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8 May 2003

Sir David Manning
10 Downing Street
London
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Dear David

IRAQ - PHASE 5

1. Now we have moved firmly into the post conflict phase, I thought it would be helpful to do some further thinking on the sort of longer-term political and economic structures we envisage for Iraq. Of course, we have been clear throughout that decisions on Iraq's future government should be left to the people of Iraq. But we will have a degree of influence over the ultimate outcome and need to have the clearest view we can - despite the difficulties - about what we think will work and what will not.
- / 2. I attach a DSI/Research Analysts paper written by _____ and Martin Hetherington which analyses the issues, summarises the main challenges and reaches preliminary conclusions. You will find the conclusions at paragraph 26. The paper aims to provide a starting point for more detailed work and to provoke discussion more widely. If the Foreign Secretary agrees, I propose that it is circulated to the Ministerial group on Iraqi reconstruction.
3. I have submitted the paper to the Foreign Secretary with the suggestion

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that it be discussed in the ministerial group on Iraqi reconstruction. But I would also welcome any comments you may have.

Yours,

A handwritten signature in black ink, appearing to read 'Simon J. Fraser', with a horizontal line underneath.

Simon Fraser
Director for Strategy and Innovation

cc: Simon Webb Esq, MoD
Dr Nicola Brewer, DfID

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Phase 5: The Government of Iraq after the Interim Administration

Introduction

1. We outlined the sort of Iraq we want to see in the Vision for Iraq and the Iraqi people. This included a commitment to help (1) maintain Iraq's territorial integrity (2) establish representative government respecting fundamental human rights and (3) protect Iraq's oil reserves for the benefit of the Iraqi people.
2. The vision deliberately avoided the more complex questions about longer-term political and economic structures on the basis that such decisions should be left to the people of Iraq. This approach is undoubtedly right. But we will have a degree of influence over the outcome. The Americans will shape a lot of it. We will need to encourage them towards realistic approaches.
3. We have an interest in ensuring what is put in place is markedly better than what has gone before and that it delivers lasting security and prosperity. We need to develop our own view of what we think will work and what will not. This paper looks beyond the interim phase, which it assumes will last about 1-2 years, and provides preliminary analysis on which to base such an assessment.

The Challenge

4. Iraq is not a historical nation state. But it does have a relatively strong sense of national identity, at least the Arab part of it. It has been resilient in the face of a series of shocks (eg the Iran/Iraq and Gulf Wars) which placed strain on its ethnic and religious structure. This is at least in part because it was held together by a brutal dictatorship.
5. Despite the ostensibly simple division into three parts representing the former Ottoman vilayets, Iraq cannot be broken down easily into federal units. Its society is permeated by a complex web of differing loyalties - religious, ethnic, tribal and social. Its population is mixed eg many Shi'a and Kurds live in Baghdad. These internal divisions do not create distinct constituencies, geographic or otherwise, except in parts of the north (Kurds) and south (Shi'a).
6. Strong centralised rule has almost always played a major part in maintaining cohesion and preventing splits from emerging. But since the early 1990s Saddam Hussein actively exploited internal divisions to strengthen his grip on power and undermined many of the remaining centripetal forces in Iraq.
7. It will not be easy to design a constitutional structure which maintains Iraq's national cohesion, is truly representative and gives sufficient expression to the interests of the various constituencies in the country. There is a risk that whatever is put in place is too weak to be

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sustainable or that it institutionalises ethnic, religious and other differences.

8. The following factors complicate matters:-

- There are few political organisations cutting across the various divides. The Ba'th and Communist parties were the only truly national political organisations. There are no significant national political figures as yet. Political life and civil society - both once strong in Iraq - have been devastated.
- The political situation is fluid and unclear. Almost all the political parties and organisations have existed largely in exile and are not representative of most Iraqis. Those which have remained inside Iraq, like the Da'wa, are often religious in political ideology. New movements will almost certainly now start to emerge. Any new constitutional structure needs to be sufficiently flexible to cater for this.
- US attitudes could be key in determining the outcome of this political struggle, but not necessarily in the way they would like. Whoever they back may well be tainted.
- The political climate could turn ugly quite quickly, with the risk of civil breakdown both during the interim period and once an Iraqi Government is in place.
- Any system based on simple majority vote would probably give the Shi'a the leading voice in Iraq. This could be hard for the Sunni minority, which has largely dominated Iraqi politics since independence, and some of Iraq's neighbours to accept.
- The Kurds in the north have enjoyed de facto independence in internal affairs since 1991. It is unlikely they will want to settle for much less than that.
- There are disputes about which groups "own" which areas. This is particularly important in the north around Kirkuk where Saddam has followed a policy of Arabisation and massive oil reserves could be at stake.
- There is also a large Iraqi diaspora. Where should they fit in?
- Whatever political solution is reached will need to have regional acceptance, particularly from Turkey, Iran and Syria.

