

SECTION 10.3

RECONSTRUCTION: OIL, COMMERCIAL INTERESTS, DEBT RELIEF, ASYLUM AND STABILISATION POLICY

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Introduction

1. Section 10 addresses the UK contribution to humanitarian assistance and reconstruction in Iraq between 2003 and 2009:

- Section 10.1 covers the period between March 2003 and the end of the Occupation of Iraq in June 2004.
- Section 10.2 continues the story from July 2004 to 2009.

2. Sections 10.1 and 10.2 consider:

- humanitarian assistance;
- the development and implementation of UK reconstruction policy, strategy and plans;
- the UK's engagement with the US on reconstruction, including with the US-led Office of Reconstruction and Humanitarian Assistance (ORHA) and the Coalition Provisional Authority (CPA); and
- the UK's engagement with successive Iraqi Governments on reconstruction.

3. Section 10.3 addresses five issues in more detail:

- UK policy on Iraq's oil and oil revenues;
- the Government's support for UK business in securing reconstruction contracts;
- debt relief;
- asylum; and
- reform of the Government's approach to post-conflict reconstruction and stabilisation.

4. Those issues are addressed separately from the main reconstruction narrative, in order to provide a clearer account of the development of the UK's engagement.

5. This Section does not consider:

- planning and preparing to provide humanitarian assistance and reconstruction, which is addressed in Sections 6.4 and 6.5;
- the financial and human resources available for post-conflict reconstruction, addressed in Sections 13 and 15 respectively;
- de-Ba'athification and Security Sector Reform, addressed in Sections 11 and 12 respectively; or
- wider UK policy towards Iraq in the post-conflict period, addressed in Section 9.

UK policy on Iraq's oil and oil revenues

Iraq oil reserves, production and export

6. A January 2002 Ministry of Defence (MOD) Defence Intelligence Service (DIS) report on Iraq's infrastructure stated that Iraq held the second largest proven oil reserves in the world at approximately 115bn barrels, equating to 11 percent of total world oil reserves.¹ It also held two percent of total world gas reserves. There were potentially larger reserves as many areas were underdeveloped.

7. The report estimated that crude oil production was approximately 2.8m barrels per day (bpd). Of that, Iraq exported approximately 2.4m bpd under the Oil-for-Food (OFF) programme.

8. The report also stated that Iraq's oil and gas infrastructure was in a generally poor state of repair.

9. A November 2002 Trade Partners UK (TPUK) paper advised that:

“... exploration in Iraq is relatively immature and yet-to-find (YTF) reserves have been estimated at between 50[bn] and 200bn barrels of oil. This magnitude of YTF reserves is unmatched anywhere in the world.

...

“Based on these reserves Iraq has the potential to be an extremely important future player in the supply of oil and gas to world markets ...

“Despite the vast sums required to develop Iraq's reserves, there is a great deal of interest from International Oil Companies to become involved in this [investment in Iraq's oil infrastructure]. This is based on the fact that, although modern technologies will be required to undertake the work, Iraq's reserves are considered amongst the cheapest in the world to develop, driven by having large, onshore fields with simple geological structure.”²

10. Iraqi oil production and revenues from oil exports for selected years between 1989 and 2009 are set out in Table 1, later in this Section.

¹ Paper DIS, 18 January 2002, 'Infrastructure Briefing Memorandum: Iraq'.

² Paper TPUK, 29 November 2002, 'Note for Sir David Manning on UK Oil Company Interests in Iraq'.

The Oil-for-Food (OFF) Programme

The OFF programme was established by resolution 986 in April 1995.³ Implementation began in May 1996 after the signing of a Memorandum of Understanding between the UN and the Iraqi Government.

The programme allowed for:

- the export of Iraqi oil;
- the deposit of oil revenues into a UN-controlled account; and
- the use of those revenues to procure food, medicine and other goods approved by the UN.

Under the UN sanctions regime, the OFF programme was the only legal way to export Iraqi oil.

In the period running up to the invasion of Iraq, the UK assessed that 60 percent of Iraqi people relied on supplies distributed under the OFF programme.⁴

UK energy security interests, 2001 to 2002

11. Sections 1.1 and 1.2 describe the increasing challenges from 1999 to the US/UK policy for the containment of Iraq.

12. In January 2001, the Foreign and Commonwealth Office's (FCO's) Middle East Department drew up an internal paper for a meeting of the FCO Policy Board, which reassessed the UK's "fundamental interests" in relation to Iraq and recommended a new approach to promoting them.⁵ The UK's interests were identified as:

- regional stability, including through the non-proliferation of Weapons of Mass Destruction (WMD);
- energy security: the region accounted for 33 percent of the world's oil production and 66 percent of world oil reserves;
- a "level playing field" for UK companies: at its peak, UK trade with Iraq was US\$500m a year;
- preserving the credibility and authority of the UN Security Council;
- maintaining the coherence of UK policy, including on human rights, adherence to UN Security Council resolutions, and non-proliferation;
- improving the humanitarian and human rights situation in Iraq;
- avoiding a US/UK split; and
- reducing the UK's isolation in the European Union (EU).

³ Office of the Iraq Programme: Oil-for-Food website, [undated], *About the programme*.

⁴ [Letter Short to Blair, 14 February 2003, 'Iraq: Humanitarian Planning and the Role of the UN'](#).

⁵ Paper FCO, January 2001, 'Iraq: A Fresh Look at UK Interests'.

13. Sections 3.1 and 3.2 describe how, following the attacks on the US by Al Qaida on 11 September 2001, the US moved away from pursuing a policy of containment and towards a policy of taking direct action against Iraq, and the UK's response to that shift.

14. In February 2002, No.10 commissioned a "large number of papers" for the meeting between President Bush and Mr Blair at Crawford, Texas, which was scheduled to be held in early April.⁶

15. Those papers included:

- “• **Iraq** ... the options, the state of play on the UN Resolutions, the legal base and the internal dimension – the state of the opposition groups etc.
...
- **Oil and energy** ... who are the producers, which states are Europe and the US most dependent on, the state of play in developing countries with oil reserves, pipelines ...”⁷

16. The Cabinet Office's 'Iraq: Options Paper', which is described in detail in Section 3.2, identified two broad policy options:

- toughen the existing containment policy, or
- seek regime change.⁸

17. The paper defined the current objectives of UK policy towards Iraq, and set them within the context of the broader UK objectives of "preserving peace and stability in the Gulf and ensuring energy security".

18. Apart from that reference to energy security, the paper did not consider oil or energy security.

19. The FCO's Forward Strategy Unit (FSU) produced a paper on the security of global oil supply which considered a number of risks to the supply of oil, including a "sustained Allied attack on Iraq".⁹ The paper concluded:

- “• Any step increase in price likely to be unsustainable.
- Sufficient production and substantial spare capacity in other oil producing countries to meet demand.”

20. The Options Paper and the FSU paper were submitted to Mr Blair on 8 March 2002 alongside seven other "background briefs that you asked for", for the meeting with President Bush.¹⁰

⁶ Public hearing, 19 January 2011, page 34.

⁷ Minute McKane to Manning, 19 February 2002, 'Papers for the Prime Minister'.

⁸ [Paper Cabinet Office, 8 March 2002, 'Iraq: Options Paper'](#).

⁹ Paper FSU, March 2002, 'Paper on Security of Supply of Oil'.

¹⁰ Minute Manning to Prime Minister, 8 March 2002, 'Briefing for the US'.

21. Mr Blair sent a minute to Mr Jonathan Powell, his Chief of Staff, on 17 March setting out three points in response to the briefing papers that he had received:

- “(1) In all my papers I do not have a proper worked-out strategy on how we would do it. The US do not either, but before I go [to Crawford], I need to be able to provide them with a far more intelligent and detailed analysis of a game plan ...
- (2) The persuasion job on this seems very tough ...
- (3) Oil prices. This is my big domestic worry. We must concert with the US to get action from others to push the price back down. Higher petrol prices really might put the public off.”¹¹

A copy of the minute was sent to Sir David Manning, Mr Blair’s Foreign Policy Adviser and Head of the Overseas and Defence Secretariat (OD Sec) in the Cabinet Office.

22. Asked to clarify what “it” was that required a proper worked-out strategy, Mr Blair told the Inquiry: “How we would either get Saddam to cease being a threat peacefully or to get him out by force.”¹²

23. Mr Michael Arthur, FCO Economic Director, sent Sir David a paper on the economic effects of military action against Iraq on 26 March.¹³ Mr Arthur assessed that:

“Iraq produces c2.5m bpd, a bit over 3 percent of world supply. Military action may well lead to a reduction or cut-off in its exports either directly or by way of Iraqi retaliation.

“There is likely to be an immediate spike in oil prices ... provided the conflict does not spill over into the Gulf and threaten the flow of supplies through the Straits of Hormuz – the spike could be very short-lived.”

24. A protracted, regional conflict would pose a more serious threat to oil prices and the world economy.

25. The paper also highlighted the economic consequences for Iraq’s neighbours, particularly Jordan.

26. Mr John Scarlett, the Chairman of the Joint Intelligence Committee (JIC), responded to a request from Sir David for an update on Iraq’s oil production, the importance of oil revenue to the Iraqi regime, and the effect of a halt in Iraqi oil exports on the world oil market, on 4 April.¹⁴

¹¹ [Minute Prime Minister to Powell, 17 March 2002, ‘Iraq’.](#)

¹² Public hearing, 21 January 2011, page 43.

¹³ Letter Arthur to Manning, 26 March 2002, ‘Iraq: Back Pocket Economics’.

¹⁴ [Minute Scarlett to Manning, 4 April 2002, ‘Iraq: Oil’.](#)

27. Mr Scarlett advised that:

- Iraq exported considerable quantities of oil – perhaps as much as 400,000 bpd in 2001 – illegally.
- Saddam Hussein’s regime gained some illegal revenue by applying surcharges to OFF programme trade. It also controlled the distribution of goods purchased under the OFF programme, adding to its ability to offer patronage.
- While a sudden cut in Iraqi oil exports would cause a temporary spike in the oil price, the price rise would be “moderate” (less than US\$5 a barrel).
- The duration of the spike would be determined by market expectations which were already influenced by “jitters over the Middle East and talk of war with Iraq”.

28. Sir David passed Mr Scarlett’s note to Mr Blair the following day.¹⁵

29. Mr Matthew Rycroft, Mr Blair’s Private Secretary for Foreign Affairs, sent Mr Blair an updated briefing pack for the meetings at Crawford on 4 April.¹⁶ For Iraq, that included “further background papers on ensuring the security of energy supply”.

30. Those further background papers are likely to have been the papers provided by Mr Arthur and Mr Scarlett.

31. Section 3.2 describes the discussions between President Bush and Mr Blair at Crawford from 5 to 7 April.

32. Mr Blair told the Inquiry that there had been “a general discussion of the possibility of going down the military route but obviously, we were arguing for that to be if the UN route failed”.¹⁷

33. The Inquiry has seen no indications that issues relating to energy security or oil were discussed at the meetings.

Planning and preparing for a post-conflict Iraq

34. In mid-June 2002, the MOD’s Strategic Planning Group issued a paper on UK military strategic thinking on Iraq to a limited number of senior MOD addressees.¹⁸

35. The paper stated that with significant potential oil revenues, Iraq’s reconstruction should be “self-sufficient”.

¹⁵ Manuscript comment Manning to Blair on Minute Scarlett to Manning, 4 April 2002, ‘Iraq: Oil’.

¹⁶ Minute Rycroft to Prime Minister, 4 April 2002, ‘Texas’.

¹⁷ Public hearing, 29 January 2010, page 59.

¹⁸ [Minute Driver to PSO/CDS, 13 June 2002, ‘Supporting Paper for COS Strategic Think Tank on Iraq – 18 June’ attaching Paper MOD, 12 June 2002, \[untitled\]](#).

36. The paper listed likely immediate, medium-term and long-term military post-conflict tasks. The immediate (up to six months) tasks included:

- assist in restoration of key infrastructure elements;
- secure oilfields and oil distribution/refining infrastructure.”

37. The medium-term (six months to two years) tasks included:

- begin transfer [of] security of oilfields and production facilities to Iraqi forces.”

38. The paper was revised five times between June and December 2002.

The December 2002 version of the paper replaced the tasks listed above with a single “Military Line of Operation” for infrastructure security, which extended into the long term.¹⁹

39. At his request, Mr Blair received a pack of reading material on Iraq at the beginning of August 2002.

40. The reading pack included a January 2002 DIS report on Iraq’s infrastructure.²⁰ The report had been produced in response to the ongoing requirement on DIS to maintain and update information to support possible future military operations.

41. The DIS report stated that Iraq’s oil and gas industry had suffered substantial damage during the Iran/Iraq and Gulf wars, and recovery had been slow. A “recent UN report” had assessed that the general state of the Iraqi oil industry had declined seriously over the previous 18 months and that urgent measures were needed to avoid further deterioration of oil wells and the petroleum infrastructure. Of the 12 oil refineries in Iraq, only three were operational.

42. An FCO Economic Adviser produced an assessment of short- and long-term economic consequences of military action for the region and for Iraq on 29 August.²¹ The assessment identified a number of potential short-term consequences of military action including a rise in oil prices and the disruption of the OFF programme.

43. Copies of the assessment were sent to FCO officials and, separately, to TPUK. The Inquiry has seen no indication that copies were sent to other departments.

44. A Treasury official sent Mr Gordon Brown, the Chancellor of the Exchequer, a paper on the global, regional and local (Iraqi) economic impact of war in Iraq on 6 September.²²

¹⁹ [Paper \[SPG\], 13 December 2002, ‘UK Military Strategic Thinking on Iraq’.](#)

²⁰ [Paper DIS, 18 January 2002, ‘Infrastructure Briefing Memorandum: Iraq’.](#)

²¹ [Minute FCO \[junior official\] to Gray, 29 August 2002, ‘Iraq: Economic Issues Raised by Military Action and Regime Change’ attaching Paper, \[undated\], ‘Regional Economic Consequences of Military Action against Iraq’.](#)

²² [Email Treasury \[junior official\] to Bowman, 6 September 2002, ‘What would be the economic impact of a war in Iraq?’ attaching Paper Treasury, September 2002, ‘What would be the economic impact of war in Iraq?’.](#)

45. The Treasury paper stated that Iraq's economy was distinguished by the dominance of oil and gas revenues. Iraq currently produced around 2.5m bpd, though this "fluctuated wildly" as Iraq used oil production as a bargaining tool in negotiations with the UN over the operation of the OFF programme. Around 2.25m bpd were exported. Oil revenues represented 60 percent of Iraq's GDP and 95 percent of its foreign currency earnings.

46. Oil markets already thought that war with Iraq was probable, driving up prices to around US\$27 per barrel. Globally, a conflict could lead to a rise in the oil price of US\$10 a barrel and a consequent reduction in global growth by 0.5 percentage points and a rise in inflation by between 0.4 and 0.8 percentage points.

47. The Treasury paper did not address the impact of a conflict on the UK economy.

48. The Treasury advised that recent experience suggested that the cost of "putting a country back on its feet" could be high. The Federal Republic of Yugoslavia had already received US\$10bn in support. Iraq could be "even more expensive", given:

- the possibility that a conflict could cause significant damage, and the existing poor state of Iraq's infrastructure;
- the need to stabilise the economy, including by addressing Iraq's huge external debt;
- the need for a large peace-keeping force "to keep a lid on the ethnic and religious tensions that Saddam's dictatorship has hidden for so long"; and
- the pressure for a "generous [reconstruction] package, given the perception in the region that invading Iraq is of dubious legality and worth".

49. On who would pay for that generous package, the Treasury assessed that:

"... the US might expect Iraq to pick up the bill after a short 'bridging' period, especially as – with investment – oil revenues could quickly exceed US\$20 billion per year.

"But it is more likely that strong pressure will come to bear on the US and its allies to pay the lion's share, given their role in the war ..."

50. The Treasury paper did not consider more specifically what the UK's contribution to meeting post-war costs might be.

51. The Inquiry has seen no evidence that Mr Brown responded to this analysis, or that it was circulated outside the Treasury.

52. In September 2002, the Energy Infrastructure Planning Group was established within the US Department of Defense (DoD) to plan for the rapid restoration of Iraq's oil

sector, in order to maximise oil revenues to finance reconstruction.²³ Formal meetings began in November. In parallel, the US National Security Council (NSC) developed a longer-term plan to transfer control of Iraq's oil infrastructure back to the Iraqi authorities. That plan was approved by President Bush in January 2003.

53. The Inquiry has seen no indications that the UK Government was aware of those processes until late January 2003.

54. From 20 September 2002, the Cabinet Office-led Ad Hoc Group on Iraq (AHGI) co-ordinated all non-military cross-government work on post-conflict issues (see Section 6.4). The focus of the AHGI's work during autumn 2002 was a series of analytical papers by the FCO and other departments on the post-conflict administration and reconstruction of Iraq, and the possible consequences of conflict for the UK.

55. The AHGI held its first meeting on 20 September.²⁴ Mr Jim Drummond, Assistant Head (Foreign Affairs) of Cabinet Office OD Sec, wrote to Mr Desmond Bowen, Deputy Head of Cabinet Office OD Sec, the day before, suggesting issues for discussion and proposing departmental responsibilities for those issues. The issues identified by Mr Drummond included:

- “• Impact on world growth and trade, and on the UK economy (Treasury to write a note if they haven't already).
- Securing oil supplies and effect of regime change on world oil markets (DTI [Department of Trade and Industry]).”

56. The record of the 20 September meeting of the AHGI stated that:

“Most [departments] have begun considering implications of military action. These include Treasury on the macro economic impact, DTI on oil markets ...”²⁵

57. The record also stated that work should remain “as internal thinking within departments” for the next few weeks.

58. On 26 September, the FCO sent a paper on post-Saddam government in Iraq, entitled ‘Scenarios for the Future of Iraq after Saddam’, to Sir David Manning.²⁶ It was circulated separately to members of the AHGI.

59. The paper defined scenarios under which Saddam Hussein might lose power, the UK's four “overarching priorities” for Iraq (termination of Iraq's WMD programme, more inclusive and effective Iraqi government, a viable Iraq which was not a threat

²³ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

²⁴ Minute Drummond to Bowen, 19 September 2002, ‘Ad Hoc Group on Iraq (AHGI)’.

²⁵ Minute Drummond to Manning, 23 September 2002, ‘Ad Hoc Group on Iraq’.

²⁶ [Letter McDonald to Manning, 26 September 2002, ‘Scenarios for the Future of Iraq after Saddam’ attaching Paper FCO, \[undated\], ‘Scenarios for the Future of Iraq after Saddam’.](#)

to its neighbours, and an end to Iraqi support for international terrorism), and how those priorities might be achieved.

60. The paper stated that the UK had a “fundamental interest in a stable region providing secure supplies of oil to world markets”, but did not otherwise consider energy security or oil.

61. The Cabinet Office circulated the final version of the DTI’s Emergency Plan to deal with international oil supply disruption resulting from military action in Iraq to members of the AHGI on 17 October.²⁷

62. The DTI assessed that:

- the return of weapons inspectors and limited UN-sanctioned strikes against Iraq would have very little impact on UK fuel supplies;
- a UN-sanctioned invasion of Iraq could result in some disruption to international oil supply, possibly leading to a “token” release of oil stocks by the International Energy Agency (IEA), but there would be no impact on UK fuel supplies beyond some price volatility; and
- some worst-case scenarios, including a unilateral US invasion, could have a serious impact on oil markets leading to significant increases in UK fuel prices.

63. The DTI stated that it would monitor any potential or actual oil supply disruption.

64. On 22 October, Mr Jon Cunliffe, Treasury Managing Director for Macroeconomic Policy and International Finance, sent Mr Brown a paper on the impact on the Treasury’s objectives of a war in Iraq.²⁸

65. The Treasury paper identified nine risks to the Treasury’s objectives and assessed the likelihood and impact of each in four scenarios: no war; a short war; a protracted war; and a war involving WMD. The nine risks were:

- substantial rise in public spending;
- lower growth, higher inflation and unemployment;
- negative productivity shock;
- public finances less sound;
- inflation deviates from target;
- loss of insurance capacity/risk of insurance failures;
- more International Monetary Fund (IMF) lending leading to higher UK gross debt;
- revival of popular pressure for lower fuel taxes; and

²⁷ Minute Dodd to Members of the Ad Hoc Group on Iraq, 17 October 2002, [untitled], attaching Paper DTI, October 2002, ‘International Oil Supply disruption – Emergency Plan’.

²⁸ Minute Cunliffe to Chancellor, 22 October 2002, ‘Iraqi War: Risks to Treasury Objectives’ attaching Paper Treasury, [undated], ‘Impact of a War on Treasury Business’.

- developing countries knocked by oil prices, leading to lower growth.

66. In his covering minute, Mr Cunliffe advised that the Treasury's main concern related to its "ability to maintain sound public finances, especially in the more pessimistic cases". There would be some risk to the "Golden Rule" in all three war scenarios; the risk would be much greater if a war involved WMD. Mr Cunliffe concluded by suggesting that Mr Brown might want to warn colleagues about the risk to public finances.

67. The Inquiry has seen no evidence that Mr Brown took any action as a result of Mr Cunliffe's advice.

68. In his evidence to the Inquiry, Sir Jon Cunliffe described the oil market as the "main transmission mechanism" from a conflict in Iraq to the world economy:

"There are general confidence effects [on markets]; markets don't like wars, they don't like political situations they can't read, but ... the more concrete transmission channel through which a crisis ... would impact the global economy, we thought would be oil and oil price shock ...

