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Dear Jeremy

IRAQ: RECONSTRUCTION

Thank you for copying to me your letter of the 24th and draft paper from the No 10 Policy Directorate.

We have a few drafting suggestions for the paper, mainly aimed at updating some of the figures – see the enclosed note. If colleagues in the Policy Directorate would like to discuss any of these suggestions they could call Paul Bailey, Head of Oil Markets and Downstream Economics here (telephone :) direct.

I am copying this to Mark Bowman (HMT), Simon McDonald (FCO), Anna Bewes (DFID) and (CO).

Yours,

Erica

ERICA ZIMMER
Principal Private Secretary

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Summary

Para 6 – it needs to be made clearer that it could take a) many months/a few years for Iraqi production to be first restored and then b) up to 10 years for output to be raised to a level (6m b/d) closer to Iraq's long run potential.

Costs of reconstruction

Page 8, final para - Iraqi production in January is estimated to be around 2.5 million barrels per day: 1.7m bpd of OFF exports, domestic consumption of around 0.5m bpd and illegal exports of around 0.3m bpd. Production capacity is estimated to be around 2.8m bpd. Although output could be restored to over 3 million barrels per day it is only **exports** which would earn \$22 per barrel, implying revenues of around \$21bn.

Page 9, first para - Iran's Jan 2003 quota was 3.38m bpd which was increased to 3.6m bpd from 1 Feb (to help cover the loss of Venezuelan supplies). However, once Venezuela production is restored Iran's quota is likely to fall to around 3.2-3.4m b/d.

second para - again, this needs to take account of Iraqi domestic consumption. Output of 3.5m bpd implies exports of around 3m bpd which at \$22/bbl equates to revenues of around \$24bn pa.

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