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To: Cairo - Conf  
From: CAIRX - etelegrams  
Subject: FW: I:OO:REST:IRAQ: EFFECTS OF THE RECENT CRISIS ON  
RECONSTRUCTION:IRAQR/FCOLN 173:Id=1667084  
Sent: 19 April 2004 05:57:37 GMT

-----Original Message-----

From: COMCEN Gateway 1a  
Sent: 18 April 2004 19:34  
To: CAIRX - etelegrams  
Subject: I:OO:REST:IRAQ: EFFECTS OF THE RECENT CRISIS ON  
RECONSTRUCTION:IRAQR/FCOLN 173:Id=1667084

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LNCCDN 3791 ZILNAN 0745

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OO ABDHA ALGIE ALKHO AMMAN ANKAR ATHEN BAHRA BASRA  
OO BEBER BEIJI BEIRU BREEC BREMB BRNAT CAIRO CANBE  
OO COPEN DAMAS DOHAA DUBAI DUBLI GEDIS GEMIS GIBRA HELSI HOSEE  
OO ISLAM JEDDA JERUS KHART KUWAI LISBO LUAND LUXEM MADRI  
OO MOSCO MUSCA NYMIS PARIS RABAT RIYAD ROMEE SANAA SANTI  
OO STOCK TEAVI TEHRA THHAG TOKYO VIDEL VIENN VIMIS WASHI  
OO WELLI  
FM IRAQR TO FCOLN  
181708Z APR  
GRS 1288

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FM IRAQREP

TO IMMEDIATE FCO

TELNO 173

OF 181708Z APRIL 04

AND TO IMMEDIATE CABINET OFFICE

INFO IMMEDIATE BRITISH OFFICE BAGHDAD, CANBERRA, CPA BASRA

INFO IMMEDIATE DEFENCE COMMEN LONDON, DFID, EU POSTS

INFO IMMEDIATE MIDDLE EAST POSTS

INFO IMMEDIATE MODUK/MODUK NAVY/MODUK AIR/MODUK ARMY/MODUK PE

INFO IMMEDIATE SECURITY COUNCIL POSTS, TOKYO

INFO IMMEDIATE WELLINGTON,

CABINET OFFICE FOR PS/NO 10

SUBJECT: IRAQ: EFFECTS OF THE RECENT CRISIS ON RECONSTRUCTION

## SUMMARY

1. Problem of designing and executing post-conflict reconstruction in what effectively remains a conflict zone. Improving security is the key, which CPA are seeking to address. Probably less activity on the ground than CPA are prepared to admit, as aid agencies and contractors withdraw personnel to safer areas pending decisions to re-engage. Main foreign contractors operating at 50-75 percent staffing levels. Some NGOs well below that. US Government pressure to accelerate execution of projects under the USD18.4bn Supplemental. But projects will inevitably

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take longer to implement, while damage is repaired and security enhanced. Foster Wheeler encapsulates the dilemma: risk coming out or losing out.

## DETAIL

2. The deterioration in security conditions has not merely affected current projects. It will complicate implementation of contracts under the US Supplemental, which Washington is putting pressure on CPA to accelerate. This telegram attempts to set out the issues and reflects discussions with Bearpark (Director, Infrastructure and Operations), Admiral Nash (PMO Director) and USAID (confidences should be respected).

## CURRENT PROGRAMMES

3. All figures are unreliable. Nor do CPA track projects from obligation of funds to start of execution (we have encouraged them to do so). The Russians are still operating at Doura, Baghdad South and Nasiriyya (the most important sites). Nash denied that PMO was delaying or halting the deployment of contractors to Iraq (as alleged by AMEC). Contractors were being cautious, but the prevailing mood was to "hunker down" and remain, while reviewing positions against their duty of care. Bearpark said no US or UK funded contractor had pulled out. His best estimate was that most were operating at 75 percent of full strength in country. There was no evidence that Bechtel or KBR were scaling back yet. Of the UK companies, see para 10 for Foster Wheeler. AMEC appear to be continuing deployment, but slowly.