"We modelled that quite closely ..."²⁹

69. The Inquiry asked Sir Jon whether the Treasury had done any work on the benefits of a conflict in Iraq to UK energy supply or to the UK oil industry. He told the Inquiry:

"No, the only thing that I think comes close is that, in the fiscal impacts of a crisis, a high oil price benefits the UK, because we are an oil producer and we have tax and licence revenues, so we took that upside. That's one of the reasons why the impact on the UK economy is not straightforward. So we took into account what would happen with an oil price spike. It would actually mean damage to the UK economy, but more revenue coming in, but we weren't trying to do an exercise about the economic pros and cons of the war. That was not the object of the exercise."³⁰

70. Sir Jon told the Inquiry that the DTI was also engaged on modelling the impact of conflict on oil prices.³¹

71. Mr Drummond sent a paper on models for Iraq after Saddam Hussein to Sir David Manning on 1 November.³² In his covering minute, Mr Drummond advised that it was a synthesis of some of the work undertaken by departments under the auspices of the AHGI, and that it would be used as the steering brief for the FCO/MOD/Department for International Development (DFID)/Cabinet Office delegation to the forthcoming talks on post-conflict issues with the US and Australia in Washington. Mr Drummond advised that the ideas in the paper would not be presented as UK policy.

²⁹ Public hearing, 9 July 2010, pages 8 and 9.

³⁰ Public hearing, 9 July 2010, pages 10 and 11.

³¹ Public hearing, 9 July 2010, page 9.

³² [Minute Drummond to Manning, 1 November 2002, 'Iraq: Post-Saddam' attaching Paper 'Iraq: Models and some questions for post-Saddam government'](#).

72. The paper stated that there were many possible permutations of the “stable united and law abiding [Iraqi] state ... providing effective and representative government” sought by the UK, but focused on two:

- “Iraq under a new, more amenable strongman”, after Saddam Hussein had been toppled prior to or in the early stages of any military campaign; and
- “a more representative and democratic Iraq” after Saddam Hussein’s regime had collapsed following a military campaign.

73. In the second scenario, the UK’s “preferred model” comprised three phases:

- A transitional military administration (which could last up to six months). Priorities would include maintaining a version of the OFF programme and planning for the revival of Iraq’s economy.
- A UN administration (which might administer Iraq for approximately three years, while a Constitution was agreed). Priorities would be to repair “war damage” to Iraq’s oil industry and introduce new investment. Some way would have to be found to reconcile payment of Iraq’s huge external debt and compensation claims with its reconstruction and development needs.
- A sovereign Iraqi Government.

74. The paper did not address what role, if any, the UK might have in pursuing those priorities.

75. A Treasury paper on the impact of conflict on the global economy and the UK was circulated to the AHGI on 7 November.³³ The Treasury’s assessment of the impact on the global economy remained unchanged from 6 September.

76. Mr Edward Chaplin, FCO Director Middle East and North Africa, led the UK delegation to the first round of talks on post-conflict issues with a US inter-agency team and an Australian delegation in Washington on 6 November.³⁴

77. Mr Drummond, a member of the UK delegation, reported to Sir David Manning on 8 November that the US wanted to establish a trust fund for Iraqi oil revenues, under Coalition control, which would be transparent and enable resources to be used for the benefit of the Iraqi people.³⁵

78. There are no indications that the UK engaged with the US on that issue until the second round of US/UK/Australia talks, in late January 2003.

³³ Letter Dodd to Ad Hoc Group on Iraq, 7 November 2002, ‘Ad Hoc Group on Iraq’ attaching Paper Treasury, October 2002, ‘Economic Impact of a War in Iraq’.

³⁴ Telegram 1456 Washington to FCO London, 7 November 2002, ‘Iraq: UK/US Consultations on Day After Issues: 6 November 2002’.

³⁵ Minute Drummond to Manning, 8 November 2002, ‘Iraq: Day After’.

79. Mr Blair and Mr Jack Straw, the Foreign Secretary, held an off-the-record seminar on Iraq with six academics on 19 November.

80. Mr Rycroft advised Mr Blair that No.10 had issued a set of eight questions as an agenda for the seminar, including:

“Post-Saddam, how quickly would the Iraqi economy revive? Who would control the oil etc?”³⁶

81. Mr Rycroft annotated that question in his advice to Mr Blair:

“BP and others are fretting that they will lose out in the carve-up of contracts after any military action, as the UK did after the Gulf war ... We don't need to get into the detail of this, but we need to know what the main economic constraints would be in rebuilding Iraq and how economic issues would drive the model of governance chosen.”

82. The concerns of UK oil companies and their discussions with the UK Government are described later in this Section.

83. Not all the questions posed by No.10 were addressed at the seminar.³⁷ Mr Rycroft's record of the seminar reported the view that changing Iraq substantively would mean tackling the political economy of oil, which led to a highly centralised bureaucracy and the power of patronage.

84. Mr Arnab Banerji, an adviser in No.10, sent Mr Blair a detailed assessment of the economic impact on the UK of war in Iraq on 19 December.³⁸ Mr Banerji concluded:

“A short successful war with Iraq is likely to pose little strain on the UK economy. Following such a conflict a combination of lower oil prices and increased business confidence should provide a boost to the world economy. This in turn would feed into higher UK growth in both 2003 and 2004.

“An extended or inconclusive conflict would have negative consequences for the world economy and damage the UK. If oil prices remain in the US\$30 – US\$45 [per barrel] range for a year then UK growth rates are expected to be about 1.0 percent lower than anticipated for both 2003 and 2004.”

That price range compared with a UK forecast of US\$20 to US\$25 per barrel by the end of 2003.

³⁶ [Minute Rycroft to Prime Minister, 18 November 2002, 'Iraq: Seminar with Academics, Tuesday'](#).

³⁷ [Letter Rycroft to Sinclair, 20 November 2002, 'Iraq: Prime Minister's Seminar with Academics, 19 November'](#).

³⁸ Minute Banerji to Prime Minister, 19 December 2002, 'Economic Impact on UK of War with Iraq'.

85. Mr Tony Brenton, Deputy Head of Mission at the British Embassy Washington, reported US State Department (but not yet agreed US Government) views by telegram on 23 December.³⁹ The main policy points included:

- Provided the war was short, the US State Department did not anticipate a dramatic impact on oil prices. They were ready to intervene in the market as necessary.
- Control of the oil sector should be put back into Iraqi hands as soon as possible. As far as possible, any major decisions should be postponed until control was handed back.
- In the interim there should be a clear international role to maximise transparency and minimise charges that the US went to war for oil.
- The US would “respect the concerns of those countries with existing contracts”.

86. A No.10 official wrote to Sir David Manning on 8 January 2003, to express his concern about the US plan to set up a US-administered trust fund for Iraqi oil revenues.⁴⁰ The official argued that:

“... we should be working hard to persuade the US that, whilst a trust fund to ensure the Iraqi people benefit from oil export revenues is a good idea, it is very much in the US’s (and by extension the UK’s) political interests to get this done through a UN forum ... If control was handed to the UN, it would be much more difficult to maintain the argument that this is about oil.”

87. The 10 January 2003 meeting of the AHGI considered a joint Cabinet Office/ Department for Environment, Food and Rural Affairs (DEFRA) paper on environmental contingency planning.⁴¹

88. DEFRA assessed that the environmental consequences of large-scale damage to Iraqi oil fields would be “significant and dramatic but in most cases short term”.⁴² Most of the impacts would be confined to Iraq. The US would have an important role in responding to environmental contamination, though the extent of its contingency planning was unclear. The UK had the capacity to provide “limited assistance” to:

- treat oil pollution;
- monitor air pollution; and
- help decontaminate water supplies.

89. DEFRA stated that any UK assistance would require funding.

³⁹ Telegram 1690 Washington to FCO London, 23 December 2002, ‘Iraq: the Day After: Oil and Reconstruction’.

⁴⁰ Minute No.10 [junior official] to Manning, 8 January 2003, ‘What We Do with Iraqi Oil’.

⁴¹ Minute Dodd to Manning, 13 January 2003, ‘Ad Hoc Group on Iraq’.

⁴² Paper Cabinet Office/DEFRA, [undated], ‘Iraq: Environmental Contingency Planning’.

90. The AHGI agreed that the DEFRA paper should be passed to the US, and a finalised version sent to Ministers.

MILITARY PLANNING

91. Sections 6.1 and 6.2 describe how, by the beginning of January 2003, uncertainty about Turkey's agreement to the deployment of Coalition ground forces in its territory had reached a critical point, and the UK's decision to deploy large-scale ground forces to the south, rather than the north, of Iraq.

92. The MOD's Strategic Planning Group advised the Chiefs of Staff on 7 January that adopting a southern option had the potential to:

“Provide UK with leading role in key areas of Iraq (free of Kurdish political risks) in Aftermath, and thus provide leverage in Aftermath Planning efforts, especially related to:

- Humanitarian effort
- Reconstruction of key infrastructure
- Future control and distribution of Iraqi oil.”⁴³

93. Lieutenant General John Reith, Chief of Joint Operations (CJO), attended a US Central Command (CENTCOM) commanders' conference in Tampa, Florida on 15 and 16 January.⁴⁴ The conference was described by General Tommy Franks, Commander in Chief CENTCOM, as “likely to be the last chance for such a gathering to take place. It therefore had to be conclusive.”

94. Lt Gen Reith reported to Admiral Sir Michael Boyce, Chief of the Defence Staff, that the US had “a zillion dollar project to modernise and properly exploit the southern oilfields”.⁴⁵

95. Gen Reith told the Inquiry that, in the margins of the conference, he had told Gen Franks that he was unhappy with the way planning was going:

“... they were going into shock and awe, and we ... the British ... had been very much the custodians of ‘Let's worry about Phase IV’.⁴⁶ So we got on to Phase IV in our discussion and I made the point ... that the oilfields were absolutely essential for Phase IV, to provide revenue for Iraq for its reconstruction and therefore, we needed to secure the oilfields rather than have them destroyed. I also made the point to him that the more china that we broke, the more we would have to replace afterwards.”⁴⁷

⁴³ [Paper SPG, 7 January 2003, 'Operation TELIC – Military Strategic Analysis of Pros/Cons of Adopting a Southern Land Force Option'](#).

⁴⁴ Minute Wilson to MA/CJO, 17 January 2003, 'CENTCOM Component Commanders' Conference: 15-16 Jan 03'.

⁴⁵ Minute Reith to PSO/CDS, 17 January 2003, 'Discussion with General Franks – 16 Jan 03'.

⁴⁶ Phase IV was the military term for the post-conflict phase of military operations.

⁴⁷ Private hearing, 15 January 2010, pages 42-43.

96. Mr Geoff Hoon, the Defence Secretary, sent Mr Blair formal advice on the UK contribution to land operations in Iraq on 16 January.⁴⁸ Mr Hoon stated that the US had asked the UK to provide a ground force to take on a key role in southern Iraq. He described the proposed UK Area of Responsibility in the south as “a coherent one”, which included:

“... economic infrastructure critical to Iraq’s future, including much of its oil reserves, critical communications nodes, a city (Basra) of 1.3 million people and a port (Umm Qasr) about the size of Southampton. Although the establishment of UK control over this area will require careful presentation to rebut any allegations of selfish motives, we will be playing a vital role in shaping a better future for Iraq and its people.”

97. Mr Straw wrote to Mr Blair the following day in response to Mr Hoon’s letter, setting out three concerns, including:

“... much greater clarity is required about US thinking and plans for the aftermath ... We need in particular far greater clarity on US thinking on management of the oilfields.”⁴⁹

98. Mr Hoon’s recommendations were endorsed by Mr Blair on 17 January,⁵⁰ and the deployment of a UK land package was announced to Parliament on 20 January.⁵¹

DISCUSSIONS WITH THE US

99. Mr Peter Ricketts, FCO Political Director, visited Washington on 13 January.⁵²

100. At the first FCO Iraq Morning Meeting after his return from Washington, Mr Ricketts reported that:

“... the US show no sign of accepting our arguments on transitional administrations. They are wedded to the idea of a prolonged US Occupation, and opposed to any substantial role for the UN. We are likely to find the 22 January day after talks hard going in this respect.”⁵³

101. Mr Chaplin led the UK delegation to Washington for a second round of talks on post-conflict planning with a US inter-agency team and an Australian delegation on 22 January.

102. Mr Dominick Chilcott, FCO Middle East Department, sent an “Annotated Agenda/ overarching paper” for the meeting to Mr Straw on 17 January.⁵⁴ The paper listed a large

⁴⁸ [Letter Hoon to Blair, 16 January 2003, ‘Iraq: UK Land Contribution’.](#)

⁴⁹ [Minute Straw to Prime Minister, 17 January 2003, ‘Iraq: UK Land Contribution’.](#)

⁵⁰ [Letter Manning to Watkins, 17 January 2003, ‘Iraq: UK Land Contribution’.](#)

⁵¹ House of Commons, *Official Report*, 20 January 2003, column 34.

⁵² Minute Ricketts to Private Secretary [FCO], 14 January 2003, ‘Iraq: The Mood in Washington’.

⁵³ Minute Tanfield to PS/PUS [FCO], 15 January 2003, ‘Iraq Morning Meeting: Key Points’.

⁵⁴ [Minute Chilcott to Private Secretary \[FCO\] and Chaplin, 17 January 2003, ‘Iraq: Day-After Issues’.](#)

number of issues still to be resolved, organised under five headings: security; relief and reconstruction; political; economic; and environmental.

103. Under the relief and reconstruction heading, the paper stated that the UK would like the OFF programme, funded by Iraqi oil revenues, to continue to meet humanitarian needs in the post-conflict period. Its ability to do so would depend on the extent of the disruption caused by any conflict. Looking further ahead, the OFF programme was not designed to support reconstruction. The extent of external funding required for reconstruction would depend on Iraqi oil revenues, UN compensation claims and external debt obligations. The UK would be able to provide only a limited contribution to “total costs”. There might be scope for Iraq to borrow against future oil revenues to finance reconstruction.

104. Under the economic heading, the paper stated that a key task would be to maximise Iraq oil revenues, consistent with the effect on the global market. The Coalition would need to consider whether that was best achieved by returning control of Iraqi oil exports from an international civilian administration to an Iraqi administration rapidly or in slower time. The Coalition would also need to consider how the competing calls on oil revenues of debt repayment and reconstruction should be balanced.

105. Under the environmental heading, the paper asked whether there was an environmental clean-up plan.

106. On 20 January, President Bush issued National Security Presidential Directive 24, consolidating all post-conflict activity in the new DoD-owned Office of Reconstruction and Humanitarian Assistance (ORHA).⁵⁵ President Bush had decided in principle to place the DoD in charge of all post-conflict activity in December 2002.

107. Lieutenant General (retired) Jay Garner was appointed to lead ORHA.⁵⁶

108. The British Embassy Washington reported on the outcome of the 22 January talks on post-conflict planning:

“Overall, US Day After planning is still lagging far behind military planning. But they have agreed to two working groups: on the UN dimension; and on economic reconstruction issues ...

...

“The US were clear that the OFF [programme] would have to be maintained. There would need to be debt rescheduling. There were many questions to be resolved on oil production and revenues. The US fully accepted the need for

⁵⁵ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

⁵⁶ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

maximum transparency in this area. They readily agreed to set up a joint working group to examine these issues.”⁵⁷

109. Mr Chaplin advised Mr Straw that: “Given that military action could start within a few weeks, we agreed to have the first meetings of these [working] groups next week, if possible.”⁵⁸

110. Reports from the British Embassy Washington in late January highlighted the question of who would manage the oil sector in the post-conflict period.

111. A joint MOD/Permanent Joint Headquarters (PJHQ) delegation attended a Phase IV planning conference at CENTCOM from 23 to 24 January.⁵⁹ The conference considered Phase IV planning in more detail than the 22 January talks.

112. The British Embassy Washington reported on the discussions on Phase IV issues.⁶⁰ The “Energy and Infrastructure Planning Group” based in DoD was co-ordinating work on the oil sector. A comprehensive plan had been presented to President Bush. A specialised contractor had been identified to carry out emergency repairs. It had still not been decided “who or what” would be in overall charge of the oil sector, although President Bush had agreed that a “CEO” would be needed.

113. The Embassy reported that the “underlying” US objective was to get “operations back in the hands of the local workforce as soon as possible”. The US Administration recognised the need to restore oil production and exports to generate revenue; the aim was to “quickly achieve” 2.1m bpd, and to be prepared to increase production to 3.1m bpd.

114. A BP team briefed UK Government officials on prospects for the Iraq energy sector on 23 January.⁶¹ The briefing identified “two opposing views current in Washington”, which it characterised as “hawkish” (espoused by the DoD, the NSC and others) and “doveish” (espoused by the US State Department). The hawkish view sought a significant increase in Iraqi oil production to push down oil prices, privatisation within the oil sector, and external engagement led by the US (and possibly the UK) rather than the UN.

115. The BP team estimated that Iraqi oil production could rise from around 2.8m bpd currently to around 3.5m bpd within two years and 4m bpd within five years. Significant investment was required. UK officials pressed the BP team on whether this “fairly slow” increase could be accelerated.

⁵⁷ Telegram 89 Washington to FCO London, 23 January 2003, ‘Iraq: US/UK/Australia Consultations on Day After Issues: 22 January 2003’.

⁵⁸ Minute Chaplin to Secretary of State, 22 January 2003, ‘Iraq: ‘Day-After’ Issues’.

⁵⁹ Minute DOMAAD(ME) and Sec(0)4 to MA/DCDS(C), 27 January 2003, ‘US Iraq Reconstruction Conference – Tampa 23-24 Jan 03’.

⁶⁰ Teleletter FCO [junior official] to Chilcott, 25 January 2003, ‘US/Iraq: CENTCOM Meeting on Day After Reconstruction Issues, 23 January 2003’.

⁶¹ Record, 23 January 2003, ‘Iraqi Energy Sector: Issues and Prospects’.

116. On 31 January, in advance of the first meeting of the US/UK/Australia Working Group on Day After Economic on 5 February, a junior official in the British Embassy Washington advised the FCO that, on oil, “at present, the [US] Administration are sharing little with us”.⁶² Much of the post-conflict planning relating to oil was being done within the DoD. The official US line was that UK concerns about transparency and the need for a level commercial playing field had been taken on board.

117. The official reported that Mr Colin Powell, the US Secretary of State, had said publicly that oil would be held “in trust” for the Iraqi people and that the underlying US objective was to get operations back into the hands of the “local workforce”, but that view might not be held in other (unspecified) parts of the US Administration.

118. The official also reported that rumours persisted that contracts had already been let for the initial clean-up phase (which could last anything from two to 18 months).

119. The official concluded that key questions remained, including who would be in overall charge of the oil sector after the initial clean-up.

120. Mr Blair met President Bush and Dr Condoleezza Rice, President Bush’s National Security Advisor, in Washington on 31 January to discuss post-conflict planning.

121. A FCO briefing for Mr Blair included in its list of objectives for the meeting: “To convince President Bush ... the US needs to pay much more attention, quickly, to planning on ‘day after’ issues; and that the UN needs to be central to it.”⁶³

Key messages included:

- The UN could bring “significant advantages” after the conflict, including taking on responsibility for oil revenues “to avoid accusations that aim of military action was to get control of oil”.
- Restoring oil production would be “an immediate challenge”. The oil sector would need “some technology and a lot of capital”. The US and UK should “encourage an open investment regime and a level playing field for foreign companies”.

122. A short Cabinet Office paper offered Mr Blair a “few OD Sec points, just in case they slip through the briefing”.⁶⁴ Those included:

- the importance of the transparent use of oil revenues; and
- the need to argue for a level playing field for UK companies on new oil exploration contracts.

⁶² Letter FCO [junior official] to FCO [junior official], 31 January 2003, ‘Iraq ‘Day After’; Economic Working Group’.

⁶³ [Paper FCO, 30 January 2003, ‘Prime Minister’s Visit to Camp David, 31 January: Iraq’](#).

⁶⁴ [Minute Drummond to Rycroft, 28 January 2003, ‘Iraq: US Visit’](#).

123. At the meeting with President Bush, Mr Blair suggested that a UN badge was needed for what the US and UK wanted to do, and would help with the humanitarian problems.⁶⁵

124. The record of the meeting between President Bush and Mr Blair does not show any discussion of oil issues.

125. The first meeting of the US/UK/Australia Working Group on Day After Economic Issues took place in Washington on 5 February.⁶⁶

126. The British Embassy Washington reported that the DoD had detailed contingency plans to protect and restore the oil sector. The DoD was well aware of the importance of the oil sector for reconstruction. In the best case (minimal damage, current levels of outputs restored after two to three months), the DoD estimated that the sector could make a net contribution of US\$12bn in the first year after any conflict; in the worst case it could impose a net cost of US\$8bn.

127. The Working Group agreed to co-operate on defining practical economic steps to be taken in the first three to six months of military occupation.

128. The FCO member of the UK delegation, the Economic Adviser for the Middle East and North Africa, reported separately to Mr Drummond that:

“DoD are ploughing ahead with detailed contingency planning for the oil sector in the initial military administration phase. But ... there was a conspicuous disconnect between this and civilian planning for economic management and policy development within Iraq ...”⁶⁷

129. Mr Marc Grossman, US Under Secretary of State for Political Affairs, and Mr Douglas Feith, US Under Secretary of Defense for Policy, gave evidence on US post-conflict plans to the Senate Foreign Relations Committee on 11 February.⁶⁸

130. The British Embassy Washington reported that Mr Grossman’s and Mr Feith’s message to the Foreign Relations Committee was “liberation not occupation”, with an assurance that the US did not want to control Iraq’s economic resources.

