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IRAQ (TRILATERAL) – 14 July

Main issues

- Prime Minister will make a statement to the House on Iraq before summer recess. Expected to take place 22 July
- NSID(OD) scheduled for 15 July. Anticipate the PM's statement will be discussed
- Statement will describe the security, political and economic improvements in Iraq, and will include reference to the economic initiatives and DFID's infrastructure and capacity building work. Indications are there will be no specific commitments on the rate of troop drawdown.
- Des Browne and David Miliband have individually met with Michael Wareing in the past fortnight to discuss his 'Key Goals' document – which will form basis of the Basra Economic Development Strategy (BEDS), the key priorities of which have now been agreed by the BDC. Des Browne may discuss where UK responsibilities lie for elements of those Key Goals, especially Basra International Airport.

Headline points

- We are fully supportive of the 'Key Goals' which Michael Wareing has put forward - which will form the basis of the Basra Economic Development Strategy. We are already making progress on the DFID-led goals which Michael Wareing identifies:
 - Investment promotion – 4 investors have now visited Iraq, considering projects with a potential value of \$4.3bn, employing 1200-1500 people. This includes, a project worth \$3.25bn for which Arcelor Mittal are now seeking clearance from their board
 - BDC Task Forces - Over the next 6 months, we expect to see further progress across a variety of the BDC task forces – most significantly on youth employment
 - BIPA/BDF - The Basra Provincial Council has now agreed the membership of the board for the Basra Investment Promotion Agency, and we are making progress on the legal basis of the Basra Development Fund
- We are also looking at further opportunities to share UK business expertise with the Iraqis – for example the BDC working with 'Business in the Community UK', to learn from their best practice initiatives for youth employment
- Wareing has flagged issues critical to HMG's success in Basra:
 - Basra International Airport: to define objectives for success and clarify responsibility within HMG for delivery.
 - UKTI: to ensure their contribution to the Basra Support Office.
 - Basra Provincial Reconstruction Team: to improve performance.
 - Iraq/Kuwait links: to improve economic ties
- Aware that there is a continuing view amongst some Iraqi politicians (i.e. Safa al-Safi and – to a lesser extent – PM Maliki) and some of the UK media that reconstruction and development work is not proceeding fast enough to capitalise on improved security. We are working through the Basra Support Office in Baghdad and the PRT in Basra to counter these views within the GoI. Further media opportunities will arise around the Prime Minister's statement

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5. However, there are a number of 'Key Goals' projects on which DFID does not lead: responsibility for progress on Umm Qasr Port and related Japanese loans (led by the US); aspects of the Basra International Airport (which officials have agreed is a shared lead with MOD); and the improvement of economic ties between Iraq and Kuwait (FCO).
6. In his meetings with the Foreign and Defence Secretaries, Michael Wareing has been keen to emphasise three critical requirements to deliver HMG's objectives in Basra:

Basra International Airport:

- Wareing has highlighted the perceived lack of responsibility and urgency within HMG for improvement of Basra International Airport (BIA), and has suggested that we need to allocate many more resources (30 consultants instead of 3) to the issue.
- HMG's first priority is to define what constitutes a deliverable 'success' in the condition of the airport at hand over. This, and the identification of actions necessary to achieve it, are key early tasks of the military team and SAF-funded consultant currently in theatre. Once these have been agreed, DFID will support an MOD-led with further funding from the cross-HMG Stabilisation Aid Fund.

UK Trade and Investment:

- Wareing is also keen to ensure support on trade issues is provided by the Basra Support Office (BSO), through the appointment of a UKTI official to the BSO. We agree. UKTI have said that they do not have the resources to fund the post. An FCO-led, bid for funding from the Stabilisation Aid Fund (SAF) was turned down as outside SAF's criteria.

Provincial Reconstruction Team:

- Wareing reported that there has been some criticism of the PRT in Basra, and that the US have suggested that it is not performing well in comparison to other PRT's. The Deputy Consul General in Basra – who also fulfils the role of PRT Team Leader – is overloaded, and is therefore unable to devote enough time and energy to the PRT. We are pushing the FCO to separate out these roles to improve the capacity of this FCO-led team.
7. In his meeting with Michael Wareing, the Defence Secretary was keen to identify opportunities for the BDC to work more closely with UK organisations – identifying the possibility of a Basra Sports Academy being 'twinned' with either Glasgow Rangers or Glasgow Celtic, and a partnership between Manchester and Basra Airports.
 8. We are already working to identify opportunities for the BDC to learn from the experiences of UK organisations. The Commissioners have previously visited Northern Ireland, to learn from post-conflict reconstruction initiatives there, and Invest NI (the Northern Irish investment promotion agency) are sharing their expertise with the BDC. We are now arranging for the BDC to work with 'Business in the Community UK' – a movement of over 800 companies working to increase Corporate Social Responsibility - to learn from their best practice initiatives for youth employment.