4. USAID estimated that they were down to 50-60 percent of expatriate staff. This chimes with rumours we have been picking up (please protect) that USAID believe they are operating outside their rulebook and are trying quietly to draw down staff without making this obvious to the rest of the US government. Their key implementing partner in the governorates, and a channel for significant funding for democratisation and local development support, is RTI. Allegedly described on al-Jazeera as a "Zionist" organisation, RTI are reported to have received a specific and credible threat. They have drawn down on a 'temporary tactical basis' (mostly to Kuwait) 135 of their 190 staff in country. The remaining 55 are dispersed around Iraq, though appear to have retreated altogether from the south. This will have a significant impact on pursuing USAID activities.

5. Bearpark believed that the CPA was putting on a brave face but that the degree to which projects were being suspended was greater than being admitted. The Baghdad sewage project, for example, had been closed down (and the site now risked being looted). Electricity lines were down (with no prospect of redistribution from Basra to Baghdad any time soon). Bremer has rejected his advice to close the CPA office in Najaf.

## THE NEXT STAGE: IMPLEMENTING THE US SUPPLEMENTAL

6. Washington has directed that CPA accelerate implementation of projects under the USD 18.4bn Supplemental and specifically to ameliorate conditions in Fallujah. On paper, the current picture is as follows:

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(i) Construction projects: USD 8.8bn available now (a further USD 4bn held in temporary reserve), of which USD 1.5bn is obligated (ie. contracts issued), though task orders have not issued for all. By 1 July, it is planned that USD 5bn will be obligated.

(ii) Non-construction projects: USD 5.8bn available, of which USD 770mn obligated, with a target of USD 5.3bn procurement to be underway by 1 July.

7. The problem, however, is translating the figures into work on the ground (ie. visible improvements and benefits to the local economy) against a timetable required by the political process. Bearpark thought it would be unrealistic to expect more than USD 3bn of the Supplemental to be spent on construction projects over the next three years. The obstacles are considerable and principally security-related:

(i) establishing shifting security requirements and agreed security thresholds;

(ii) isolating security costs from the 10 percent ceiling legislated in the Supplemental for running costs;

(iii) the inability of contracting and project management to move outside the Green Zone;

(iv) the shortage of contracting and accounting personnel to process simultaneously hundreds of task orders; and

(v) a failed logistical infrastructure.

8. CPA are beginning to address these. While contractors are responsible for their own security, PMO have sought an immediate advance of USD 90mn from DOD or OMB to establish a security contract integrating the security efforts of all supplemental construction contractors, the Coalition and Iraqi security forces. This would provide information and advice to contractors and provide for a quick reaction force in emergencies. They have also sought a policy decision on isolating security costs from the 10 percent ceiling, funding for a logistical contract and agreement to draft in more project, budget and accounting personnel to handle the accelerated programme. State have drawn up post-transition plans for leaving in place around the country Government officials (Provincial Teams) and contractors (Reconstruction Construction Centres).

9. PMO's aim is to be in a position to implement once security conditions allow. Their worst fear is a budget loaded with money and no ability to deliver. Nash had been advising contractors to bring in a minimum number of staff needed to "establish a beachhead". PMO were creating incentives to subcontract to lower profile or local firms (with benefits to the local economy). Nash accepted that the current situation required more rigorous analysis of what could be done, for example, from Kuwait/Jordan, rather than from Baghdad.

10. Nash sought to pin much of the blame on government travel advice for delays. Foster Wheeler (prime PMO contractor to manage the USD 1.7bn oil sector) had told PMO that they were delaying deployment to Iraq in the light of our latest TA. As always,

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insurance costs were being driven by travel advice, though insurance was still available through US firms such as AIG. Bearpark (speaking in strict confidence) said that Foster Wheeler were already losing out on follow up contracts, because of their refusal to come out, even though they were guaranteed office and residential space in the Green Zone.

11. We need to consider the two key issues of what we recommend to UK development partners and construction contractors; and the implications of a divergence of advice between the UK and US (who seem to operate as if their even stricter advice against coming to Iraq does not exist). Our TA gives us no option but to counsel caution on UK contractors who come to us for advice and to reinforce with them the importance of ensuring robust security arrangements for their personnel here. We should hold this line until the picture is clearer on US military options.

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