⁶⁵ Letter Manning to McDonald, 31 January 2003, ‘Iraq: Prime Minister’s Conversation with President Bush on 31 January’.

⁶⁶ Telegram 169 Washington to FCO London, 6 February 2003, ‘Iraq: Meeting of Trilateral Working Group on ‘Day After’ Economic Issues: Short Term Reconstruction’.

⁶⁷ Teleletter FCO [junior official] to Drummond, 6 February 2003, ‘Iraq: Meeting of US/UK/Australian Working Group on ‘Day After’ Economic Issues: Assessment and Follow Up’.

⁶⁸ [Telegram 196, Washington to FCO, 12 February 2003, ‘Iraq ‘Day After’: US Makes Initial Planning Public’.](#)

131. The final paragraph of the Embassy's report highlighted the degree of uncertainty surrounding US plans:

"In the ensuing discussion, Feith said that military occupation could last two years. Both admitted to 'enormous uncertainties'. They said that they did not know how the Iraqi oil industry would be managed, who would cover the costs of oil installation reconstruction, or how the detailed transition to a democratic Iraq would operate. The committee's response was one of incredulity, with encouragement to plan for the worst, as well as the best, case."

132. Sir David Manning commented to Mr Bowen and No.10 officials:

"Last para[graph] shows scale of problem post-Saddam. We must keep pushing for this work to be done."⁶⁹

133. Mr Tom Dodd, Cabinet Office OD Sec, reported on 11 February on a US briefing on the oil sector arranged by the Assessments Staff.⁷⁰ The briefing assessed that Iraq's oil infrastructure was "generally in terrible condition". CENTCOM believed that oil production could be increased to 6m bpd within three years, given massive new investment. US officials believed that reaching that level of production would take at least six years, "given benign political and security factors".

134. Mr Hoon discussed post-conflict issues with Mr Donald Rumsfeld, the US Secretary of Defense, in Washington on 12 February.

135. A briefing prepared by the MOD Iraq Secretariat for Mr Hoon listed eight "Key Gaps/US-UK policy differences", one of which was oil.⁷¹

136. The MOD advised that the US plan for the insertion of a task force of US oil experts and subsequent management of Iraqi oilfields "had to be handled carefully to avoid accusations of theft". The UK would press for transparency of oil management, for greater UN involvement than was envisaged, and for the early transfer of control of oilfields back to the Iraqis.

137. The "task force" was probably a reference to Task Force Restore Iraq Oil (RIO), established by the US Army Corps of Engineers.⁷² An advance team from Task Force RIO deployed to Iraq in February.

⁶⁹ Manuscript comment Manning on Telegram 196 Washington to FCO, 12 February 2003, 'Iraq 'Day After': US Makes Initial Planning Public'.

⁷⁰ Minute Dodd to Drummond, 11 February 2003, 'Iraq: Oil'.

⁷¹ Minute Johnson to PS/Secretary of State [MOD], 10 February 2003, 'Secretary of State's Visit to Washington: Iraq'.

⁷² Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

138. Separately, Mr Drummond sent Mr Ian Lee, MOD Director General Operational Policy, a final version of the UK’s “key messages” on post-conflict Iraq, for Mr Hoon to draw on in his meeting with Secretary Rumsfeld.⁷³ The final two key messages were:

“Oil. Agree need to resume oil production and export as soon as possible. Welcome your plans to deal with any immediate environmental damage, and commitment to use oil revenues for the benefit of the Iraqi people e.g. ... by adapting [the] Oil-For-Food programme. Essential that oil revenues managed transparently and accountably. Perception of US/UK oil grab would rapidly increase hostility to the Coalition. The UN could help us avoid this.

“Level playing field: Big contracts to rebuild Iraq. Putting UK lives on line. Expect level playing field for UK business in oil and other areas.”

139. The British Embassy Washington reported on 13 February that Mr Hoon had raised the issue of financing reconstruction with Secretary Rumsfeld, including using the proceeds from oil sales.⁷⁴ Secretary Rumsfeld had agreed that oil revenues were key to financing reconstruction and should not be misinterpreted as a reason for the conflict. The DoD would make it clear that Iraqi oil proceeds should go to Iraq’s people. The OFF programme was a good basis on which to work.

140. Following the 5 February meeting of the US/UK/Australia Working Group on Day After Economic Issues, on 14 February an FCO official sent the US State Department a paper setting out the UK’s thoughts on the steps to be taken in the first 30 and 60 days after any conflict.⁷⁵ The official advised that the paper reflected FCO, Treasury and DFID views, and was:

“... very much work in progress, not completely co-ordinated here [in London], and at this stage reflects largely the views of economic and relief specialists here: it is not fully cleared politically.”

141. The paper set out strategic and specific operational objectives for six issues, including oil. The key strategic objective for oil was: “Maximum continuity in oil production and exports.” The specific operational objectives for oil in the first 30 days included:

- “• secure National Oil Company infrastructure (offices and staff as well as technical infrastructure) ...

...

⁷³ [Letter Drummond to Lee, 11 February 2003, ‘Iraq Post Conflict: Key Messages’ attaching Paper Cabinet Office, 11 February 2003, ‘Iraq Post Conflict: Key Messages’.](#)

⁷⁴ Telegram 203 Washington to FCO London, 13 February 2003, ‘Iraq: Defence Secretary’s Visit to Washington’.

⁷⁵ Letter FCO [junior official] to US State Department official, 14 February 2003, ‘Iraq Day After: Trilateral Economic Discussions – Follow-up’ attaching Paper, 14 February 2003, ‘Iraq Day After: Preliminary UK Views on Economic Actions in First 30/60 Days’.

- work with NOC management to ensure continued physical operation of non-damaged facilities and continued exports ...;
- work with NOC management to ensure administrative integrity, including staff retention and payment of salaries;
- ...
- initial quick assessment of oil sector spending needs ...”

142. The specific operational objectives for oil in the first 60 days were to:

- prepare an emergency budget for the oil sector;
- arrange for “urgent work” on oil infrastructure; and
- assess recent oil exports outside the OFF programme.

143. The same version of the paper was sent to Mr Blair on 7 March.

144. A Treasury official invited Mr Brown’s comments on officials’ “first thoughts” on Treasury policies in a post-Saddam Iraq on 11 February (see Section 13.1).⁷⁶ The Treasury assessed that the cost of ensuring Iraq’s prosperity and stability was difficult to predict but “potentially massive”. Iraq was potentially a rich country and the “obvious answer” was that Iraq should pay “the lion’s share” of its reconstruction from its oil revenues. However, there were several reasons why that might not cover all – or even the majority – of the cost of reconstruction:

- Iraq’s oil infrastructure could be damaged in any conflict, or sabotaged.
- The price of oil could fall.
- There would be pressure for Coalition countries to pay for reconstruction.
- The OFF programme provided up to US\$10bn a year for Iraq. That was enough to keep Iraq “ticking over”, but it was not clear whether it was enough to pay for reconstruction.
- A post-conflict Iraq might have to pay war reparations and service the country’s huge debt.

145. The official proposed that an “emerging policy position” would include maximising the Iraqi contribution to the cost of reconstruction, initially by maintaining the OFF programme.

146. The Treasury told the Inquiry that Mr Brown did not comment.⁷⁷

147. Mr John Grainger, an FCO Legal Counsellor, sent the Iraq Planning Unit (IPU) an outline of the legal position on occupying forces’ rights to deal with oil reserves

⁷⁶ [Minute Treasury \[junior official\] to Chancellor, 11 February 2003, ‘HMT Policy on Post-Saddam Iraq’ attaching Paper Treasury, 11 February 2003, ‘Post-War Iraq: International Financing Policy’.](#)

⁷⁷ Email Treasury [junior official] to Iraq Inquiry [junior official], 26 February 2010, [untitled].

in occupied territory on 14 February.⁷⁸ Mr Grainger advised that, under the Hague Regulations:

“... the Occupying Power acquires a temporary right of administration, but not sovereignty. He does not acquire the right to dispose of property in that territory except according to the strict rules laid down in those regulations. So occupation is by no means a licence for unregulated economic exploitation.”

148. Mr Grainger also advised that:

- the reasonable operation of oil wells was likely to be permitted, at least up to the rate at which they were previously operated, but there would be no right to develop new wells; and
- the current OFF programme regime assumed a degree of Iraqi Government involvement. In the event of there being “no Government in active control of Iraq”, it was likely that significant changes to the regime would be required.

149. On 19 February, at the request of the Cabinet Office, the Joint Intelligence Committee (JIC) produced the Assessment, ‘Southern Iraq: What’s in Store’.⁷⁹

150. The JIC concluded that: “**The establishment of popular support for any post-Saddam administration cannot be taken for granted.**” Support could be undermined by several factors, including a failure to be seen to run the oil industry in the interests of the Iraqi people.

151. The JIC also recalled its earlier judgement that Saddam Hussein might seek to pursue a scorched earth policy, including the destruction of oil wells.

152. Mr Chilcott sent Mr Straw’s Private Office a paper on oil policy on 28 February.⁸⁰ Mr Chilcott advised that the paper, entitled ‘Iraq Day After – Oil Policy’, set out “preliminary, official-level thinking”. It had been circulated “fairly widely” across departments and incorporated comments from “various” departments. The IPU planned to share the paper with the US “in due course”, after some careful editing.

153. The paper stated that the UK’s economic objectives should be the rapid relief of humanitarian needs and the restoration of public services, and beyond that “to win the peace economically”. Oil revenues would have a key part to play in achieving those objectives. Provided exports were not interrupted, Iraq could finance a “substantial part” of the humanitarian, reconstruction and longer-term rebuilding effort.

⁷⁸ [Minute Grainger to IPU \[junior official\], 14 February 2003, ‘Occupation Rights: Iraqi Oil’.](#)

⁷⁹ [JIC Assessment, 19 February 2003, ‘Southern Iraq: What’s in Store?’](#)

⁸⁰ [Minute Chilcott to Private Secretary \[FCO\], 28 February 2003, ‘Iraq Day After – Oil Policy’ attaching Paper IPU, 27 February 2003, ‘Iraq Day After – Oil’.](#)

154. In the immediate aftermath of any conflict, the military administration's priorities should be to:

- cap any oil well fires and prevent damage to oil infrastructure; and
- restore production by repairing existing oil production facilities.

155. The "interim administration" that followed would lead on the rehabilitation and longer-term development of Iraq's oilfields, including tendering contracts for the exploration and exploitation of new areas. Deferring such work until a new Iraqi Government was in place would "seriously delay the maximisation of Iraq's oil revenue and increase the cost to the international community of its reconstruction". It would be important to ensure that:

- any such moves were clearly in the interests of the Iraqi economy and people;
- the interim administration had an appropriate UN mandate;
- everything was done in as transparent a manner as possible; and
- production was not pushed beyond OPEC-type depletion rates, even though that could be in the interests of the Iraqi people."

156. The paper stated that the OFF programme would need to be adjusted so that it could operate effectively after any conflict. That could only be done through the Security Council. The paper cautioned against seeking to use OFF programme funds to cover the cost of military occupation, as some in the US were suggesting, as this would "inevitably raise accusations that the military action was motivated by oil".

157. The paper concluded that in the aftermath of any conflict, the "international administration" should seek to ensure that:

- Iraqi oil revenues were available to be used for the benefit of Iraq; and
- all Iraqi oil industry business was handled in as transparent a manner as possible, "to rebut allegations about oil motivations".

158. The paper identified a number of next steps for the UK, including:

- to convene a meeting with UK oil companies to explore the UK's ideas and tap into their expertise;
- to start preliminary work to ensure that UK firms were well placed to pick up contracts. That work was already in hand;
- to factor rapid assistance for oilfield installations into UK military planning; and
- to start thinking about appropriate wording for UN resolutions. That was also already in hand.

159. Mr Straw commented: "V[ery] good paper."⁸¹

⁸¹ Manuscript comment Straw, 2 March 2003, on Minute Chilcott to Private Secretary [FCO], 28 February 2003, 'Iraq Day After – Oil Policy'.

160. The paper was one of several passed to Mr Blair on 7 March, after his 6 March ministerial meeting on post-conflict issues.⁸²

161. A revised version of the paper was passed to the US by 13 March.⁸³

162. Mr Blair chaired a meeting on post-conflict issues on 6 March with Mr Brown, Mr Hoon, Ms Clare Short (International Development Secretary), Baroness Symons (joint FCO/DTI Minister of State for International Trade and Investment), Sir Michael Jay (FCO Permanent Under Secretary) and other officials.⁸⁴ The meeting is described in detail in Section 6.5.

163. Mr Brown received a number of papers from Treasury officials before the meeting, including a draft “DFID paper rewritten by the Treasury” on humanitarian relief and reconstruction costs.⁸⁵ The draft paper stated that it was a “first attempt at charting the likely costs of the first three years of the Iraqi reconstruction”.

164. The draft paper stated that, while cost estimates would remain “very rough” until the International Financial Institutions (IFIs) had completed a full needs assessment:

- In year 1, humanitarian costs could be between US\$2bn and US\$12bn, depending on the scale of the humanitarian crisis and the extent to which oil exports and the OFF programme were disrupted.
- In years 2 and 3, total reconstruction costs (before Iraq’s oil revenues were taken into account) would be between US\$2bn and US\$15bn per year. Oil revenues might allow Iraq to pay for most of this – if production levels and prices were favourable, Iraq did not have to repay its debts, and rehabilitation of Iraq’s oil infrastructure was cheap.

165. The draft paper stated that sources of financing for relief and reconstruction remained uncertain. The current US/UK approach was to maintain and expand the OFF programme as the central source of financing.

166. At the meeting, Mr Brown said that the burden of reconstruction should not be borne by the US and UK alone; other countries and Iraqi oil revenues should be tapped.⁸⁶ In the longer term, Iraqi oil should fund the country’s reconstruction.

167. Mr Blair concluded that Mr Brown should draw up “a funding plan, including securing funding from wider international sources, in particular the IFIs”. The Treasury sent that plan to No.10 on 14 March.

⁸² Minute Rycroft to Prime Minister, 7 March 2003, ‘Iraq: Weekend Papers’.

⁸³ Letter Gooderham to Chilcott, 13 March 2003, Iraq: Day After: The Oil Sector’.

⁸⁴ [Letter Cannon to Owen, 7 March 2003, ‘Iraq: Post-Conflict Issues’](#).

⁸⁵ Email Dodds to Private Office [Treasury], 4 March 2003, ‘Iraq: Ministerial Meeting on Thursday Morning’ attaching [Paper DFID \[draft\], March 2003, ‘Iraq Relief and Reconstruction Costs: an Overview’](#).

⁸⁶ [Letter Cannon to Owen, 7 March 2003, ‘Iraq: Post-Conflict Issues’](#).

168. On 8 March, the US Army Corps of Engineers (USACE) awarded a contract for the repair of Iraq's oil infrastructure, worth up to US\$7bn, to the US engineering company Kellogg, Brown and Root (KBR).⁸⁷ *Hard Lessons* reported that the contract was the single largest reconstruction contract in Iraq and the largest known sole-source contract in US history.

169. Mr Mike O'Brien, FCO Minister of State, visited Washington on 13 March to discuss post-conflict issues with US interlocutors.⁸⁸

170. A senior official from the NSC briefed Mr O'Brien on US plans for the oil sector.⁸⁹ The British Embassy Washington reported that the NSC was expecting Saddam Hussein to inflict "massive damage" on Iraq's oil infrastructure; contracts had been let to US companies to control the damage.

171. The NSC official advised that a small, US, senior management team for the oil sector had been assembled. Its first task would be to assess reconstruction and investment needs. The team would need to be headed by an Iraqi.

172. The official said that the NSC agreed on the need for a UN role in ensuring transparency, but thought that the UN was not able to run the oil sector. That would be a job for the oil sector management team, "reporting first and foremost to the Coalition".

173. The official also advised that the NSC agreed with much of the UK's oil policy paper, but identified three points of disagreement:

- The US did not think it was sensible to commit to restoring pre-invasion levels of production, when the Coalition could not know what damage would be inflicted on the oil infrastructure.
- The US foresaw legal problems in either the Coalition or the interim Iraqi administration letting new oil development contracts (which would be long-term commitments) during the "transitional phase". Depending on the situation on the ground, it might make more sense to suspend the existing six or seven oil development contracts, with a view to them being renegotiated in due course by a sovereign Iraqi Government.
- The US thought it was unrealistic to envisage private finance emerging early on.

174. The Inquiry has not seen the version of the oil policy paper passed to the US.

175. Dr Rice gave Sir David Manning an account of White House thinking on the handling of Iraqi oil on 13 March.⁹⁰ The OFF programme should be left in place, and phased out when there was an Iraqi entity ready to take control of oil revenues.

⁸⁷ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

⁸⁸ Telegram 341 Washington to FCO London, 13 March 2003, 'Iraq Day After: Mr O'Brien's Visit'.

⁸⁹ Letter Gooderham to Chilcott, 13 March 2003, Iraq: Day After: The Oil Sector'.

⁹⁰ Minute Cannon to Owen, 14 March 2003, 'Iraq: Iraqi Oil Post-Conflict'.

The US also wanted to make clear that military operations would not be paid for out of Iraqi oil money.

176. Ms Patricia Hewitt, the Trade and Industry Secretary, wrote to Mr Blair on 13 March seeking confirmation that she could, if necessary, signal the UK's agreement to the release of a modest amount of the IEA's oil stocks, to reassure oil markets.⁹¹ She described the oil markets as "extremely nervous".

177. No.10 replied the following day, confirming that while Mr Blair agreed the broad approach proposed, he would like to be consulted before any final decision was taken.⁹²

178. On 14 March, the FCO instructed the UK Permanent Mission to the UN in New York to start discussions with the US delegation on a possible resolution to modify the OFF programme and sanctions regime in the event of military action and the absence of an "effective Iraqi Government".⁹³ The FCO believed that that resolution might best be tabled immediately after the start of military operations.

179. The UK wanted the OFF programme to continue "for some time", to enable Iraq to export oil and import and distribute humanitarian goods until new government structures existed that could take on those functions.

180. The FCO proposed that to enable the OFF programme to continue, the UN Secretary-General should fulfil a number of functions that were currently reserved for the Iraqi Government, including the authority to spend OFF programme funds.

181. The UK position was summarised in the FCO background papers for the Azores Summit, sent to No.10 on 15 March:

"If the Iraqi regime falls, new arrangements will need to be put in place to enable the OFF to keep functioning. Our current plan is to table a resolution soon after conflict starts, transferring authority for ordering and distributing goods to the UN Secretary-General ... [W]e would hope that the Secretary-General would be able to transfer full control over oil revenues to a properly representative Iraqi Government as soon as possible (not as the US have suggested, an Iraqi 'entity', which could, particularly if US appointed, fuel suggestions that the Coalition was seeking to control Iraqi oil)."⁹⁴

⁹¹ Minute Hewitt to Blair, 13 March 2003, 'Iraq and the oil market'.

⁹² Letter Jones to Zimmer, 14 March 2003, 'Iraq and the oil market'.

⁹³ [Telegram 149 FCO London to UKMIS New York, 14 March 2003, Iraq – Military Action – Sanctions and Oil for Food – Strategy Paper.](#)

⁹⁴ [Letter Owen to Rycroft, 15 March 2003, 'Azores Summit' attaching Paper FCO, 'Iraq – Oil for Food Programme \(OFF\) and Sanctions'.](#)

182. On 14 March, in response to Mr Blair's 6 March request, Mr Mark Bowman, Mr Brown's Principal Private Secretary, sent No.10 a Treasury paper on financing Iraq's reconstruction.⁹⁵

183. The Treasury estimated that the total cost of Iraq's reconstruction could be up to US\$45bn for the first three years (US\$15bn a year) and warned that, without UN authorisation of arrangements for a transitional administration, Iraqi oil might pay for only a fraction of that.

184. The Treasury advised that the best way to pay for reconstruction would be to spread the burden as widely as possible, drawing in contributions from non-combatants, IFIs and Iraq itself, and ensuring Iraqi revenues were not diverted into debt or compensation payments. By far the most significant factor in making that happen would be political legitimacy conferred by the UN.

185. The Treasury stated that the OFF programme provided "an obvious way to pay for immediate humanitarian needs", using the approximately US\$4bn unspent in the OFF account and by restarting oil exports. That depended on oil production facilities surviving the conflict relatively intact. In the most benign circumstances, with rapidly increasing production and high oil prices, oil revenues "could make a very significant contribution" to ongoing relief and reconstruction. The securitisation of future oil revenues was another possible source of funds, but Iraq had already accumulated "massive and probably unsustainable debts" that way.

186. President Bush, Mr José María Aznar, the Prime Minister of Spain, and Mr Blair discussed Iraq at the Azores Summit on 16 March.⁹⁶

187. The FCO background papers sent to No.10 in advance of the Summit included a revised version of the UK's 'A Vision for Iraq and the Iraqi People' (see Section 6.5).⁹⁷ The UK intended that the document, which would be launched at the Summit, would reassure Iraqis and wider audiences of the Coalition's intentions for Iraq after Saddam Hussein's departure.

188. The revised version included a number of changes from the version produced the previous month, including the addition of a reference to Iraq's oil industry being managed "fairly and transparently".

189. The statement issued by President Bush, Prime Minister Aznar and Mr Blair at the Summit on 16 March shared much of the substance of the revised version of the UK's

⁹⁵ Letter Bowman to Cannon, 14 March 2003, [untitled] attaching Paper Treasury, March 2003, 'Financing Iraqi Reconstruction'.

⁹⁶ Letter Manning to McDonald, 16 March 2003, 'Iraq: Summit Meeting in the Azores: 16 March'.

