is too large for the moment, partly due to the fragility of the BDC and due to political sensitivities in Baghdad about an office that conducts special pleading for a particular province.
- c. A Baghdad branch of the BDC. An alternative option would be to set up a Basra Development Commission office: however this would need to be agreed by the BDC as a whole (and probably the GoI) and as an Iraqi body would likely to be based outside the British Embassy. *(Note that Michael Wareing has advised against that a BDC office in Baghdad).*
- d. Private sector involvement in a Basra Support Office. This has been proposed by both the Secretary of State for Defence in his letter to the Prime Minister of 18 March - and by the new Senior British Military Responsible - Iraq, General Cooper. Exactly what would be the role of the private company is to be determined, and could be discussed with Whitehall colleagues and Michael Wareing.
- e. A US presence in the Basra Support Office. This could improve coordination between the UK and US and help communicate our achievements to General Petraeus. [Privately, Wareing has also expressed concern about the risk of a military "take-over" of the initiatives, which need to be seen to both Iraqi- and Basra-led to be effective].

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- f. Role of UKTI. Michael Wareing will be speaking to Lord Digby Jones about promotion of Iraq as an investment destination. The Secretary of State for Defence believes the investment promotion should be a major part of the effort for Basra. This would probably be best considered outside any Basra Support Office as it would be wise to keep UK commercial and development roles separate.

16. The Secretary of State will wish to ensure that staffing decisions are agreed with Michael Wareing. We have not discussed the detailed proposals with him, but Wareing has expressed a general view that there is scope to improve our communication with Petraeus's team. In his recent conversation with the Prime Minister, Wareing has also said that there are sufficient resources available to support the initiatives.

### Advice

17. The staffing increases already agreed by the Secretary of State should provide adequate support for the Basra economic initiatives in the first instance. However, there may be a case to review the level of staffing, particularly in Baghdad, after the new staff have deployed and assessed opportunities (probably in May or June). Both the Secretary of State for Defence and Michael Wareing have stressed the potential for improved economic links between Kuwait and Iraq. Iraq's bilateral relationship with Kuwait is an FCO lead, but the Basra Development Commission can contribute, particularly through working with businesses – eg the recent Kuwait investor conference – and through making proposals on specific issues such as creating economic development zones.
18. In his telephone call with the Prime Minister on 20 March, Michael Wareing made the following observations:
- a. In his view there are sufficient projects / initiatives already on the table and sufficient resources to deliver them.
  - b. What is required now is to prioritise these projects and ensure accountability is clear, including division of labour between the UK and the US. (*Umm Qasr port is good example, as the US, UK, Japanese and Gol are all involved but division of labour has not always been clear*).
19. Michael Wareing has separately noted that the US administration is far from joined up on economic initiatives: General Petraeus's view that the UK is "under-gunned" is not shared by State Department.

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