Possible Models

9. Two possible models for a future Iraqi Government can be discounted relatively quickly:-

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- Constitutional monarchy: Iraq's 1925 constitution established a constitutional monarchy. There have been some suggestions that a Hashemite king could be restored to the throne. It seems highly unlikely that any of the possible contenders would have sufficient local support and credibility, particularly if promoted from the outside.
 - Lebanese institutionalised religious divisions: The three key posts in the Lebanese Government are explicitly reserved for representatives of the main religious groupings. Such an approach in Iraq would set in stone current confessional/ethnic percentages. It would also work against Iraq's limited uniting features which we would hope to see develop further. That said, some sort of at least informal agreement on a division of posts along ethnic/religious lines may be one of the only ways of reconciling the different groups and it would be likely to evolve in any federal structure.
10. A federal or regional structure based on a parliamentary system is almost certainly the best way to achieve a workable balance. Various gatherings of Iraqis have endorsed this idea. But whilst the broad principle may be generally accepted, there seems to be no substantive agreement on the detail. There are two particularly tricky issues.
11. How should the regions be defined? One option would be to use the 18 existing governorates. This would be simple and avoid wrangling over boundaries. But some of the governorates have small populations and few resources. Also, it is not certain that the majority of Iraqis (eg the Kurds) would want local government at a governorate level.
12. An alternative would be to create groupings of governorates or to establish two unequal entities (either with one comprising the Kurdish north and the other the "Arab" south or with a Kurdish autonomous zone within Iraq). The latter approach, favoured by many Kurds, would almost inevitably lead to disputes about the boundaries of the two entities and whether Kirkuk should be included in the Kurdish state. It would be unacceptable to the Turks and Iranians.
13. How should power be distributed between the regions and the centre? Certain powers logically fall to a central government (eg internal and external security; monetary policy and overall budgetary control; administration of justice). There are other responsibilities that could be devolved relatively easily to the regional or even sub-regional level.
14. But the specificities of Iraq need to be addressed. It is not just a theoretical exercise in constitutional construction. There are various functions which are likely to be hotly contested as being important for both Iraqi national and regional identity (eg education; broadcasting) or political control (oil). Water/irrigation will also be highly sensitive, particularly in the south.

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Economic Development and the use of Oil Revenues

15. Iraq has important economic assets: large oil reserves; agriculture; a well-trained workforce; a trading tradition; a wealthy and entrepreneurial diaspora. With the right policies it could be very prosperous. But achieving this will not be easy.
16. Key issues to be addressed include: economic governance and transparency; the legal and regulatory infrastructure of the economy; the role of the state (facilitator and protector of the vulnerable, rather than owner and service provider); macroeconomic stability; and Iraq's place in the world economy and financial system. Developing the non-oil sector, where most Iraqis will work, will be a priority.
17. Oil will not create the dynamic and diverse economy Iraq needs. Indeed it may be a hindrance. But for the foreseeable future, it will be the mainstay of the economy and have a profound effect on economic development. The control of oil revenues will also determine political power. The way oil is handled needs to reinforce rather than undermine whatever political system is established.
18. Iraq's overall oil strategy (eg production levels; investment of oil revenues) will need to be developed at the national level to maintain economic stability. But if oil revenues are controlled by the central government, the regional structures will be almost entirely dependent on the centre. Conversely, if the regional structures have an absolute right to eg the oil produced in their areas this could give them de facto independence.
19. One solution would be for the central government to retain a proportion of the oil revenues to cover the cost of its activities. The remainder could then be divided between the regional/federal entities on a per capita and need basis, so that deprived areas can be treated more generously at least at the outset. Maintaining a high degree of transparency and some form of impartial oversight – perhaps involving an external third party – would be critical for any such system to work.
20. This method of distributing oil revenues would still risk concentrating political and economic influence into the hands of a relatively few people. Since power would depend mainly on control of an income stream rather than taxation, the need for government to be responsive to the needs of the population would be limited. One way of avoiding this could be to distribute part or all of Iraq's oil revenues directly to the population in some way. The aim would be to empower them and force the central and local governments to raise a proportion of their funds via taxation.

Promoting Iraqi Civil Society

21. Unlike eg Afghanistan, Iraq had many of the elements of an effective indigenous civil society. There is a tradition of significant urban middle

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class and a range of trade unions, business and professional associations and charitable institutions. Many of these NGOs cut across religious, ethnic and other divides. Almost all of them were severely weakened or became tainted under Saddam Hussein.

22. Our aim should be to help the re-emergence of Iraq's civil society by encouraging the middle class to engage in the transition process and the revival of the various NGOs. A reformed domestic media should also play an important part in this. Iraq has no culture of free media, except in Kurdistan.
23. A more prominent Iraqi civil society should increase national cohesion and prevent the emergence of more extremist groupings. The various NGOs could also be valuable building blocks for national parties and provide pools from which a new class of Iraqi leaders could emerge.

Protecting Minority and Women's Rights

24. There are various minorities which will not have significant influence in Iraq whatever the constitutional arrangements (Assyrians, Turkomans and others). Similarly there is a risk that women could be marginalised, although Iraq has a strong record on women's development. We will want to ensure the rights of minorities and women are explicitly protected in the constitution.
25. We will also wish to encourage their broad participation in national and local government. In some countries, this is achieved by earmarking seats in the legislature for minorities and women. Experience suggests this has limited impact since such representatives rarely have significant leverage. We should consider pushing for guaranteed participation in local and central government structures and, possibly, some form of quota system for the civil service.

Conclusions

26. The main preliminary conclusions from this analysis are as follows:-
 - We should argue against pushing the process of establishing a representative Iraqi Government too fast. It will take time for new political structures and leaders to emerge and this needs to happen from the local level up. In particular, we should not allow those parties with the most effective organisation or backing at present to determine Iraq's political future.
 - But we will need to keep up a clear sense of momentum and purpose to prevent internal instability and external interference.
 - We should argue for some sort of devolved structure with a strong centre and resist any proposals for a constitutional monarchy or rigid formal structures dividing the country along religious lines like in Lebanon. We should explore possible

federal/regional models in more detail.

- The key to any successful constitutional arrangement will be how it dovetails with the oil revenues since they will be the effective source of power in Iraq.
- To encourage greater popular accountability we should consider ways of dispersing oil revenues and making the central and local authorities more reliant on taxation. The longer-term objective should be diversification of the economy away from oil.
- We should be looking to encourage active involvement of the Iraqi middle class in the transition process and the revival of Iraq's indigenous civil society. A reformed Iraqi media could play an important part in this.