⁹⁷ [Minute Bristow to Private Secretary \[FCO\], 14 March 2003, 'A Vision for Iraq and the Iraqi People'](#).

‘A Vision for Iraq and the Iraqi People’.⁹⁸ Key differences included the omission of any explicit reference to oil. On post-conflict reconstruction, the three leaders declared:

“We will work to prevent and repair damage by Saddam Hussein’s regime to the natural resources of Iraq and pledge to protect them as a national asset of and for the Iraqi people. All Iraqis should share the wealth generated by their national economy ...

“... We will also propose that the [UN] Secretary-General be given authority, on an interim basis, to ensure that the humanitarian needs of the Iraqi people continue to be met through the Oil-for-Food program.”

190. A specially convened Cabinet, the last before the invasion, was held at 1600 on 17 March.⁹⁹ Mr Blair told Cabinet that the US had confirmed that it “would seek a UN mandate for the post-conflict reconstruction of Iraq”. Oil revenues would be administered under the UN’s authority.

191. Mr Peter Gooderham, Counsellor at the British Embassy Washington, reported to IPU on the same day on a further meeting with a senior NSC official.¹⁰⁰ The official had advised that, while the NSC fully understood the UK’s “desire for maximum UN legitimacy and transparency in running the oil sector ... other equities in the [US] Administration continued to see no need for this”.

192. In his speech in the House of Commons on 18 March, Mr Blair stated that:

“There should be a new United Nations resolution following any conflict providing not only for humanitarian help, but for the administration and governance of Iraq ...

“And this point is also important: that the oil revenues, which people falsely claim that we want to seize, should be put in a trust fund for the Iraqi people administered through the UN.”¹⁰¹

The invasion and immediate aftermath

193. The invasion of Iraq began on the night of 19-20 March 2003. Military operations during the invasion are described in Section 8.

194. Official exports of Iraqi oil ceased on 22 March.¹⁰²

195. Between 18 March and 22 April, updates on key events relating to Iraq produced by COBR, the UK Government’s crisis management and co-ordination facility, were

⁹⁸ Statement of the Atlantic Summit, 16 March 2003, *A Vision for Iraq and the Iraqi People*.

⁹⁹ [Cabinet Conclusions, 17 March 2003](#).

¹⁰⁰ Letter Gooderham to Chilcott, 17 March 2003, ‘Iraq Day After: Oil Sector’.

¹⁰¹ House of Commons, *Official Report*, 18 March 2003, column 771.

¹⁰² [Paper IPU, 22 April 2003, ‘Oil/Energy Policy for Iraq’](#).

circulated to senior officials and departments twice a day.¹⁰³ The evening updates included a report on the state of the oil market, and on changes to UK retail petrol and diesel prices.

196. The price of oil quickly stabilised.

197. The COBR evening update for 18 March reported that prices for Brent crude had fallen to around US\$27 a barrel, following heavy selling in expectation of a short war.¹⁰⁴ The IEA was monitoring the market, and stood ready to release stocks if necessary.

198. The MOD informed No.10 on 23 March, in its first report to No.10 on the progress of the military campaign, that all the southern oilfields were now “secure and under Coalition control”.¹⁰⁵

199. The MOD informed No.10 on 25 March that “Iraqi attempted sabotage [of the southern oilfields] has been unsuccessful”.¹⁰⁶

200. The Cabinet discussed the humanitarian situation in Iraq on 27 March.¹⁰⁷ Mr Hoon said that securing Iraq’s essential economic infrastructure had been achieved through seizing the southern oilfields almost intact. The sooner the oil could flow again, the sooner the profits could be used for the Iraqi people.

201. COBR reported on 10 April that oil prices continued to fluctuate around US\$25 a barrel.¹⁰⁸ Market attention was turning away from day-to-day developments in Iraq and towards “underlying fundamentals”. The IEA estimated that despite disruption to Iraqi and Nigerian oil supplies, global oil production had increased by 1 percent between February and March.

202. The COBR evening update for 12 April reported that the Kirkuk oilfields had been seized “almost entirely intact”.¹⁰⁹

203. The final meeting of the COBR (Iraq) Group was held on 23 April.¹¹⁰ Mr Drummond reported that the impression from that meeting was of “returning normality”, including with the stabilisation of the oil price at around US\$25 a barrel and UK fuel prices starting to come down.

¹⁰³ Minute Cabinet Office [junior official] to Manning, ‘Iraq: COBR Round Up of Key Events – 18 March’; Minute Cabinet Office [junior official] to Manning, ‘Iraq: COBR Round Up of Key Events – 22 April’.

¹⁰⁴ Minute Cabinet Office [junior official] to Manning, 18 March 2003, ‘Iraq: COBR Round Up of Key Events – 18 March’.

¹⁰⁵ Letter Watkins to Manning, 23 March 2003, ‘Iraq: Progress of Military Campaign’ attaching Report, [undated], ‘Iraq: Progress of Military Campaign’.

¹⁰⁶ Letter Watkins to Rycroft, 25 March 2003, ‘Iraq: Military Campaign’ attaching Report, [undated], ‘Iraq: Campaign Achievements (as at 25 March 2003)’.

¹⁰⁷ Cabinet Conclusions, 27 March 2003.

¹⁰⁸ Minute Cabinet Office [junior official] to Manning, 10 April 2003, ‘Iraq: COBR Round Up of Key Events – 10 April’.

¹⁰⁹ Minute Dodd to Manning, 12 April 2003, ‘Iraq: COBR Round Up of Key Events – 12 April’.

¹¹⁰ Minute Drummond to Manning, 24 April 2003, ‘COBR(Iraq)’.

204. Oil production fell sharply during military operations, before recovering. The oil sector was severely disrupted by looting.

205. *Hard Lessons* recorded that during and immediately after the invasion there was no “serious” sabotage of the northern or southern oilfields, with only nine fires reported.¹¹¹

206. In contrast, the effect of looting and the developing insurgency was more severe than the US had expected:

“In the south, where US troops bypassed the oil infrastructure on the way to Baghdad, vandals and thieves stripped facilities of anything of value. Oil advisers had identified key installations that needed to be protected, but ‘[the military] said they didn’t have enough people to do that’ ...”

207. The Ministry of Oil in Baghdad was also looted.

208. The June 2003 Economist Intelligence Unit (EIU) Country Report for Iraq, citing figures from the IEA, assessed that Iraqi crude oil output fell from 2.5m bpd in February to 1.4m bpd in March, and then to “a paltry” 170,000 bpd in April.¹¹² Following the cessation of major hostilities, output increased. Iraqi officials suggested that by early June approximately 525,000 bpd were being produced in the north and around 300,000 bpd in the south of Iraq. Domestic demand was estimated to be 600,000 bpd.

209. The Cabinet Office advised Ministers in mid-August 2003 that oil production had been severely disrupted by looters and saboteurs in the initial months after the conflict.¹¹³ All the major oilfields had been affected. That disruption had cost US\$3bn in lost oil export revenue over the 100 days following the end of the conflict.

Negotiations with the US over the control of Iraqi oil revenues

210. Planning for post-conflict Iraq continued after the beginning of military operations.

211. UK policy towards post-conflict Iraq continued to be based on the assumption that after a short period of US-led, UN-authorized military Occupation, the UN would administer and provide a framework for the reconstruction of post-conflict Iraq (see Section 6.5).

212. In the context of negotiations with the US on what would become resolution 1483 (2003), the UK argued that the Coalition should not have sole control over Iraqi oil revenues.

¹¹¹ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

¹¹² Economist Intelligence Unit, June 2003, *Country Report for Iraq*.

¹¹³ Letter Drummond to Owen, ‘Iraq: Update for Ministers’ attaching Paper Cabinet Office, 14 August 2003, ‘Iraq: Update for Ministers, 14 August 2003’.

213. Ms Kara Owen, Mr Straw's Private Secretary, wrote to Sir David Manning on 20 March, advising that the US envisaged that control of the OFF programme would pass from the UN Secretary-General to "authorities in Iraq" within 90 days.¹¹⁴ Ms Owen advised that that short time-scale suggested that the US was thinking that control over the OFF programme should be handed over to either Coalition Forces or a non-representative interim administration established by the US rather than, as the UK wanted, a credible representative Iraqi Government. The US proposal was likely to run into major objections in the Security Council, and would be likely to be perceived as an attempt to "grab Iraqi oil".

214. Ms Owen suggested that Sir David might need to discuss the issue soon with Dr Rice.

215. Mr Bowen circulated draft 'British Post-Conflict Objectives' to senior officials in the FCO, the MOD and DFID on 25 March.¹¹⁵ The text incorporated earlier comments from some departments.

216. The draft stated:

"With others, we will help revive the Iraqi economy and assist reform by:

- working with the UN to manage Iraq's oil revenues in order to achieve the maximum benefit for the Iraqi people in an accountable and transparent manner ..."

217. There is no indication whether the objectives were ever adopted formally.

218. Resolution 1472 (2003) was adopted unanimously by the UN Security Council on 28 March.¹¹⁶ The resolution gave the UN Secretary-General authority to purchase medical supplies and Iraqi goods and services under the OFF programme, for a period of 45 days (until 10 May). The resolution did not give the UN Secretary-General authority to sell Iraqi oil.

219. The UK Government's view was that until sanctions on Iraq were lifted or the Security Council agreed a further resolution amending the OFF programme, the Coalition did not have the power to export Iraqi oil.¹¹⁷

220. Section 9.1 describes the UK's efforts to develop a resolution which would further extend the OFF programme and authorise the UN Secretary-General to sell Iraqi oil and buy the full range of humanitarian supplies.

¹¹⁴ Letter Owen to Manning, 20 March 2003, 'Iraq – Oil for Food'.

¹¹⁵ [Letter Bowen to Chaplin, 25 March 2003, 'Iraq: Post Conflict Objectives' attaching Paper \[draft\], 25 March 2003, 'Iraq: British Post-Conflict Objectives'](#).

¹¹⁶ UN Security Council Resolution 1472 (2003).

¹¹⁷ [Paper IPU, 22 April 2003, 'Oil/Energy policy for Iraq'](#).

221. Mr Blair and President Bush discussed post-conflict issues at Camp David on 26 and 27 March.¹¹⁸

222. In advance of the meeting, Mr Straw's Private Office sent Mr Rycroft a negotiating brief for what was to become resolution 1483, the resolution defining the roles of the UN and the Coalition in post-conflict Iraq.¹¹⁹

223. The negotiating brief, prepared by the IPU, identified five "key issues" on which US and UK positions differed, including the arrangements for dealing with Iraqi oil revenues:

"Some in the US are ... tempted to arrogate to themselves charge of the direction of a Trust Fund for Iraqi oil and other revenues, which will be used for meeting the costs of their administration of Iraq as well as for reconstruction ... this will open them (and by association us) to criticism that they are renegeing on their promise to devote the oil revenues exclusively to the Iraqis."

224. Such a proposition had "nil chance" of approval by the Security Council:

"Either the UN or the Iraqis themselves (perhaps with World Bank/IMF help) must be seen to be in control of Iraqi revenues – certainly not the Coalition."

225. The brief concluded that, overall, the US approach amounted to:

"... asking the UNSC [Security Council] to endorse Coalition military control over Iraq's transitional administration, its representative institutions and its revenues until such time as a fully-fledged Iraqi government is ready to take over."

226. The brief set out a number of "propositions" which the IPU hoped Mr Blair and President Bush would agree, including:

"The UN or the Iraqis, not the Coalition, should manage oil revenues."

227. Also as briefing for the meeting, Mr Straw sent Mr Blair an FCO paper on Phase IV issues.¹²⁰

228. The FCO advised that, on oil sector management, the US and UK agreed that the "overarching principles" were:

- disruption to the flow of Iraqi oil should be minimised;
- Iraq's oil wealth should be used for the benefit of the Iraqi people; and

¹¹⁸ Letter Manning to McDonald, 28 March 2003, Prime Minister's Meeting with President Bush at Camp David: Dinner on 26 March'.

¹¹⁹ [Letter Owen to Rycroft, 25 March 2003, 'Prime Minister's Visit to Washington: Iraq: UN Security Council Resolution on Phase IV' attaching Paper Iraq Planning Unit, 25 March 2003, 'Iraq: Phase IV: Authorising UNSCR'](#).

¹²⁰ Letter Straw to Prime Minister, 25 March 2003, 'Camp David: Post-Iraq Policies' attaching Paper FCO, 25 March 2003, 'Iraq: Phase IV Issues'.

- Iraqi oil business should be handled in as transparent and even-handed a manner as possible.

229. The US and UK also agreed that all decisions on the development of the Iraqi oil industry (such as privatisation and the exploration of new fields) should be deferred until a new Iraqi Government was in place.

230. The FCO advised that the US was considering setting up a trust fund for oil and other revenues. Whatever the arrangement:

“... the key point is that **decisions on using the funds should not be taken by the Coalition**. Until the Iraqi interim authority has the capacity to operate a budget, the UN Secretary-General (or the UN Special Co-ordinator) should continue to decide on spending priorities, as he will do under the amended OFF arrangements.”

231. The FCO also advised that Iraq’s oil revenues would not cover the cost of reconstruction, particularly in the short term. The cost of reconstruction needed to be shared with other countries.

232. The UK Treasury received a paper from the US Treasury on 26 March, proposing the creation of two Trust Funds:

- one to hold donor funds, to be administered by the World Bank; and
- one – the Iraqi Economic Recovery Fund (IERF) – to hold oil revenues and unfrozen Iraqi assets. The IMF would manage and invest the IERF’s assets, but the “CPA/IIA” [Coalition Provisional Authority/Iraq Interim Authority] would have sole authority over how IERF funds were spent.¹²¹

233. Mr Blair and President Bush met at Camp David on 26 and 27 March.¹²² At dinner on the first evening, Mr Blair told President Bush that he did not want his visit to Camp David to focus primarily on a resolution to deal with post-conflict Iraq. The question about what sort of resolution was needed for the administration and reconstruction of Iraq should be parked.

234. Mr Rycroft sent Mr Blair a UK Treasury paper considering the US Treasury’s proposal to establish two Trust Funds on 31 March.¹²³

¹²¹ [Paper Treasury, 28 March 2003, ‘International Oversight of Iraqi Reconstruction’ attaching Fax US official to Cunliffe, 26 March 2003, \[untitled\]](#).

¹²² Letter Manning to McDonald, 28 March 2003, Prime Minister’s Meeting with President Bush at Camp David: Dinner on 26 March’.

¹²³ Minute Rycroft to Blair, 31 March 2003, ‘Iraq: Reconstruction’ attaching Paper Treasury, 28 March 2003, ‘International Oversight of Iraqi Reconstruction’.

235. The UK Treasury advised that the main problem with the US proposal was that it assumed a certain interim governance arrangement for post-conflict Iraq which had not yet been endorsed internationally. The “best outcome” for the UK would be:

“... a UN-authorized Transitional Administration or Iraqi Government, accompanied by a ‘Consultative Group’ of donors ... chaired by the World Bank.

“Initially oil funds might continue to be managed under the Oil-for-Food programme. Gradually, and as sanctions are lifted, the UN-backed Iraqi authority would take control of domestic resources under suitable safeguards, e.g. over transparency of fiscal actions, contracts etc.”

236. Mr Rycroft commented:

“We need to get the US back to what they said at Camp David was their policy: returning Iraqi sovereignty to Iraqi people.”

237. Mr Blair spoke to President Bush later that day.¹²⁴ Mr Blair stated that a clearer picture was needed of the shape of a post-Saddam Iraq to “sketch out a political and economic future and dispel the myth that we were out to grab Iraq’s oil”.

238. After the discussion, Mr Blair sent President Bush two Notes, one on communications and one entitled ‘Reconstruction’.¹²⁵

239. The Note on reconstruction set out the UK’s response to the two funds proposed by the US. It stated that using the World Bank and the IMF to administer the funds was sensible but would run into problems:

- Channelling oil revenues through IFIs rather than straight to the IIA could “easily be misrepresented”, and the proposal would need to be included in the next resolution.
- Without UN agreement, the IFIs were unlikely to agree to administer the funds.
- The UK, Japan and others could only unblock assets with UN authority.
- “Our posture should be for the IIA to take on responsibility as soon as possible, i.e. Iraq for the Iraqis, not us or the UN.”

240. The Note stated that an amended proposal had been submitted by the UK Treasury, which envisaged some oil revenues going into a gradually declining OFF programme and the remainder (plus unfrozen assets) going into “the reconstruction account”, which would be administered jointly by the IMF and World Bank. Funds from the account would be “directed to the IIA”.

¹²⁴ Letter Cannon to McDonald, 31 March 2003, ‘Iraq: Prime Minister’s Conversation with Bush, 31 March’.

¹²⁵ Letter Manning to Rice, 31 March 2003, [untitled] attaching Notes [Blair to Bush], [undated], ‘Reconstruction’ and ‘Communications’.

241. The Note concluded that any proposal would need to be tailored in a way that could secure UN endorsement.

242. In preparation for the 8 April meeting between President Bush and Mr Blair at Hillsborough, Mr Rycroft chaired talks between US and UK officials on 4 April.¹²⁶

243. The IPU provided Mr Rycroft with an annotated version of the agenda for the talks and a commentary on the latest US draft resolution on 3 April.¹²⁷

244. The commentary described the UK's problems with the US draft, including that it specified that Iraqi oil revenues would be spent at the direction of the Coalition. That would be unacceptable to the Security Council.

245. The annotated agenda set out the UK position on that issue:

“We believe that, like the wider political process, this management [of oil revenues] has to be legitimised by the UN; and that it will only be acceptable to the UNSC [Security Council] if it involves some form of effective international oversight – about whose details we do not as yet have a firm view – until a representative Iraqi Government is ready to take over.”

246. The annotated agenda also stated that:

“Any decisions concerning the management of Iraq's oil reserves should be taken either by the UN or by the new Iraqi institutions. The Coalition's effort should focus on rehabilitating Iraq's existing infrastructure ...”

247. Mr Brenton reported by telegram on 4 April, to clarify US views on post-conflict Iraq.¹²⁸ While discussions had been “disproportionately dominated by hard-line DoD positions”, the reality was that “NSC rule” and it was close to the UK position on most of the post-conflict agenda. There was considerable common ground between the US (including DoD) and the UK, including on the need for oil revenues to be “in the hands of the Iraqis, with international oversight, and spent by the Coalition only for tasks agreed by the UNSCR [resolution]”.

248. Mr Nicholas Cannon, Mr Blair's Assistant Private Secretary for Foreign Affairs, wrote to Mr Simon McDonald, Principal Private Secretary to the Foreign Secretary, on 4 April, reporting the talks between US and UK officials.¹²⁹

249. Mr Cannon reported that the US delegation had proposed that the bulk of Iraqi oil revenues should go into a fund under Coalition supervision, “if necessary with a

¹²⁶ Minute Rycroft to Blair, 4 April 2003, ‘Future of Iraq’.

¹²⁷ Letter Chilcott to Rycroft, 3 April 2003, ‘Iraq: Phase IV: Meeting with US Officials’ attaching Paper IPU, [undated], ‘Comments on US Draft Post Conflict Iraq Resolution’.

¹²⁸ Telegram 448 Washington to FCO London, 4 April 2003, ‘Iraq: Post Conflict’.

¹²⁹ Letter Cannon to McDonald, 4 April 2003, ‘Iraq, Post-Conflict Administration: US/UK Talks, 4 March [sic]’.

double-signature arrangement with the IIA, but initially ORHA only”. US Treasury officials in the US delegation said that whoever controlled oil revenues controlled the direction of reconstruction; it was not acceptable that the UN should handle Iraq’s budget.

250. Mr Cannon did not report any UK response to those arguments.

251. Mr Straw’s office sent Mr Rycroft an IPU brief on 7 April, for Mr Blair to use at the Hillsborough meeting.¹³⁰ The IPU advised:

“We agree that, as Condi [Dr Rice] said at Camp David, future oil arrangements should be put into the hands of Iraqis, with international oversight, as soon as possible. But **it is unrealistic to think that the UN Security Council, which controls Iraq’s oil revenues, will agree to give directional power over them to the Coalition.** It will need a new UNSCR to take control over the revenues from the UN and give it to someone else. We don’t think that IIA should have unfettered power over spending. We need to design a system where the IFIs have sufficient oversight of the IIA’s activities for us to have confidence. We won’t get UNSCR agreement to Jay Garner’s signature – in any circumstances.”

252. Section 9.1 describes the discussions at Hillsborough between Mr Blair and President Bush on 7 and 8 April, which focused on the role of the UN in post-conflict Iraq.

253. During the meeting, Dr Rice said that the US and UK needed to divide what had to be done by the Occupying Power, from what could be left to a future Iraqi Government.¹³¹ On oil, short-term tasks for the Coalition should include: repairing the oilfields; getting Iraqis back to work; and starting to pump oil. The long-term issues would include future contracts.

254. Mr Straw said that a UN role would be needed to regularise the sale of Iraqi oil.

255. General Franks issued his “Freedom Message to the Iraqi People” on 16 April.¹³² The message referred to the Coalition Provisional Authority (CPA).

256. The creation of the CPA, which subsumed ORHA, signalled a major change in the US approach to Iraq, from a short military occupation to an extended US-led civil administration.

257. On 24 April, the Ad Hoc Ministerial Group on Iraq Rehabilitation (AHMGIR) considered an IPU/FCO paper entitled ‘Oil/Energy Policy for Iraq’.¹³³ The paper stated that it was a “stock-take” which built on previous work by the IPU.¹³⁴

¹³⁰ Letter Owen to Rycroft, 7 April 2003, ‘Hillsborough: Iraq’ attaching Paper IPU, 6 April 2003, ‘Iraq: Phase IV: Authorising UNSCR’.