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Michael Wareing 'Key Goals to 2009': Summary

Background to the 'Key Goals to 2009':

Along with the other members of the Basra Development Commission (BDC), Michael Wareing is drawing up an economic plan for Basra, to be called the Basra Economic Development Strategy. The Prime Minister plans to refer to this economic plan in his statement to parliament before the summer recess, as part of the narrative on the UK's contribution to economic development in Basra.

Wareing has drafted his own 'Key Goals' document which lists the key areas of work for the BDC and others involved in Iraq - and provides milestones for when plans on these areas should be agreed. The 'Key Goals' document is likely to form the basis of the Basra Economic Development Strategy.

Michael Wareing's Key Goals within 6 months:

- An agreed Basra Economic Development Strategy
- Setting up a Youth Employment Programme (likely to be a package of measures to create sustainable jobs, supported by Business in the Community) and setting up and making progress on other BDC working groups to cover: investment climate, business enabling environment, infrastructure, and commercial law
- Investment Promotion, including through investor visits (this work has made very good progress in the past few months)
- An agreed package of proposals to improve economic ties between Iraq and Kuwait (both through reduced trade barriers and resolution to debt and compensation issues) and progress on the creation of a Free Trade or Development Zone on the border (FCO and Iraqi responsibility)
- Establishing the Basra Investment Promotion Agency (BIPA) to help Basra promote inward investment and Basra Development Fund (BDF), to provide credit to small and medium sized enterprises (Progress with these has been slow due to Iraqi / Basrawi political concerns, but the Board of BIPA was agreed on 2 July)
- Progress with Umm Qasr port (primarily and US and Iraqi responsibility) and with Basra International Airport (MOD, Stabilisation Unit and Iraqi responsibility) – comprising clear plans and key milestones
- Clear prioritisation of projects using Japanese loans, with plans and milestones for their delivery (these loans relate predominantly to the renovation of Umm Qasr port)
- Agreement of clear plans and milestones for key industries such as Oil & Gas, Ports and Shipping, Air Cargo etc.
- The continuance of a programme of 'Key Milestone Events' (e.g. launch events, BDC meetings etc)

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Investor Visit Update

This note provides an update on those investors who have already visited Iraq, those we are organising visits for, and those who have expressed a potential interest in visiting.

There is the potential that other investors will register an interest in visiting Iraq. This list should therefore not be seen as exhaustive.

Arcelor Mittal

- Visited Iraq 15 June facilitated by the US Department of Defense
- Interested in iron and steel works, and a spiral pipe factory, all located in the Basra area, as well as other supply chain activities
- They have stated they are planning to submit a bid - expected by c12th July - with overall potential project value to top \$3bn

Crescent Petroleum

- Visited Basra on 20 June
- Proposal involving gas flare capture and conversion into domestic fuel for power plants and the grid and LPG plant and port rehab in a second phase
- Potential value of the project is \$1bn

Gulftainer

- Visited Umm Qasr port on 22 June
- Willing to operate part or all of Umm Qasr. In addition they wish to construct a modern container terminal, and develop the area surrounding the port to support this
- Next step is to submit an Expression of Interest (EOI) expressing willingness to manage/operate the port area / build an international container terminal
- Potential value in excess of \$1bn

Cairn Energy PLC

- Visited Baghdad and Basra area on 25 and 26 June to look at oil fields and pipelines
- This visit should lead to an EOI for a number of medium sized oil field projects in the Basra area, with significant environmental and community works alongside

Visits being planned July-August:

KGL - interested in Umm Qasr port management

Avicenna Capital - interested in redeveloping a fertiliser plant

Kuwait Energy - interested in developing oilfields

Interest expressed in future visit:

DP World - interested in Umm Qasr/port redevelopment

BP - interested in oil fields

600 Group - interested in redeveloping an engineering plant in support of Iraqi railways