¹³¹ Letter Rycroft to McDonald, 8 April 2003, ‘Iraq: Prime Minister’s Meeting with Bush, 7-8 April’.

¹³² Statement Franks, 16 April 2003, ‘Freedom Message to the Iraqi People’.

¹³³ Minutes, 24 April 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹³⁴ [Paper IPU, 22 April 2003, ‘Oil/Energy Policy for Iraq’.](#)

258. The IPU/FCO paper reported that the oil price had fallen by US\$8 a barrel since early March, and had stabilised in the “mid-twenties”. Iraq’s oilfields had been undamaged by the fighting, although a few wells had been sabotaged. Those fires were now all extinguished. There had been some looting and damage to pipelines and oil refineries. There was a growing shortage of gas (for power stations), fuel and cooking gas, particularly in the South.

259. The IPU/FCO also reported that within the Security Council, oil remained a contentious issue; Council members had different motivations. The UK and US were keen to get Iraqi oil flowing again as soon as possible “to meet humanitarian/reconstruction needs”. France and Russia wanted to protect the interests of their companies that had existing contracts under the OFF programme.

260. The UK was proposing a three-phase approach to dealing with Iraqi oil and the OFF programme:

- To extend resolution 1472 to 3 June (the end of the current OFF programme phase), and possibly extend the OFF programme itself beyond 3 June. If the OFF programme continued “for any length of time”, the UN Secretary-General would need enhanced powers to sell Iraqi oil and buy the full range of humanitarian supplies.
- To pass control of Iraqi oil and gas revenues to a “credible interim administration” once one had been established, subject to certain checks: “The checks would be those necessary to assure us (the UK) that oil and oil revenues were protected against major mismanagement, corruption and national bias, lack of transparency or other unfairness in the awarding of contracts.”
- Those checks would have to be acceptable to the Security Council. They might comprise oversight of contracts by a representative of the UN Secretary-General or a committee of IFI representatives. Oversight by the Coalition would not be politically acceptable or achievable in the Security Council.
- To hand over full control over oil and oil revenues to a democratically elected Iraqi Government.

261. The IPU/FCO advised that the UK had stressed to the US its legal concerns on the limits to the authority of Occupying Powers to export oil outside the OFF programme while sanctions were in place, and to alter Iraqi oil policy or to carry out any structural reorganisation of the Iraqi oil industry. The US was “well aware” of the UK’s concerns.

262. The UK and the US agreed that all strategic decisions on the development of the oil industry should be left to a “representative Iraqi government” and that, in the meantime, all oil business should be handled in as transparent a manner as possible. The UK and the US also shared “a general concern” to avoid the centralisation of oil revenues in the hands of a minority, and to help limit their corrosive effect on political life.

263. Introducing the paper at the AHMGIR, an FCO official said that Iraq's oil infrastructure was in a better state than had been feared when the conflict began.¹³⁵ The UK was clear that the OFF programme was the only legal means for exporting Iraqi oil, "though some in the US wanted to find ways around this". The UK's strategy was to extend the OFF programme, then transfer control of oil revenues to the IIA "with some international oversight", and then transfer full control to a democratically elected Iraqi Government.

264. Ms Hewitt said that UK companies wanted a future Iraqi Government to establish a "level playing field" for oil industry contracts.

265. The AHMGIR agreed that the UK should:

- encourage Iraqi oil exports to recommence as soon as possible, but only after an appropriate resolution had been adopted;
- offer UK oil expertise to ORHA and in the medium term to the IIA; and
- leave future decisions on the shape of the Iraqi oil industry and the management of oil revenues to the new Iraqi Government, while advising on international best practice.

266. Mr John Bellinger, NSC, sent a US draft of a post-conflict resolution to Sir David Manning on 28 April.¹³⁶ It provided for:

- the creation of an Iraqi Development Fund, which would be audited by independent accountants and whose operations would be "monitored" by the UN Special Co-ordinator;
- funds in the Iraqi Development Fund to be disbursed "at the direction of the Coalition Provisional Authority";
- the resumption of oil sales at the market price; and
- the transfer of unspent OFF programme funds and oil revenues into the Iraqi Development Fund.

267. Section 9.1 describes negotiations between the UK and US on the draft resolution, which increasingly focused on the mandate of the UN Special Co-ordinator and the extension of the OFF programme.

268. Mr Straw, Sir David Manning, Sir Jeremy Greenstock, UK Permanent Representative to the UN, and FCO officials discussed the draft by video link with Secretary Powell and Dr Rice and US officials on 30 April.¹³⁷

¹³⁵ Minutes, 24 April 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹³⁶ Letter Bellinger to Manning, 28 April 2003, [untitled], attaching Paper, [undated], 'Resolution on Post-Conflict Iraq'.

¹³⁷ Letter Cannon to McDonald, 30 April 2003, 'Iraq/UN: Video-Conference with Condi Rice and Colin Powell, 30 April'.

269. Sir Jeremy Greenstock said that the US and UK needed to establish who would have title to Iraqi oil, and who would control expenditure of oil revenues. Dr Rice responded that the Coalition, as the Occupying Power, was responsible for administering Iraq. It followed that control over Iraqi finances could not be transferred elsewhere. US legal advice was that the Coalition could sell Iraqi oil without UN cover if necessary. She concluded:

“The CPA would be the Government until the IIA took over, and so would write the cheques, even if this was dressed up with UN cover, or monitoring, or an international board.”

270. Mr Straw noted the presentational sensitivities of the Coalition using Iraq’s money.

271. During the meeting, Mr Rycroft and Mr Bellinger were tasked to go through the US draft in detail and produce a further version for discussion.¹³⁸

272. Mr Bellinger sent a revised draft to Mr Rycroft later that day. The revised draft recorded separate UK and US language on who would control disbursement from the Iraqi Development Fund, and how it would be administered. The UK language gave control to “the authorities in Iraq, including the Interim Iraqi Administration when established”, the US language to the “Occupying Powers/CPA”.

273. Mr Straw, Sir David Manning, Sir Jeremy Greenstock and officials discussed the latest draft resolution by video link with Dr Rice and US officials on 1 May.¹³⁹

274. On the Iraqi Development Fund, Sir Jeremy said that the lack of some provision for oversight or disbursement by the IIA would be a major problem for the Security Council. Dr Rice responded that the Security Council needed to recognise the facts on the ground; the Coalition was the Occupying Power and would need to be able to manage disbursement.

275. The record of the video conference did not indicate that any resolution was reached on the issue.

276. Mr Bellinger sent through a further US draft of a post-conflict resolution on 4 May.¹⁴⁰

277. The draft stated that the Iraqi Assistance Fund should be disbursed “at the direction of the Authority, in consultation with the Iraqi Interim Authority”.¹⁴¹ The Fund would be audited by independent accountants, and established “with an international advisory board”.

¹³⁸ Letter Bellinger to Rycroft, 30 April 2003, attaching Paper [draft], [undated], ‘Resolution on Post-Conflict Iraq’.

¹³⁹ Letter Cannon to McDonald, 1 May 2003, ‘Iraq/UN: Video-Conference with Condi Rice, 1 May’.

¹⁴⁰ Letter Bellinger to Rycroft, 4 May 2003, [untitled] attaching Paper, [undated], ‘Resolution on Post-Conflict Iraq’.

¹⁴¹ The term “the Authority” referred to the authorities of the Occupying Powers.

278. Mr Brenton spoke to Mr Bellinger and others about the draft the following day, and highlighted UK concerns on a number of issues including the move from “monitoring” to “auditing” the Fund.¹⁴²

279. The next US draft of a post-conflict resolution was sent to Mr Rycroft and Sir David Manning on 6 May.¹⁴³ Text relating to the operation of the Iraqi Assistance Fund was unchanged.

280. Later that day, Mr Straw chaired a video conference with Dr Rice, Secretary Powell, Sir Jeremy Greenstock and others to discuss the draft.¹⁴⁴

281. During the video conference, it was agreed that the draft should include reference to monitoring, as well as auditing, oil sales.

282. The Annotated Agenda for the 15 May meeting of the AHMGIR stated that initial discussions on a draft resolution in the Security Council had been as positive as could be expected.¹⁴⁵ Concerns had focused on a need for clarity in three areas:

- the extent of the UN role;
- the political process, in particular the exact nature of the IIA; and
- arrangements for oversight of oil sales and disbursement of oil revenue, as well as the fate of existing contracts under the OFF programme.

283. The Annotated Agenda also stated that the US wanted the resolution adopted by 22 May, as this was the date by which they wished to start exporting oil to avoid a lack of storage capacity affecting production and the local supply of gas and petrol.

284. Mr Blair and President Bush spoke on 16 May.¹⁴⁶ Action in the UN seemed to be going well and Mr Blair proposed two areas (a UN “Special Representative” rather than “Special Co-ordinator” and greater transparency of oil sales) in which the resolution might be amended if tactically necessary.

285. Resolution 1483 (2003) was adopted on 22 May.¹⁴⁷ The resolution:

- lifted all sanctions on Iraq except those related to arms;
- noted the establishment of the Development Fund for Iraq (DFI), which would be audited by independent public accountants approved by the International Advisory and Monitoring Board (IAMB);

¹⁴² Telegram 589 Washington to FCO London, 5 May 2003, ‘Iraq: Draft UNSCR’.

¹⁴³ Minute Bellinger to Rycroft and Manning, 6 May 2003, ‘Revised Draft: UNSCR’ attaching Paper, [undated], ‘Resolution on Post-Conflict Iraq’.

¹⁴⁴ Letter Cannon to McDonald, 6 May 2003, ‘Iraq/UN: Video-Conference with Condi Rice and Colin Powell, 6 May’.

¹⁴⁵ Annotated Agenda, 15 May 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁴⁶ Letter Cannon to McDonald, 16 May 2003, ‘Iraq: Prime Minister’s Conversation with Bush, 16 May’.

¹⁴⁷ UN, Press Release SC/7765, 22 May 2003, *Security Council lifts sanctions on Iraq, approves UN role, calls for appointment of Secretary-General’s Special Representative*.

- looked forward to the early meeting of the IAMB, which would include representatives of the UN Secretary-General, the IMF, the Arab Fund for Social and Economic Development, and the World Bank;
- noted that disbursements from the DFI would be “at the direction of the Authority, in consultation with the interim Iraqi administration”;
- underlined that the DFI would be used “in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq’s infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq”;
- decided that all export sales of Iraqi petroleum, petroleum products and natural gas should be made “consistent with prevailing international market best practices”, and that 95 percent of the revenue should be deposited into the DFI (with five percent deposited into the UN Compensation Fund for victims of Saddam Hussein’s 1990 invasion of Kuwait); and
- requested the UN Secretary-General to continue operation of the OFF programme for up to six months from 22 May.¹⁴⁸

286. Mr Straw told a meeting of Cabinet the same day that:

“This Security Council Resolution would put the Coalition’s work in Iraq on a firm basis, including for oil sales.”¹⁴⁹

287. *Hard Lessons* recorded that the resolution cleared the way for the resumption of oil exports.¹⁵⁰ The first sale was made on 22 June.

288. Sir Jon Cunliffe told the Inquiry that the UK’s position in the negotiations over resolution 1483 had been informed by its concern to maintain legitimacy and accountability as an Occupying Power:

“... there was great suspicion that ... the war was designed to get hold of Iraqi oil revenues and was being inspired by the US oil industry ... we thought it was very important for the perception in the international community that these [oil] resources were controlled transparently and at arm’s length and in a proper way we could account for them. We thought it would make a huge difference as to whether we could get other countries to join us in the reconstruction effort ... and we also thought that it was important for the UK generally to ensure they were used efficiently on the ground in Iraq.”¹⁵¹

¹⁴⁸ UN Security Council Resolution 1483 (2003).

¹⁴⁹ Cabinet Conclusions, 22 May 2003.

¹⁵⁰ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

¹⁵¹ Public hearing, 9 July 2010, page 38.

“So our view of how this should be managed, accounted for, was different to the US view and there was a lot of discussion around the drafting of the resolution, and just how the resources would feed into the CPA and who would have control over them.”

Oil policy under the Coalition Provisional Authority

289. Ambassador Paul Bremer III arrived in Baghdad on 12 May, to lead the CPA.

290. The names ORHA and CPA continued to be used interchangeably in documents seen by the Inquiry for some time after the creation of the CPA.

291. From late May, Ministers received reports that the CPA was not consulting the UK on policy issues in the oil sector.

292. The Annotated Agenda for the 22 May meeting of the AHMGIR stated that the US was driving decisions on the management of the oil sector.¹⁵² The Iraqi Ministry of Oil was “run by” a US-appointed Interim Management Team, headed by an Iraqi official. That official was “effectively steered by” an Oil Advisory Board (OAB) chaired by an American (though the majority of Board members were Iraqis). The OAB planned a strategic review of the oil sector; the UK hoped that the recent arrival in the CPA of a DTI oil expert would increase its knowledge of CPA plans for the sector.

293. Ms Hewitt’s briefing for the AHMGIR set out the problem more explicitly.¹⁵³ The UK had had considerable difficulty in getting hold of the OAB’s terms of reference, and was not therefore able to establish whether it was legally constituted. A UK national was being sounded out to sit on the OAB. That could bring a different perspective and help encourage a transparent oil sector policy, but those advantages needed to be weighed against the legal uncertainties surrounding the OAB and the presentational issues of a more visible UK role in managing Iraq’s oil.

294. The Annotated Agenda also stated that TPUK’s ability to promote Iraq to UK oil companies was constrained by “political sensitivities and lack of ground knowledge”.¹⁵⁴ UK oil companies would only deal with a “legally acceptable authority” and remained to be convinced that one was in place:

“But most of this will change if there is a new UN resolution,¹⁵⁵ and we are reaching the stage where we and UK companies must engage or lose out. We are therefore beginning to encourage UK companies to become more closely involved in the oil sector in the same way as they are in other areas of rehabilitation.”

¹⁵² Annotated Agenda, 22 May 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁵³ Minute Briggs to PS/Mrs Hewitt, 21 May 2003, ‘Sixth Meeting of Ad Hoc Ministerial Group on Iraq Rehabilitation: 22 May 2003’.

¹⁵⁴ Annotated Agenda, 22 May 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁵⁵ A reference to resolution 1483 (2003), which was adopted that day.

295. The AHMGIR agreed that the DTI should encourage UK oil companies to “develop strategies towards the Iraqi oil sector and otherwise help the UK take advantage of oil opportunities”.¹⁵⁶

296. A week later, Ministers were informed that the DTI planned a series of meetings with the major oil companies, “to begin to discuss more general Iraq oil issues discreetly”.¹⁵⁷

297. Oil production was estimated at between 400,000 and 500,000 bpd; the target was to reach between 2.5m and 2.8m bpd (described as the pre-conflict level) by the end of 2003.

298. From early June 2003, and throughout the summer, there were signs that security in both Baghdad and the South was deteriorating (see Section 9.2).

299. A paper on the management of the DFI was submitted to the 5 June meeting of the AHMGIR (chaired by Mr Straw).¹⁵⁸

300. The paper stated that while resolution 1483 made the UK jointly responsible (with the US) for disbursements from the DFI, it contained little detail on how the DFI should be managed. The UK needed to settle that issue quickly with the US; spending decisions could start being made in the next few weeks. The management arrangements needed to meet the UK’s objectives in terms of transparency and accountability; in particular, the arrangements needed to meet the commitments in the resolution to use resources in the DFI “in a transparent manner” and to ensure that oil sales were “made consistent with international best practice”.

301. The Annotated Agenda for the meeting stated that the CPA had circulated a draft regulation which gave the US Administration “sole oversight” over DFI spending.¹⁵⁹ Such an arrangement would marginalise UK influence and risk presentational problems, but was not settled US policy. The UK was lobbying in Washington and Baghdad to amend the draft regulation.

302. On 9 June, Ms Cathy Adams from the Legal Secretariat to the Law Officers sent a reply to a letter of 21 May from FCO Legal Advisers seeking advice on resolution 1483.¹⁶⁰

303. Ms Adams advised that the resolution clearly imposed joint US/UK responsibility for disbursements from the DFI, and that it was therefore important to ensure that the

¹⁵⁶ Minutes, 22 May 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁵⁷ Paper Cabinet Office, 29 May 2003, ‘Iraq: Update for Ministers’.

¹⁵⁸ Annotated Agenda, 5 June 2003, Ad Hoc Group on Iraq Rehabilitation meeting, attaching Paper, [undated], ‘Implications of and Modalities for the Development Fund for Iraq’.

¹⁵⁹ Annotated Agenda, 5 June 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁶⁰ [Letter Adams to Llewellyn, 9 June 2003, ‘Iraq: Effect of Security Council Resolution 1483 on the Authority of the Occupying Powers’.](#)

US Government did not take actions in relation to the DFI which were incompatible with the resolution. She continued:

“The fact that the resolution imposes joint responsibility gives the UK a locus to argue with the US that we should be fully involved in the decision-taking process. Anything less would be legally risky.”

304. The following day, 10 June, the CPA issued a regulation that gave Ambassador Bremer, as “Administrator of the CPA”, authority to oversee and control the establishment, administration and use of the DFI and to direct disbursements from the DFI “for those purposes he determines to be for the benefit of the Iraqi people”.¹⁶¹

305. The regulation also established a Program Review Board (PRB) to develop funding plans and make recommendations to Ambassador Bremer on expenditures from the DFI, “in consultation with the Iraqi interim administration, when established”.

306. The CPA issued a further regulation on 18 June, detailing the operation of the PRB.¹⁶² Voting members of the PRB included representatives of the Iraqi Ministry of Finance and the UK. Non-voting members included the representatives of the IMF, World Bank, UN Special Representative of the Secretary-General (SRSG), and IAMB.

307. An IPU update on reconstruction which was sent to No.10 on 20 June advised that the DFI regulations “met some, but not all of our key requirements”.¹⁶³

308. The UK’s efforts to scrutinise disbursements from the DFI are considered later in this Section.

309. Mr Andy Bearpark, a UK national, arrived in Baghdad on 16 June to take up the post of CPA Director of Operations.¹⁶⁴

310. Mr Bearpark told the Inquiry that, shortly after arriving in Baghdad, Ambassador Bremer asked him to take on responsibility for all the Iraqi infrastructure Ministries with the exception of the Ministry of Oil.¹⁶⁵ At that point, his title had changed to Director of Operations and Infrastructure.

311. The Inquiry asked Mr Bearpark why he had been excluded from the oil sector.¹⁶⁶ He responded:

“It was never, ever said to me officially – and it was certainly never, ever put in writing, but every member of my staff ... said that it was perfectly obvious that

¹⁶¹ Coalition Provisional Authority, Regulation No.2, 10 June 2003, *Development Fund for Iraq*.

¹⁶² Coalition Provisional Authority, Regulation No.3, 18 June 2003, *Program Review Board*.

¹⁶³ Letter Owen to Rycroft, 20 June 2003, ‘Iraq: Reconstruction Priorities’ attaching Paper IPU, 20 June 2003, ‘Iraq Reconstruction: 30 Day Priorities, 5 June 2003’.

¹⁶⁴ Paper Cabinet Office, 18 June 2003, ‘Update for Ministers’.

¹⁶⁵ Public hearing, 6 July 2012, page 5.

¹⁶⁶ Public hearing, 6 July 2012, page 71.

I couldn't be put in charge of oil because I really wasn't American ... [and] oil would remain an American interest.

"So it was a very specific instruction from Bremer that I was not in charge of the Oil Ministry."

312. In his evidence to the Inquiry, Sir Jeremy Greenstock identified budgeting and oil as the two clearest examples of issues on which the UK was not consulted by the CPA:

"We did not see anything whatsoever in the oil sector; they [the CPA] kept that very closely American, because they wanted to run the oil sector."¹⁶⁷

313. The Inquiry asked Sir Jeremy why the CPA sought to retain control of the oil sector. He responded:

"I think they [the CPA] felt that they understood the oil sector. They brought in American oil executives to advise them on this and to run that part of the CPA. They knew that management of the oil sector was going to be vital for the supply of finance into the Iraqi system and they wanted to be responsible for it themselves.

"There might have been a minor angle of thinking that they wanted access to the contracts that might come out of the oil sector and the Iraqi economy at a subsequent period, but the Americans were doing 95 percent of the work and putting in more than 95 percent of the money. I wouldn't like to say that they were not justified in taking that approach."¹⁶⁸

314. Sir Jeremy continued:

"... the Americans had no intention to take over and own the oil sector. That was always a canard in public criticism terms of what the invasion was about. It was not about oil. I think they just felt it was such an important area that they would run it themselves."

315. Section 9.2 describes the Government's broader concerns about the CPA's failure to consult with the UK, as a joint Occupying Power.

316. The Annotated Agenda for the 12 June meeting of the AHMGIR stated that the UK Government had put forward two UK candidates to sit on the OAB.¹⁶⁹ It was likely that a UK candidate would be chosen in the next few weeks.

317. The Annotated Agenda for the 3 July meeting of the AHMGIR stated that the OAB would not be constituted, having been replaced by a CPA oil sector team.¹⁷⁰ The DTI

¹⁶⁷ Public hearing, 15 December 2009, page 102.

¹⁶⁸ Public hearing, 15 December 2009, pages 103-4.

¹⁶⁹ Annotated Agenda, 12 June 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁷⁰ Annotated Agenda, 3 July 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

was exploring the possibility of seconding a senior private sector expert to that team, who would be funded by the UK and act as the UK's representative on the team.

318. Ms Hewitt's briefing for the meeting stated that the US had decided that the OAB, which was to "advise the Oil Ministry", would not be constituted due to the level of technical skill within the Ministry and Iraqi suspicions over the OAB's role.¹⁷¹ The CPA oil sector team would be "more operational". It currently consisted of four Americans and one Australian; the US were "sounding out" one UK oil expert.

319. The CPA's 'Vision for Iraq', which had been drafted by the CPA's Office of Strategic Planning, was agreed by senior Pentagon officials on 18 July.¹⁷² The underpinning implementation plan, 'Achieving the Vision to Restore Full Sovereignty to the Iraqi People', was circulated to members of Congress on 23 July.¹⁷³

320. Neither document considered the development of the oil sector in any detail. 'Achieving the Vision' defined a large number of objectives, including:

- establish and train a Facilities Protection Service;
- remove subsidies, including on oil; and
- design an oil trust fund, to be operational by February 2004.¹⁷⁴ Work by the CPA to develop the Iraq Heritage Trust is described later in this Section.

321. There was no objective for increasing oil production.

322. On 24 July, representatives from the Iraqi Ministry of Oil, the CPA, and USACE approved the Iraq Oil Infrastructure Restoration Plan, which aimed to restore oil infrastructure to its pre-war production capacity.¹⁷⁵ The authors of the Plan described it as the result of a joint, collective effort by the Ministry of Oil, USACE, KBR staff, the Iraq Reconstruction and Development Council, and the CPA. The key event within the planning process was a workshop from 6 to 9 July, which was attended by over 100 participants.

323. The attendance list for the workshop did not include any UK representatives.

324. The Inquiry has seen no indications that the UK Government was aware of that planning process.

325. USACE issued the Plan to contractors on 1 August.

¹⁷¹ Minute DTI [junior official] to PS/Mrs Hewitt, 2 July 2003, 'Next Meeting of the Ad Hoc Ministerial Group on Iraq Rehabilitation: Thursday 3 July 2003'.

¹⁷² Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

¹⁷³ Bremer LP III & McConnell M. *My Year in Iraq: The Struggle to Build a Future of Hope*. Threshold, 2006.

¹⁷⁴ Paper Coalition Provisional Authority, 21 July 2003, 'Achieving the Vision to Restore Full Sovereignty to the Iraqi People'.

¹⁷⁵ Tappan SE. *Shock and Awe in Fort Worth*. Pourquoi Press, 2004.

326. Ambassador Bremer signed CPA Order No.39 on 19 September.¹⁷⁶ The Order allowed for 100 percent foreign participation in business entities in Iraq:

“... except that foreign direct and indirect ownership of the natural resources sector involving primary extraction and initial processing remains prohibited.”

Study on the Political Economy of Oil

In late July 2003, the London Middle East Institute produced a study on the political economy of oil and democracy-building in Iraq, which had been commissioned by the Department for International Development (DFID).¹⁷⁷

A junior DFID official circulated the study to DFID and Treasury officials only on 31 July. He advised that the study evaluated a range of options for the allocation of oil revenues and the ownership of the oil industry. A central message from the study was that any arrangement would have long-term political, economic and social implications. There were no “risk-free” options.

The official highlighted a number of the study’s conclusions, including:

- a “cautious, incremental” approach to unbundling upstream production and downstream distribution systems to create a deconcentrated ownership structure, which could eventually be incorporated into a graduated privatisation process, was preferable to “rapid privatisation”; and
- while production-sharing agreements (PSAs) might be economically attractive in terms of mobilising capital and technology, they were unlikely to have “positive distributional benefits” and might constrain future political development.

327. By August, the US was focusing its efforts on increasing oil production. The UK believed there was also a need to develop sector policy and strategy. The US rebuffed UK attempts to provide an oil policy expert.

328. The DTI provided an update on the oil sector to the 7 August meeting of the AHMGIR.¹⁷⁸

329. The DTI reported that oil production, hampered mainly by sabotage and power shortages, was between 1m and 1.2m bpd – still less than half pre-conflict levels. Despite significant imports, refined petroleum products, gasoline, petrol and gas for cooking and heating remained in short supply.

330. The CPA Oil Team was focused on restoring oil production to pre-conflict levels, leaving all other issues to the Iraqi authorities. The UK believed that there was a need

¹⁷⁶ Coalition Provisional Authority, Order No.39, 19 September 2003, *Foreign Investment*.

¹⁷⁷ Minute DFID [junior official] to DFID [junior official], 31 July 2003, ‘Study on the Political Economy of Oil and Democracy Building in Iraq’ attaching Report, 24 July 2003, ‘The Political Economy of Oil and Democracy Building in Iraq’.

¹⁷⁸ Annotated Agenda, 7 August 2003, Ad Hoc Group on Iraq Rehabilitation meeting attaching Paper DTI, 6 August 2003, ‘Iraqi Oil Sector Update 07 August 03’.

to develop “longer-term strategies and options”; a well-run oil industry was essential to Iraq’s recovery and thus to the Coalition’s overall strategy.

331. The UK had selected Mr Terry Adams to join the CPA Oil Team as a technical expert and Mr Ian Fletcher, Sir Andrew Turnbull’s Principal Private Secretary,¹⁷⁹ to join the CPA Oil Team as an oil policy expert. One of Mr Fletcher’s main tasks would be to help develop those longer-term strategies. The DTI reported that the CPA had welcomed Mr Adams’ appointment, but had been “less than enthusiastic” about Mr Fletcher’s, possibly because of its view that longer-term issues should be left to the Iraqi authorities.

332. The Annotated Agenda for the AHMGIR reported that the current Iraqi Ministry of Oil target was to increase oil production to pre-conflict levels by April 2004; that appeared optimistic.¹⁸⁰ Uncertainties over oil production levels and the oil price meant that oil revenues for 2004 remained unpredictable.

333. The Annotated Agenda stated that:

“Our major concerns are that the CPA and Iraqi experts are focused on revising production in the short-term and giving insufficient consideration to long-term strategy ...

“We are therefore seeking to engage the US Administration and CPA leadership over oil sector issues in order to gain influence over decisions and policy. We are inserting two senior people into the CPA Oil Team ...”

334. The UK and the US had agreed to establish a “senior bilateral official-level working group” on “long-term oil sector issues”.

335. The UK was also beginning a debate with the Iraqi Ministry of Oil on ways to address its skills gap.

336. Mr Bearpark commented in a meeting with DFID officials on 11 August that the UK did not have much hope of getting senior people into the oil sector, which was “sewn up by the US”.¹⁸¹ The record of that meeting was copied only within DFID.

337. On 10 and 11 August, Basra experienced severe rioting.

¹⁷⁹ Minute DTI [junior official] to PS/Mrs Hewitt, 23 July 2003, ‘Next Meeting of the Ad Hoc Ministerial Group on Iraq’.

¹⁸⁰ Annotated Agenda, 7 August 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁸¹ Minute DFID [junior official] to PPS/Baroness Amos, 12 August 2003, ‘Iraq: Meeting with CPA Director of Operations’.

338. Mr David Richmond, the Prime Minister’s Acting Special Representative on Iraq,¹⁸² reported to the FCO:

“The immediate cause of the disturbances is clear. Supplies of petrol and diesel in Basra’s service stations ran out on 9 August ... This was combined with a major blackout in Basra ... There is no doubt that political elements ... exploited the situation. There is also evidence of pre-planning ... but without the fuel and electricity crisis, agitators would not have found much purchase.”¹⁸³

339. Section 10.1 describes the UK’s response, including the development of the US\$127m Essential Services Plan, which aimed to improve fuel, power and water infrastructure in Basra, and the redeployment of UK troops to secure fuel facilities.

340. Mr Adams deployed to Iraq in mid-September.¹⁸⁴

The Iraq Heritage Trust

In early September, the Coalition Provisional Authority (CPA) prepared a draft Order expressing the intent to establish an “Iraq Heritage Trust” (IHT), to hold Iraq’s oil and gas export revenues.¹⁸⁵ The UK Government assessed that the draft Order clearly provided for the IHT to continue to operate after the CPA had transferred power to a sovereign Iraqi Government.

The UK Government argued that the decision on whether to operate an oil trust fund should be left to a future Iraqi Government. The priority was to rebuild capacity and embed best practice in the Iraqi Ministries of Finance and Oil; the CPA was working to establish transparency and good governance in the oil sector, with “strong UK input”.

The proposal was “put on hold” after opposition from Washington and London and within the CPA.

341. From October, the DTI adopted a new approach to pursuing UK objectives in the oil sector, focused on engaging directly with Iraqi interlocutors rather than with the CPA.

342. Ms Joan MacNaughton, DTI Director General, Energy, wrote to Mr Bowen on 3 October, seeking a discussion on a new framework to guide the DTI’s engagement on Iraqi oil issues.¹⁸⁶

343. Ms MacNaughton advised that communication with the US and CPA on oil issues remained difficult. Meanwhile, the DTI was receiving increasing numbers of requests for

¹⁸² Mr Richmond was the Acting Special Representative from July to September 2003, when Sir Jeremy Greenstock arrived in Iraq to take up that post. Mr Richmond became the Deputy Special Representative.

¹⁸³ Telegram 114 IraqRep to FCO London, 12 August 2003, ‘Situation in Basra’.

¹⁸⁴ Minute Adams to Briggs, 15 September 2003, [untitled].

¹⁸⁵ Email Treasury [junior official] to Lindsey, 23 January 2004, ‘Iraq: John Snow and Oil Trust Funds’ attaching Paper Treasury, [undated], ‘Iraq Oil Trust Fund’.

¹⁸⁶ [Letter MacNaughton to Bowen, 3 October 2003, ‘UK Engagement on Iraqi Oil Issues’.](#)

information and advice from UK businesses and there was an opportunity to develop the DTI's contacts with the Iraqi oil industry.

344. There were a number of issues to which the DTI needed to respond, including a “worrying” proposal for eight Iraqi citizens and eight “foreigners” to sit on the Iraq National Oil Company (INOC) Executive Board.

345. Ms MacNaughton proposed five “guiding principles” for the DTI's engagement in the oil sector. It should:

- provide objective information and “informed opinion” in response to Iraqi requests, but not recommend policies;
- where necessary, work directly and build relationships with the Iraqi management of INOC and the Ministry of Oil;
- continue to seek to increase its sight of US policy and process, including by continuing to try to deploy an oil policy expert to the CPA; although Mr Fletcher's deployment had been “rebuffed repeatedly”, it should remain a priority for the UK;
- ask the British Embassy Washington to redouble its efforts to engage with the US; and
- “in extremis”, instruct Sir Jeremy Greenstock (the Prime Minister's Special Representative in Iraq) to intervene with the US if CPA policy developments “contravene our overarching aim of an Iraqi oil industry which is accountable, transparent, effective and profitable and entirely in the hands of the Iraqis as soon as this is legally and operationally viable”.

346. In a separate background briefing on oil issues, the DTI characterised this new approach as:

“... dealing directly with the Iraqis ... in our belief that the CPA is a transient body and it is the Iraqis who will be running the business in the long run”.¹⁸⁷

347. During a video conference with President Bush, Vice President Cheney and Dr Rice on 7 October, Mr Blair said that the UK would like to work more closely with the US in the oil sector.¹⁸⁸

348. Ms MacNaughton's framework was discussed by the Iraq Senior Officials Group (ISOG) later that day.¹⁸⁹ A DTI official said that the key issues to resolve were the composition of INOC's Executive Board and the distribution of oil revenues. The lack of a long-term strategy for the oil sector remained a concern. To influence the US, the

¹⁸⁷ Paper DTI, 30 October 2003, ‘Background Brief on Iraqi Oil Issues’.

¹⁸⁸ Letter Cannon to Adams, 7 October 2003, ‘Iraq: Prime Minister's Video-Conference with President Bush: 7 October 2003’.

¹⁸⁹ Minutes, 7 October 2003, Iraq Senior Officials Group meeting.

UK needed better access to policy in the CPA (US officials in Washington were “equally blind”). Mr Blair’s exchange with President Bush might help.

349. ISOG agreed that the DTI should proceed on the basis of principles proposed by Ms MacNaughton. It also agreed that the UK should lobby again for Mr Fletcher’s secondment to the CPA Oil Team (which the CPA had blocked so far).

350. The Cabinet Office issued the final version of the UK Iraq Strategy (the UK’s first cross-Whitehall strategy for Iraq) to members of the AHMGIR on 8 October.¹⁹⁰

351. The Strategy was set at a high level, was only broadly consistent with the CPA’s strategy, and was extremely ambitious. Section 9.2 describes the development of the Strategy, and Section 10.1 the elements relating to reconstruction.

352. The Strategy stated that the US had far greater resources than the UK, that UK influence over US policy was limited and the UK’s approach would be “vulnerable to shifts in US thinking”.

353. The Strategy stated that “to help planning”, Iraq’s recovery should be considered in three phases: stabilisation, to December 2003; recovery, to December 2004; and normalisation, from January 2005. The Strategy defined “UK objectives” for each phase in relation to security, the political process, and reconstruction.

354. The Strategy included UK objectives for oil production:

- In the stabilisation phase (to December 2003), Iraq would reach pre-conflict levels of “development and order”. Oil production would reach 80 percent of pre-conflict levels (2m bpd against 2.5m bpd in the pre-conflict period).
- In the recovery phase, to December 2004, Iraq would exceed pre-conflict levels of development and order. Oil production would reach 3m bpd, and oil and other natural resources would be “managed sustainably for the long-term”.
- In the normalisation phase, from January 2005, Iraq would be largely self-supporting. The Iraqi authorities would be in full control of oil production, and operating in a transparent manner.

355. The Strategy did not specify how those oil production targets had been defined, or the UK’s role in achieving them.

356. The Strategy stated that the UK would continue to be active in a number of areas but would, as Ministers had directed, focus its engagement on economic management, security sector reform and oil.

357. The main source of funding for reconstruction would be the DFI. It had provided US\$1.2bn towards the 2003 Iraqi budget and was forecast to provide US\$13bn in 2004.

¹⁹⁰ [Minute Dodd to Sheinwald, 8 October 2003, ‘UK Iraq Strategy’.](#)

358. TPUK provided an update for Mr Blair on commercial issues on 10 October.¹⁹¹ The update is described in more detail later in this Section.

359. TPUK advised that the UK's strategy was:

“... to position UK firms ... through the provision of information about contracts, procurement issues, etc, and to press the US authorities (and the CPA) to ensure a level playing field on which UK companies can compete.”

360. TPUK advised that the US had made it clear that while they welcomed the participation of UK companies, there was no “special deal”.

361. The TPUK paper considered oil and gas contracts separately from other reconstruction contracts. TPUK advised that oil and gas contracts were let by the DoD, whose procedures were “opaque” and not as open to non-US companies as other US-funded contracts.

362. TPUK reported that the DTI's efforts to understand and influence the CPA's policy on oil and gas had been “consistently unsuccessful” until Mr Adams' arrival in the CPA Oil Team. That had improved the DTI's understanding to some extent, although they believed that Mr Adams' access to information and decision-making meetings had been restricted by the CPA.

363. The Annotated Agenda for the 16 October meeting of the AHMGIR stated that the CPA Oil Team exercised a high degree of control over the Iraqi Ministry of Oil and INOC, and:

“... behaved with a degree of secrecy towards the US Administration and Coalition partners, including the UK; the senior UK oil expert in Baghdad [Mr Adams] is routinely excluded from some meetings.”¹⁹²

364. In contrast, the UK was building good relationships with senior Iraqi managers in the Ministry of Oil and INOC.

365. The main issue confronting the Iraqi oil industry was restructuring. The CPA's plan was for the INOC Executive Board to include eight Iraqi nationals and eight non-Iraqi nationals. The UK believed that non-Iraqi nationals should hold only non-executive or consultancy roles.

366. The AHMGIR agreed that the UK should press for greater access in Washington and Baghdad, and for INOC to be controlled by Iraqis and funded in a transparent manner.¹⁹³

¹⁹¹ [Letter Zimmer to Rycroft, 10 October 2003, 'Iraq: Update on Commercial Issues' attaching Paper TPUK, 10 October 2003, 'Iraq: Update on Commercial Issues'.](#)

¹⁹² Annotated Agenda, 14 October 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

¹⁹³ Minutes, 16 October 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

367. At the 17 October meeting of ISOG, Sir Jeremy Greenstock commented that the DTI had intervened too early with the US and CPA on oil strategy.¹⁹⁴ The CPA Oil Team's focus was on reviving production.

368. The 21 November meeting of ISOG was advised that Mr David Richmond, the Prime Minister's Deputy Special Representative on Iraq, had "again tried to sell a UK oil policy secondee" to the US, to replace Mr Adams on the CPA Oil Team.¹⁹⁵ He had not been successful.

369. ISOG agreed that the UK should now "abandon this initiative". ISOG asked the DTI to consider what more it could do to foster long-term relations with the Iraqi oil industry, given the CPA's planned dissolution in summer 2004.

370. The IAMB was formally established on 24 October.¹⁹⁶ It would not hold its first meeting until early December.¹⁹⁷

371. On 6 November, the US Congress approved the CPA's request for additional funds, allocating US\$18.4bn to the Iraq Relief and Reconstruction Fund (IRRF2).¹⁹⁸ The funds were available for two years. Of that, US\$1.7bn was allocated for oil infrastructure.¹⁹⁹

372. On 15 November, the Iraqi Governing Council unveiled a timetable for the transfer of sovereignty to a transitional administration ('the transition') by 30 June 2004, at which point the CPA would dissolve.²⁰⁰

373. The OFF programme closed on 21 November, in line with the terms of resolution 1483. The AHMGIR was advised that responsibility for remaining activity had passed to the CPA and the Iraqi Ministry of Trade.²⁰¹ It was not expected that there would be a threat to food supply.

374. UK Trade and Investment (UKTI), in association with the Iraqi Ministry of Oil and other partners, hosted a conference in London in December 2003 to examine the skills development needs in the oil and gas sector in Iraq, and to recommend a series of initiatives to address those needs.²⁰²

375. A UK-Iraq Joint Board was established in January 2004 to carry forward the conference's recommendations, and more generally to help support the development of the oil and gas sector in Iraq.

¹⁹⁴ Minutes, 17 October 2003, Iraq Senior Officials Group meeting.

¹⁹⁵ Minutes, 21 November 2003, Iraq Senior Officials Group meeting.

¹⁹⁶ IAMB, Press Release, 24 October 2003, *Establishment of International Advisory and Monitoring Board*.

¹⁹⁷ Briefing Treasury, [undated], 'Meeting with Gary Edson, NSC – Thursday 5th February [2004]'.

¹⁹⁸ Emergency Wartime Supplemental Appropriations Act, 2003.

¹⁹⁹ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

²⁰⁰ Minute Figures to CDS, 16 November 2003, 'SBMR(IRAQ) Report 047 of 16 November 2003'.

²⁰¹ Annotated Agenda, 27 November 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

²⁰² Briefing UKTI, [undated], 'UK-Iraq Joint Board'.

376. The 6 January 2004 meeting of ISOG was advised that a forthcoming presentation by the Iraqi Minister for Oil to the Iraqi Governing Council on the future of the oil sector might not give due weight to “good governance issues”.²⁰³ The UK would need to consider whether it needed to intervene; poor governance would delay investment in the oil sector and be a breach of resolution 1483.

377. Mr Neil Hirst, Head of the DTI’s Energy Markets Unit, wrote to the Cabinet Office the following day to set out the issue in more detail.²⁰⁴ He advised that how the oil sector was handled would have major implications for the future prosperity and stability of Iraq. The UK Government had launched a major international initiative – the Extractive Industries Transparency Initiative (EITI), led by DFID – to achieve transparency of natural resource accounting in the developing world. The principle of transparency of accounting was also set down in resolution 1483.

378. Mr Hirst identified two key principles that needed to be established:

- a separation of powers between the Iraqi Government as owner and regulator of energy resources, and the operating company (probably, at least initially, nationally owned) which developed those resources; and
- full transparency of oil accounts, payments and budgets.

379. It was unclear to what extent the US would be prepared to exert their influence to help achieve good governance in the oil sector, particularly in the light of their lukewarm response to the EITI.

380. Section 10.1 describes the development of DFID’s Interim Country Assistance Plan (I-CAP) for Iraq in December 2003 and January 2004. The I-CAP set priorities for DFID’s work in Iraq.

381. The I-CAP was agreed at the 22 January 2004 meeting of the AHMGIR.²⁰⁵

382. Before the meeting, a DFID official advised Mr Hilary Benn, the International Development Secretary, that as a result of consultation within Whitehall, DFID had agreed to engage in oil sector governance to help ensure transparency in the use of oil revenues.²⁰⁶

383. The I-CAP defined 10 priorities for 2004, including “establishing transparent systems to ensure that oil revenues are spent for the benefit of all Iraqi people”.²⁰⁷

384. Ms Hewitt wrote to Mr Straw, copied to Mr Blair and members of the AHMGIR, on 16 January seeking agreement that the UK should give a high priority, in the period

²⁰³ Minutes, 6 January 2004, Iraq Senior Officials Group meeting.

²⁰⁴ [Letter Hirst to Fergusson, 7 January 2004, ‘Iraq Oil Industry Governance’](#).

²⁰⁵ Minute Dodd to Buck, 21 January 2004, ‘Iraq: Senior Officials Group’.

²⁰⁶ Minute Drummond to Malik, 21 January 2004, ‘Iraq: Ministerial’.

²⁰⁷ Department for International Development, *Iraq: Interim Country Assistance Plan*, February 2004.

leading up to the transition, to working with the US to establish principles of good governance in the oil sector.²⁰⁸

385. Ms Hewitt reiterated that decisions on the development of Iraq's oil resources would be for the Iraqi people. But that was entirely compatible with trying to establish principles of good governance before the transition.

386. Mr Adams had played an important role in getting good governance onto the CPA's agenda. A study commissioned by the CPA on the modernisation of the oil industry had identified a number of key governance principles, including:

- properly defined and distinct roles for a national oil company, the Ministry of Oil, and the Iraqi Government;
- the national oil company to be run on commercial lines with transparent accounting and auditing; and
- anti-corruption policies.

387. After "considerable effort" by the UK, the US had agreed on the need to establish those key governance principles.

388. Ms Hewitt also reported Sir Jeremy Greenstock's advice: that making progress would not be easy "given the lack of a real constituency for good governance amongst senior Iraqi figures".

389. Mr Straw replied on 29 January, agreeing that the UK should give a high priority to establishing the principles of good governance in the oil sector before the transition.²⁰⁹

390. As the end of Occupation approached, the UK considered how to ensure that oil revenues would not be mismanaged under an Iraqi Government. Section 10.1 describes UK planning for the transition.

391. The Annotated Agenda for the 1 March meeting of the AHMGIR advised that a modified version of the DFI should be retained after the transition, in order to "ensure accountability and transparency".²¹⁰ Otherwise, there was a substantial risk of mismanagement of oil revenues. The arrangement could also ensure that Iraqi assets remained immune from claims.

392. The Annotated Agenda reported that the DFI currently held US\$8.8bn, and paid for 95 percent of the Iraqi budget. In addition, "substantial DFI funds had been spent off-budget on the approval of the CPA with intermittent Iraqi representation".

393. The Annotated Agenda did not provide any further details of the "off-budget" disbursement of DFI funds.

²⁰⁸ [Letter Hewitt to Straw, 16 January 2004, 'Governance in the Oil Sector'](#).

²⁰⁹ Letter Straw to Hewitt, 29 January 2004, 'Governance in the Oil Sector'.

²¹⁰ Annotated Agenda, 1 March 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

394. The Annotated Agenda reported that the Treasury proposed:

- a single external account for Iraqi oil and other revenue, managed by the Iraqi Minister of Finance reporting to a Board of Ministers, operating “within a framework established by a future UNSCR [resolution] which ensures transparency and accountability”;
- disbursements solely for the purpose of financing the Iraqi budget; and
- continuing external audit by the IAMB, reporting to the Board of Ministers.

395. Such an arrangement might be seen in Iraq as a constraint on sovereignty, but conversely many Iraqis might welcome arrangements which enhanced transparency and restricted the ability of transitional Ministers to mismanage oil revenues. The US supported the idea of a modified DFI.

396. The AHMGIR agreed that the UK should press for the establishment of transparent and accountable arrangements for the management of oil and other Iraqi revenues through the transition period.²¹¹

397. Sir Jon Cunliffe told the Inquiry that while the US and the CPA were “very resistant to external monitoring and external accountability” undertaken by the IAMB:

“When the Iraqi Government itself arrived, I think both Occupying Powers decided there was joint interest in having transparency, accountability and control [over oil revenues] and, indeed, I think that the US were with us in pushing for the interim Iraqi Government to take on the DFI with all of its monitoring machinery.”²¹²

398. The 12 March meeting of the Iraq Strategy Group was advised that rising oil prices meant that Iraq could fund its “recurrent costs”.²¹³

399. The British Embassy Baghdad reported on 14 March that CPA proposals to improve governance and accounting standards within the Ministry of Oil “faced resistance”.²¹⁴ It might be difficult to overcome “vested interests” inside and beyond the Ministry in the short time left before transition.

400. Mr Benn called on Ambassador Bremer in Baghdad on 22 March.²¹⁵ Mr Benn reported to Mr Blair that he had encouraged Ambassador Bremer to promote transparency in the use of oil revenues after transition.

401. Mr Jim Drummond, DFID Director Iraq, who had accompanied Mr Benn on the visit, reported to DFID colleagues only that Mr Benn and Ambassador Bremer had agreed on the principle of transparency, and that Ambassador Bremer had said that

²¹¹ Minutes, 1 March 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

²¹² Public hearing, 9 July 2010, pages 38 and 39.

²¹³ Minutes, 12 March 2004, Iraq Strategy Group meeting.

²¹⁴ Telegram 88 IraqRep to FCO London, 14 March 2004, ‘Iraq Economy: Update’.

²¹⁵ Letter Benn to Blair, 24 March 2004, [untitled].

he did not see how, politically, the Coalition could retain control over Iraq's oil revenues after transition.²¹⁶

402. Section 9.2 describes the further deterioration in the security situation in Iraq from late March. Attacks on oil infrastructure increased.

403. Mr Rycroft sent 19 “unvarnished accounts” of the situation in Iraq, including one from Mr Dominic Asquith, Deputy Chief Commissioner in the CPA, on oil sector development, to Mr Blair on 23 April.²¹⁷

404. Mr Asquith reported that oil production was rising ahead of schedule, but future capacity was threatened by an early, mistaken focus on repair rather than modernisation and development.²¹⁸ Oil production had reached an average of 2.3m bpd by the end of 2003, against a target of 2.0m bpd.

405. Mr Asquith also reported that discussions between the Ministry of Oil and the CPA on raising gasoline prices continued, with the Ministry avoiding any commitment on a politically contentious issue. Discussions on restructuring the oil industry “remained mired in politics”. There were persistent but unconfirmed allegations of corruption in both the State Oil and Marketing Organisation and the Ministry. Ambassador Bremer had recently appointed a new Inspector General to the Ministry, but after transition his capacity to monitor financial flows would be tested. International oil companies were watching carefully, but wanted to see greater security and a stable regulatory and investment environment before investing.

406. On 24 May, Mr Bob Morgan, an adviser to the Iraqi Ministry of Oil employed by the FCO, and his bodyguard Mr Mark Carman were killed in Baghdad.²¹⁹

407. The Security Council adopted resolution 1546 (2004) on 8 June.²²⁰ Section 9.2 describes the negotiation and content of the resolution. The resolution:

- endorsed the formation of a sovereign Interim Government of Iraq which would assume full responsibility and authority by 30 June 2004 for governing Iraq, “while refraining from taking any actions affecting Iraq’s destiny beyond the limited interim period until an elected Transitional Government of Iraq assumes office ...”
- reaffirmed the right of the Iraqi people freely to determine their own political future and to exercise full authority and control over their financial and natural resources; and

²¹⁶ [Minute Drummond to DFID \[junior official\], 24 March 2004, ‘Iraq Visit’.](#)

²¹⁷ Minute Rycroft to Blair, 23 April 2004, ‘15 Reports on Iraq’.

²¹⁸ Telegram 183 IraqRep to FCO London, 21 April 2004, ‘Iraq: Oil Sector Development’.

²¹⁹ Minutes, 25 May 2004, Iraq Senior Officials Group meeting; *BBC News*, 26 May 2004, *Oil Expert Killed in Iraq ‘felt safe’.*

²²⁰ UN Security Council resolution 1546 (2004).

- provided for the continued operation of the DFI and the IAMB. DFI funds would be disbursed in a transparent and equitable manner and through the Iraqi budget, solely at the discretion of the Iraqi Government. Funds held within the DFI would continue to be immune from attachment.

408. A junior Treasury official advised Mr Brown that the explicit reference to transparency and the requirement for DFI funds to be disbursed through the Iraqi budget had been inserted at the UK's request.²²¹

409. The British Embassy Washington reported to the IPU on 23 June on US plans in the oil sector after 30 June.²²²

410. Senior US interlocutors had told the Embassy that all 12 members of the CPA Oil Team were expected to leave Iraq by the end of August. They would be succeeded by a number of oil sector "liaison officers" within the US Iraq Reconstruction Management Office (IRMO). The liaison officers "would obviously have less influence and leverage" than the CPA Oil Team. Mr Thamir Ghadban, Iraqi Minister of Oil, "did not need telling what to do, and would want to distance himself from the US advisers". The US understood that Mr Ghadban intended to set up his own Advisory Group.

411. The Embassy assessed that the US remained focused on short-term production issues, rather than "strategic industry restructuring and governance".

412. The Embassy also reported that policy responsibility for the oil sector within the US Administration would transfer from the DoD to the State Department on 30 June.

413. *Hard Lessons* recorded that, at the end June 2004, Iraq was producing more than 2m bpd of oil, still well below pre-war production of 2.58m bpd.²²³

Scrutiny of disbursements from the Development Fund for Iraq (DFI) by the UK

Resolution 1483, which was adopted on 22 May 2003, provided that disbursements from the Development Fund for Iraq (DFI) would be "at the direction of the Authority [the US and UK as Occupying Powers], in consultation with the interim Iraqi administration".²²⁴ By that time, the US was committed to a protracted Occupation and it was not clear when an interim Iraqi administration would be established.

²²¹ Minute Treasury [junior official] to Chancellor, 10 June 2004, 'Iraq – UNSCR 1546 and Financial Management Law'.

²²² Letter FCO [junior official] to IPU [junior official], 23 June 2004, 'Iraq Oil: US Plans post 30 June'.

²²³ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

²²⁴ UNSCR 1483 (2003).

The US General Accountability Office (GAO) estimated that almost US\$21bn was deposited into the DFI during the Coalition Provisional Authority (CPA) period, of which US\$14bn was spent.²²⁵

On 10 June 2003, the CPA issued a regulation that gave Ambassador Paul Bremer, as “Administrator of the CPA”, authority to oversee and control the establishment, administration and use of the DFI and to direct disbursements from the DFI “for those purposes he determines to be for the benefit of the Iraqi people”.²²⁶

The regulation also established a Program Review Board (PRB) to develop funding plans and make recommendations to Ambassador Bremer on expenditures from the DFI, “in consultation with the Iraqi interim administration, when established”.

The CPA issued a further regulation on 18 June, detailing the operation of the PRB.²²⁷ Voting members of the PRB included representatives of the Iraqi Ministry of Finance and the UK.

The Inquiry has seen the records of 60 meetings of the PRB (held between 7 June 2003 and 2 June 2004).²²⁸ Of those records, 55 list the meeting’s attendees. A UK representative attended 41 of the 55 meetings. The UK was represented by a junior official on 36 occasions and by a senior official on five.

In March 2004, after an international competitive bidding process, the International Advisory and Monitoring Board (IAMB) approved the appointment of KPMG to audit DFI activities.²²⁹ A Treasury briefing stated that the CPA had used that process to re-open debate on the scope of the IAMB’s mandate under resolution 1483.²³⁰

The CPA signed the contract with KPMG to audit the DFI on 5 April 2004 – almost one year after resolution 1483 and less than three months before the CPA would be dissolved.²³¹

KPMG delivered its first audit reports, covering oil export sales and DFI operations from May to December 2003, to the IAMB at the end of June 2004.²³²

The IAMB’s response to the KPMG reports stated:

“KPMG has concluded that all known oil proceeds, reported frozen assets, and transfers from the Oil for Food Program had been properly and transparently accounted for in the DFI. At the same time, based on a review of KPMG reports, the IAMB believes that CPA controls were insufficient to provide reasonable assurance (i) for the completeness of export sales of petroleum and petroleum products for

²²⁵ US General Accountability Office, Report to Congressional Committees, July 2005, *Status of funding and reconstruction efforts*.

²²⁶ Coalition Provisional Authority, Regulation No.2, 10 June 2003, *Development Fund for Iraq*.

²²⁷ Coalition Provisional Authority, Regulation No.3, 18 June 2003, *Program Review Board*.

²²⁸ Coalition Provisional Authority website, [undated], *Program Review Board Minute Archive*.

²²⁹ International Advisory and Monitoring Board on Iraq website, 24 March 2004, *Statement by the International Advisory and Monitoring Board on Iraq*.

²³⁰ Briefing Treasury, [undated], ‘Meeting with Gary Edson, NSC – Thursday 5th February [2004]’.

²³¹ International Advisory and Monitoring Board on Iraq website, 5 April 2004, *Statement by the International Advisory and Monitoring Board on Iraq*.

²³² Report KPMG, 29 June 2004, ‘Development Fund for Iraq: Statement of Cash Receipts and Payments For the Period from 22 May 2003 to 31 December 2003 (with Independent Auditors’ Report)’.

the period from May 22, 2003 to December 31, 2003, and (ii) whether all DFI disbursements were made for the purposes intended.”²³³

US Special Inspector General for Iraq Reconstruction (SIGIR) audits published in 2004 and 2005, and summarised in *Hard Lessons*, found that:

“... the CPA failed to exert adequate control of the DFI used to support the Iraqi national ministries or reconstruction projects. An audit of DFI disbursements to Iraqi ministries made through the national budget process concluded that the CPA failed to enforce adequate management, financial, and contractual controls over approximately US\$8.8bn of DFI money. SIGIR found that there was ‘no assurance that the funds were used for the purposes mandated by [UN] resolution 1483.’”²³⁴

Ambassador Bremer disagreed with SIGIR, arguing that they had failed to account for the very difficult security environment and the steps taken to improve recognised management weaknesses. SIGIR acknowledged the danger confronting the CPA, but found that the CPA’s oversight of Iraqi funds was burdened by severe inefficiencies and poor management. SIGIR concluded that the chaotic circumstances in Iraq required more stringent oversight, not less, as the CPA suggested.

Hard Lessons concluded that the CPA appeared to be averse to oversight of the DFI.

Sir Jeremy Greenstock, the Prime Minister’s Special Representative on Iraq from September 2003 to March 2004, told the Inquiry:

“The UK was not allowed sight of any of the figures on the use of money by the CPA ... A lot of cash was going round in suitcases to be dispensed to Iraqis, not all of which was accounted for, and I was uncomfortable that I had no sight of this, might be felt by London to be in some respects responsible for this, and had to explain clearly that I was not responsible for this, and London made it quite clear that they didn’t expect me to be responsible for this.”²³⁵

“But as you have seen from books on this, from the report of the Special Inspectorate for Iraq in the US [SIGIR], corruption crept into the system and I felt that I couldn’t do anything about it.”

The Inquiry asked Sir Jeremy whether he was able to discuss his concerns with Ambassador Bremer. He replied:

“We discussed corruption in the Iraqi administration, but when I asked for details of economic spending, it was made clear that non-Americans would not be given the details.”

²³³ International Advisory and Monitoring Board on Iraq website, 15 July 2004, *Statement by the International Advisory and Monitoring Board on Iraq – Release of the KPMG Audit Reports on the Development Fund for Iraq, 15 July 2004*.

²³⁴ H Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

²³⁵ Private hearing, 26 May 2010, pages 50-51.

Ms Lindy Cameron, Deputy Head of DFID's Baghdad Office in 2004, told the Inquiry that, during the last six months of the CPA, UK officials "helped to do a level of supervision of how some of the funding was spent that had come from the Iraqi oil revenues", but any influence was "more at the tactical level than at the strategic level".²³⁶

Sir Jon Cunliffe told the Inquiry that the CPA had been "very resistant to external monitoring and external accountability".²³⁷

UK policy under Iraqi Governments

414. The Occupation of Iraq formally came to an end on 28 June 2004, two days earlier than had been originally planned.

415. Power was transferred from the CPA and the Governing Council to the Iraqi Interim Government (IIG) headed by Prime Minister Ayad Allawi.²³⁸

416. As set out in resolution 1546 (2004), the IIG took on responsibility for the disbursement of oil revenues from the US and UK (as Occupying Powers).

417. Although oil production remained below pre-war levels, the UK Government expected that the high oil price (over US\$35 per barrel against the budgeted level of US\$22 per barrel) would result in a significant surplus for the Iraqi budget in 2004.²³⁹

418. On 1 July, the AHMGIR commissioned the FCO to co-ordinate an integrated UK strategy covering the period up to Iraqi elections (in early 2005).²⁴⁰

419. Mr Edward Chaplin arrived in Baghdad on 5 July to take up post as the first UK Ambassador to Iraq since 1990.²⁴¹

420. The strategy paper commissioned by the AHMGIR was circulated on 13 July to members of the Defence and Overseas Policy Committee (DOP), a Sub-Committee of the Cabinet, on 13 July.²⁴² The paper defined seven objectives, including:

- reduction of subsidies and an agreed IMF programme leading to a debt settlement by the end of the year."

421. The 15 July meeting of DOP agreed those objectives.²⁴³ Ministers stated that the UK needed to continue to work closely with the Iraqi Oil Minister, with a focus on reducing government subsidies in the oil sector and on technical training.

²³⁶ Public hearing, 22 June 2010, page 28.

²³⁷ Public hearing, 9 July 2010, pages 38-39.

²³⁸ Bremer LP III & McConnell M. *My Year in Iraq: The Struggle to Build a Future of Hope*. Threshold, 2006.

²³⁹ Paper, [undated], 'Iraq – Summer 2004 Economic Overview'.

²⁴⁰ Minutes, 1 July 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

²⁴¹ Public hearing, 7 December 2009, pages 1-2.

²⁴² [Paper FCO, 13 July 2004, 'Iraq: the Next Six Months'](#).

²⁴³ Minutes, 15 July 2004, DOP meeting.

422. Mr Chaplin made an introductory call on Mr Ghadban on 30 August.²⁴⁴ He reported that Mr Ghadban's main priority was maintaining and repairing Iraq's oil infrastructure. Attacks were taking place almost daily. Production was around 2.5m bpd; the IIG aimed to produce 3.25m bpd by the end of 2005.

423. Mr Chaplin reported that Mr Ghadban advocated a gradual and careful reduction in fuel subsidies (although the IIG as a whole remained reluctant), and the privatisation of the distribution system. Mr Chaplin had "encouraged" those views.

424. Mr Ghadban stated that encouraging investment was key, for example through internationally accepted models for production-sharing agreements (PSAs) or joint ventures. He did not favour privatising upstream²⁴⁵ activities.

425. The IPU circulated a first draft of a UK Energy Strategy for Iraq on 18 August.²⁴⁶

426. A junior official at the British Embassy Baghdad commented on the draft on 25 August, highlighting the need to be realistic about what the IIG could deliver in the period before the January 2005 elections:

"While Ghadban and others may have every intention of looking longer term and plotting a strategy for the industry, the day-to-day running of the network/fire-fighting is taking up the bulk of everyone's energies just now – and is likely to continue doing so. The IIG is desperate to show improvements in the supply of electricity and fuel as soon as possible. That means focusing efforts on ensuring that oil continues to flow to the power stations and refineries, and stocks are built up."²⁴⁷

427. The IPU circulated a final version of the UK Energy Strategy for Iraq on 6 September.²⁴⁸ The Strategy identified two UK objectives:

- the development of an efficient, outward looking and transparent oil and energy industry, capable of delivering both sustainable export revenues to meet Iraq's development needs and meeting domestic needs for energy in an efficient, equitable and secure manner; and
- Iraq's energy sector development to be complemented by the increasing involvement of UK firms, leading to sustained investment over the next five to 10 years and substantial business for the UK."

428. The Strategy stated that the IIG had established a Supreme Council for Oil and Gas, which the UK believed would approve strategy and major investments. The IIG was

²⁴⁴ Telegram 167 Baghdad to FCO London, 31 August 2004, 'Iraq: Introductory Call on Thamir Ghadban, Minister of Oil'.

²⁴⁵ Upstream activities are generally understood to be exploration and extraction.

²⁴⁶ Email IPU [junior official] to FCO [junior official], 18 August 2004, 'UK Energy Strategy for Iraq' attaching Paper IPU, [undated], 'Iraq-UK Energy Strategy for Iraq'.

²⁴⁷ Email FCO [junior official] to IPU [junior official], 25 August 2004, 'UK Energy Strategy for Iraq – Comment'.

²⁴⁸ Email IPU [junior official] to FCO [junior official], 6 September 2004, 'Energy Strategy for Iraq'.

constrained by the Transitional Administrative Law (TAL) in its ability to make decisions affecting Iraq's "long-term destiny". Key strategic decisions were therefore unlikely to be taken until after January 2005.

429. The Strategy stated that to meet the UK's objectives, the main challenge for Iraq's oil industry would be to institute the structural, fiscal and regulatory reform needed to attract foreign direct investment (FDI). In the absence of a "very high" oil price, Iraq would only be able to finance the investment necessary to raise production if it achieved a very generous debt relief deal and was prepared to cut government spending in other areas. As the latter was "not realistic", Iraq would need FDI.

430. Improved governance in the energy sector also remained key to achieving the UK's objectives.

431. The Strategy stated that the argument that Iraq's energy development needs were best served by FDI would be politically sensitive, both in Iraq (where it would touch on issues of sovereignty) and internationally. The Iraqi Government was aware of the scale of funding needed, but "less convinced" of the need for this to come through FDI. The Strategy concluded:

"We will wish to push the message on FDI to the Iraqis in private, but it will require careful handling to avoid the impression that we are trying to push the Iraqis down one particular path."

432. The Strategy also set out the "key considerations" that shaped it:

- the UK's objectives on energy security: Iraq had the second or third largest proven oil reserves in the world, and significant reserves of natural gas; sustainable increases in Iraqi oil and gas production would contribute to global energy security;
- the UK's commercial objectives; and
- Iraq's need for fiscal stability, in particular given its high level of debt and the continuing need to finance reconstruction.

433. The Inquiry has seen no indications that the Strategy was seen by Ministers or senior officials.

434. A junior official at the British Embassy Baghdad reported on 8 September that Prime Minister Allawi had recently issued 'Guidelines on Petroleum Policy'

to the Supreme Oil and Gas Council, to direct their work to develop detailed policy recommendations.²⁴⁹ The official summarised those guidelines as:

“Upstream Policy

- An independent, public, Iraqi National Oil Company (INOC) should be re-established ... to manage current fields and refineries.
- Foreign investment (combined where possible with domestic private capital) should finance the development of new fields and refineries. Joint public/private operations should be avoided except where necessary as an interim measure before full privatisation.

Downstream policy

- INOC to rehabilitate existing refineries.
- Foreign and domestic private investment to finance major refinery expansions and new refineries.

Marketing

- Gradual and methodical privatisation of domestic wholesale and retail marketing.”

435. Prime Minister Allawi met Mr Blair in London on 19 September.²⁵⁰ Prime Minister Allawi said that he was pursuing a four-part strategy which addressed:

- the political process;
- the economy, including meeting investment needs in the oil sector;
- security (his personal focus); and
- building up the institutions of government.

436. Mr Blair, Prime Minister Allawi and several Iraqi Ministers discussed reconstruction, the economy and other issues over lunch.²⁵¹ Prime Minister Allawi stressed the need for a generous debt reduction package that would encourage foreign investment.

437. In late 2004, the FCO agreed to fund a small consultancy team to assist the Ministry of Oil to “create a stable petroleum contracts regime and a modern, transparent and efficiently run Iraqi National Oil Company (INOC)”.²⁵² The project built on the

²⁴⁹ Email FCO [junior official] to FCO [junior official], 8 September 2004, ‘PM’s Guidelines on Petroleum Policy – Summary’.

²⁵⁰ Letter Sheinwald to Adams, 19 September 2004, ‘Iraq: Prime Minister’s Meeting with Prime Minister Allawi, Sunday 19 September’.

²⁵¹ Letter Quarrey to Owen, 19 September 2004, ‘Iraq: Prime Minister’s Lunch with Allawi, 19 September’.

²⁵² Paper FCO, [undated], ‘Terms of Reference: Assistance in creating a stable petroleum contracts regime and a modern, transparent and efficiently run Iraqi National Oil Company (INOC)’.

analysis presented in a December 2003 USAID-funded report, *Options for Developing a Long Term Sustainable Iraqi Oil Industry*.²⁵³

438. The Terms of Reference for the consultancy stated:

“The Iraqi Government has given broad endorsement (for example through Prime Minister Allawi’s Guidelines on Petroleum Policy) to PSAs as the best means of facilitating foreign investment in the petroleum sector. It is important the MoO [Ministry of Oil] develop a good understanding of how PSAs work if Iraq is to create a stable contracts regime that effectively serves Iraq’s longer-term developmental needs and the imperative of FDI.”²⁵⁴

439. The planned outputs of the project included model contracts, including for PSAs.

440. Mr Chaplin called on Prime Minister Allawi on 13 December.²⁵⁵ Mr Chaplin reported that he had taken the opportunity to raise “BP and Shell’s interests”. He had also informed Prime Minister Allawi that the UK Government had agreed to fund Mr Terry Adams (formerly of the CPA Oil Team) to assist the Ministry of Oil to draft “model production sharing agreements”.

441. Mr Chaplin reported that Prime Minister Allawi had said that he had made clear to the Supreme Oil and Gas Council that priority should be given to US and UK companies. Mr Chaplin commented:

“His [Prime Minister Allawi’s] wish to favour UK companies is sincere. But others in the system are not so well-disposed, so patience is required.”

442. A briefing prepared for Sir Nigel Sheinwald, Mr Blair’s Foreign Policy Adviser, on 17 January 2005 stated that:

“Ministry of Oil preoccupied with Baghdad fuel crisis and the protection of the oil infrastructure – meaningful engagement with the Ministry will have to wait until after the elections.”²⁵⁶

443. The briefing also stated that a plan to establish an INOC as an independent, state-run corporation “appears to have been approved”, although it was unlikely to be implemented before the elections. The briefing described the creation of an independent, state-run INOC as one of the UK’s main priorities.

²⁵³ Report, 19 December 2003, *Options for Developing a Long Term Sustainable Iraqi Oil Industry*.

²⁵⁴ Paper FCO, [undated], ‘Terms of Reference: Assistance in creating a stable petroleum contracts regime and a modern, transparent and efficiently run Iraqi National Oil Company (INOC)’.

²⁵⁵ Telegram 472 Baghdad to FCO London, 13 December 2004, ‘Iraq: Call on Allawi’.

²⁵⁶ Briefing, [undated], ‘Briefing for Nigel Sheinwald’s Meeting with Malcolm Brinded (Shell): 17 January’.

444. Elections for the Transitional National Assembly (TNA) and Provincial Assemblies took place across Iraq on 30 January 2005.²⁵⁷ The election results were announced in mid-February; the Iraqi Transitional Government would not convene until April.

445. Officials from the British Embassy Baghdad made their first post-election visit to the Ministry of Oil on 2 February.²⁵⁸ They reported that a senior Iraqi official had been “scathing” about Prime Minister Allawi’s Guidelines, which he said had “died with the IIG”.

446. The Cabinet Office co-ordinated the production of a strategy paper, focused on how to achieve coalition objectives in post-election Iraq, for the 9 February meeting of the Ad Hoc Ministerial Group on Iraq.²⁵⁹

447. The strategy identified five key “governance and reconstruction” challenges in 2005, including making sustained improvements in the availability of fuel and electricity, which would require difficult reforms and cracking down on corruption and sabotage.

448. The strategy defined five economic priorities for the UK for 2005, including:

“Promoting an efficient, outward looking and transparent oil and energy industry and promoting the continuation of a structure for the transparent management of oil reserves.”

449. The Ad Hoc Ministerial Group on Iraq approved the paper on 9 February.²⁶⁰

450. A senior Iraqi official in the Ministry of Oil told Ms Ann Eggington, DTI Director, on 22 March that the Ministry was in a “caretaker” role, waiting for the formation of the new Government.²⁶¹ The silence from the Ministry on the UK’s offer to help develop model PSAs was due to its inability to take forward any significant project work and long-term planning until a new Government was confirmed.

451. The Iraqi official commented that the chief task of the new Iraqi Government would be to agree a Constitution; the Ministry would, in parallel, develop a Petroleum Law. Model contracts developed by the FCO project would need to be consistent with the Petroleum Law; there would be differing views on how FDI should be brought in.

452. On 28 April, following lengthy negotiations, Prime Minister Designate Ibrahim Ja’afari presented the majority of the Cabinet for the new Iraqi Transitional Government (ITG) to the TNA for ratification. The ITG was established to run Iraq until a government could be elected according to the new Constitution in December 2005.

²⁵⁷ Public hearing Chaplin, 7 December 2009, page 12.

²⁵⁸ Email FCO [junior official] to IPU [junior official], 2 February 2005, ‘Iraq/Oil: Miscellaneous’.

²⁵⁹ [Paper Cabinet Office, 7 February 2005, ‘Iraq Strategy for 2005’](#).

²⁶⁰ Minutes, 9 February 2005, Ad Hoc Ministerial Group on Iraq meeting.

²⁶¹ Letter DTI [junior official] to FCO [junior official], 23 March 2005, ‘Meeting with Rhadwan Al-Saadi: 22 March 2005’.

453. The British Embassy Baghdad reported on 16 May that the new Minister of Oil, Mr Ibrahim Bahr Al-Ulum, had now taken up his post.²⁶² Mr Al-Ulum had stated that his priorities were to increase production and tackle corruption. Production averaged 2.1m bpd, consistently below the Ministry's 2.5m bpd target. Fuel stocks were healthy.

454. The Embassy also reported that insurgent attacks on oil infrastructure had "tailed off" since the elections, although the effect of attacks could still be dramatic.

455. The IPU provided an update on oil and commercial issues for Mr John Sawers, FCO Political Director, on 25 May, at his request.²⁶³ The IPU advised that:

- The Petroleum Law would be a key piece of legislation, establishing the regulatory framework for Iraq's energy sector, including the approach to foreign investment. Major international oil companies would want to see transparent rules established.
- The Ministry of Oil would start drafting the Petroleum Law alongside the drafting of the Constitution. The UK had not been asked for help in drafting the Law, although the UK did plan to take forward the FCO project to help the Ministry develop transparent petroleum contracts.
- The UK Government's view was that a high level of oil company involvement in drafting the Petroleum Law could be counter productive: "This should be an Iraqi-drafted law and it will be for them to decide their approach to foreign investment." The UK would, however, want to encourage the Iraqi Government to consult widely in the process, including with oil companies. The UK could facilitate that exchange.
- There had been no discussions with the Iraqi Government on a UK/Iraq commercial agreement (which could provide a framework for trade and investment), but such an agreement might be beneficial.

456. Representatives from Shell advised officials from the British Embassy Washington on 31 May that Shell wanted to see "a Constitution in place" before making a "serious investment" in Iraq.²⁶⁴ Most major oil companies were similarly "keeping a low profile".

457. In June 2005, FCO, DTI and DFID officials developed an Iraq Oil and Gas Strategy.²⁶⁵

458. The Iraq Oil and Gas Strategy, the UK's second post-Occupation oil strategy, shared much of the analysis presented in the September 2004 UK Energy Strategy for Iraq. It added a third UK objective – promoting Iraq's role within the international oil market and the Organization of the Petroleum Exporting Countries (OPEC).

²⁶² Telegram 4635/05 Baghdad to FCO London, 16 May 2005, 'Iraq: Oil and Electricity: New Government, Old Problems'.

²⁶³ [Minute IPU \[junior official\] to Sawers, 25 May 2005, 'BP: Iraq'](#).

²⁶⁴ Minute FCO [junior official] to Braithwaite, 3 June 2005, 'Note of a Meeting with Shell, 31st May 2005'.

²⁶⁵ Paper, [undated], 'Iraq: Oil and Gas Strategy'.

459. The Strategy defined three UK objectives:

- “• The development of an efficient, outward-looking and transparent oil and gas industry, capable of delivering sustainable export revenues to meet the development needs of the people of Iraq and meeting domestic needs for energy in an efficient, equitable and secure manner.
- Increasing involvement of the private sector, leading to sustained investment over the next five to 10 years and substantial business for UK companies ...
- To promote Iraq’s role in international oil and gas markets and as a constructive influence within OPEC.”

460. The Strategy stated that, in the absence of an “extremely high” oil price, only the international oil companies could provide the funding necessary to achieve rapid rehabilitation or significant new development.

461. The Strategy set out four considerations that shaped it:

- Energy security. The UK was expected to be a net importer of oil by 2010. Against a backdrop of volatile prices and limited spare global production capacity, sustainable increases in Iraqi production would make a large contribution to global energy security.
- The UK’s commercial and international development goals, including Iraq’s fiscal stability given the need to finance reconstruction. The idea that Iraq’s energy development needs were best served through FDI would be politically sensitive, both in Iraq and internationally. The UK would “promote the message on FDI to the Iraqis in private, but it will require careful handling to avoid the impression that we are trying to push the Iraqis down one particular path”.
- The need for energy price reform, required under the IMF programme.
- Oil development and the Constitution.

462. Mr Straw sent the Strategy to Mr Blair on 12 July.²⁶⁶ In his covering letter, Mr Straw wrote:

“Oil and gas will inevitably form the economic foundation for Iraq’s future and remains important for the UK commercially and in terms of energy security. Foreign investment is badly needed and we need to continue to support Iraq to create the right framework for investment, while also supporting UK companies to engage. And we should continue working with the Iraqi Government to ensure the oil sector develops transparently and along lines of international best practice.”

463. Mr David Quarrey, Mr Blair’s Private Secretary, sent the Strategy to Sir Nigel Sheinwald with the comment: “I do not intend to put in the box! Looks OK.”²⁶⁷

²⁶⁶ [Letter Straw to Blair, 12 July 2005, ‘Iraq: Oil and Gas Strategy’.](#)

²⁶⁷ [Manuscript comment Quarrey to Sheinwald, 13 July 2005, on Letter Straw to Blair, 12 July 2005, ‘Iraq: Oil and Gas Strategy’.](#)

464. Sir Nigel agreed.²⁶⁸

465. Mr Straw wrote to Mr Blair on 5 July with an update on the constitutional process.²⁶⁹ Section 9.4 describes the development of the Iraqi Constitution from June 2005 to its adoption in October 2005.

466. Mr Straw attached a paper produced by the FCO Research Analysts which set out the substantive issues that the Constitutional Committee needed to address, and the UK's view on those issues. He advised Mr Blair that the paper would serve as the UK's "reference point" during the negotiations on the Constitution.

467. The paper recognised the importance of control over natural resources in the debate on federalism.²⁷⁰ The Kurdish authorities were expected to champion the devolution of oil revenues and the ability to manage their own economic development. Shia Arabs were increasingly calling for some sort of economic federalism for the South and a greater share of Iraq's oil revenues. The UK had "a strong interest in avoiding any arrangement which would entrench sectarian divisions, e.g. a single large federation in the South".

468. Mr Straw wrote to DOP(I) members on 13 October, advising them that "despite its inevitable deficiencies, the draft Constitution represents a major achievement".²⁷¹

469. Mr Straw attached an IPU paper which identified the "potential points of contention" within the draft Constitution, including natural resources:

"The ambiguities in the text were necessary to secure agreement. But they also pave the way for difficulties in the future. Perhaps the worst offender ... is Article 109 on oil and gas, which is a model of imprecision."²⁷²

470. The IPU stated that Article 109 of the draft Constitution specified that the current oil and gas resources would be managed by the federal Government "with the producing governorates and regional governments" in a manner to be regulated by a law.

471. The IPU commented that the law would need to clarify what "with" meant in that context.

472. Press reports at the end of November 2005 that a Norwegian oil company had signed a contract with the Kurdish Regional Government (KRG), rather than the Iraqi

²⁶⁸ [Manuscript comment Sheinwald to Quarrey on Letter Straw to Blair, 12 July 2005, 'Iraq: Oil and Gas Strategy'](#).

²⁶⁹ Letter Straw to Prime Minister, 5 July 2005, 'Iraq: Constitution' attaching Paper FCO/RAD, June 2005, 'Constitutional Issues'.

²⁷⁰ Paper FCO/RAD, June 2005, 'Constitutional Issues'.

²⁷¹ Letter Foreign Secretary to DOP(I) Committee Members, 13 October 2005, 'Iraq: Constitution Paper'.

²⁷² Letter Foreign Secretary to DOP(I) Committee Members, 13 October 2005, 'Iraq: Constitution Paper' attaching Paper IPU, [undated], 'Constitution: Potential Points of Contention'.

Government, prompted the UK Government to consider what it would be able to do if a UK company did the same.²⁷³

473. Mr Dominic Asquith, FCO Director Iraq, advised officials on 6 December that, in dealing with previous approaches from UK companies, he had said that:

- any contract must be with the explicit agreement of the Iraqi Government;
- any contract must have the support of the KRG, rather than any one element of it;
- even then, the legal position would be “fragile”; and
- “so wait until things become clearer”.²⁷⁴

474. FCO and IPU officials agreed that those lines were appropriate.²⁷⁵

475. Mr William Patey, British Ambassador to Iraq, reported on 13 December 2005 that:

“Oil is the critical factor in Iraq’s economic revival. Increased revenue in 2006 will depend on a continued programme of rehabilitation of current wells and infrastructure and, more importantly, improved security in the north. Serious increases will require more radical surgery. The new Government will need to focus quickly on commercialising the oil industry and a legislative framework to attract investment. The future will be complicated by discussions on constitutional provisions.”²⁷⁶

476. The pace of rehabilitation was slow. The Ministry of Oil spent less than 10 percent of its annual capital investment budget of US\$3bn (the money was used instead to pay for additional subsidised fuel imports).

477. There were rumours that a number of draft Petroleum Laws existed, but no one had seen them. The provisions in the Constitution on oil were unclear; ownership of the oil and how it should be managed would need to be clarified by the Constitutional Committee.

478. In its dialogue with potential Prime Ministers, the Embassy had emphasised:

- the importance of “getting the oil sector right” and of increasing production;
- the need for greater World Bank involvement in the sector, which would give access to additional financing on good terms and policy advice; and

²⁷³ Email Asquith to FCO [junior official], 30 November 2005, ‘Norwegian oil deal with Kurds angers Iraq’s Sunnis’.

²⁷⁴ Email Asquith to DTI [junior official], 6 December 2005, ‘Norwegian oil deal with Kurds angers Iraq’s Sunnis’.

²⁷⁵ Email IPU [junior official] to Asquith, 7 December 2005, ‘Norwegian oil deal with Kurds angers Iraq’s Sunnis’.

²⁷⁶ eGram 20655/05 Baghdad to FCO London, 13 December 2005, ‘Iraq: Oil’.

- the need for increased transparency, including through the Extractive Industries Transparency Initiative (EITI).

479. The Iraqi elections took place on 15 December.²⁷⁷ Negotiations to form a new government continued into spring 2006.

480. On 2 March 2006, DOP(I) considered a joint FCO/DTI paper setting out the UK's objectives for Iraq's oil and gas sector.²⁷⁸

481. The UK's third post-Occupation oil strategy set out a more cautious position on the potential role of the private sector, including private financing.

482. The FCO/DTI paper set out three "mutually reinforcing" UK objectives:

- Iraq's successful economic development;
- to promote Iraq's contribution to global energy security, and its role as a constructive influence within OPEC; and
- to support UK companies.²⁷⁹

483. The paper stated that raising oil production would require significant new investment. Iraq was unlikely to be able to finance that investment from its own resources, and did not have recent experience of the regulatory, fiscal and administrative framework needed to make optimal use of private investment or the technical and managerial expertise to manage a rapid expansion of the industry. A key challenge for the Iraqi Government was therefore to access external financing and expertise. Iraq's first step should be to engage with "experienced development partners", and specifically the World Bank, which could provide independent advice on the development of an appropriate regulatory, fiscal and administrative framework. Its second step should be to engage with international oil companies (IOCs) and oil service companies (OSCs), which could bring in technical expertise and capital.

484. Any form of engagement with the IOCs would be politically sensitive. The "most straightforward" form, and the one most likely to result in a rapid increase in production, was FDI; but the "appropriateness" of FDI and the contractual form it might take, along with the internal distribution of oil revenues, would be hotly contested issues within the constitutional review process. Neither Saudi Arabia nor Iran allowed PSAs, "the form of FDI most favoured by IOCs". The paper concluded that "other options such as debt/bond finance and joint ventures should also be considered".

485. The paper stated that IOCs, including BP, Shell and other UK companies, were not currently working in Iraq due to the security situation and the lack of a foreign investment law. BP and Shell were engaged on technical studies of oilfields and were providing training to Iraqi officials.

²⁷⁷ eGram 20961/05 Baghdad to FCO London, 16 December 2005, 'Iraq: Elections: Election Day'.

²⁷⁸ Minutes, 2 March 2006, DOP(I) meeting.

²⁷⁹ Paper IPU, 28 February 2006, 'UK Objectives for Iraq's Oil and Gas Sector'.

486. The paper identified five risks to UK objectives, including: “**The US dominates the field in advising Iraq on energy sector development.**”

487. Dr Kim Howells, FCO Minister of State, introduced the paper at the 2 March DOP(I) meeting.²⁸⁰ He highlighted the centrality of oil to Iraq’s economy, and reported that he planned to visit southern Iraq shortly to look at issues relating to the southern oil fields. Mr Malcolm Wicks, DTI Minister of State, described projections that Iraq could produce 7.9m bpd by 2030 as very significant in the global and UK context. The UK was already working closely with IOCs and Iraq on energy issues.

488. In discussion, Ministers commented that oil and gas would continue to be the bedrock of Iraq’s economy, but diversification was essential in the medium term.

489. DOP(I) agreed that Ministers should discuss the oil sector again after Dr Howells’ visit to Iraq.

490. Dr Howells visited Iraq later that month. He reported to Mr Straw on 23 March that the delay in forming a Government and doubts over Iraq’s commercial legal framework were constraining investment in the oil sector, but that the biggest barrier to investment remained the security situation.²⁸¹ He recommended that the UK should consider what its military forces could do to provide security for international investors:

“Such a joint operation [coalition military forces and Iraqi Security Forces] would mean a different focus for our forces in the South. It would entail a shift from the urban concerns of Basra to ... desert-located oil installations ... I suggest the FCO discuss it at the earliest opportunity with the MOD.”

491. There are no indications that Dr Howells’ proposal was discussed by Ministers or senior officials.

492. Following the 2 March DOP(I) meeting and Dr Howells’ visit, the IPU assessed that Ministers would be keen to discuss the future of the oil sector again, and by the end of March had begun work to develop a “comprehensive programme of engagement” for the oil sector, covering:

- engagement with UK oil companies in support of their activities; and
- engagement with the Iraqi Government on strategic policy issues.²⁸²

493. Mr Asquith chaired a meeting of senior officials on 19 May to agree how the UK would like to see the Iraqi oil sector structured.²⁸³ He advised Mr Straw that the group’s conclusions would be tested with “industry experts”, before being used as a basis for

²⁸⁰ Minutes, 2 March 2006, DOP(I) meeting.

²⁸¹ Letter Howells to Straw, 23 March 2006, ‘My Thoughts on Iraq’s Oil Industry’.

²⁸² Paper IPU, 29 March 2006, ‘Iraq’s Oil and Gas Sector – HMG Policy and Action’.

²⁸³ Minute Asquith to Private Secretary [FCO], 24 May 2006, ‘Iraq: DOP-I: 24 May’.

engaging with the Iraqi Government. The UK was already in close contact with BP and Shell on their business planning for Iraq.

494. The paper was finalised in September.

495. On 20 May, Prime Minister Nuri al-Maliki presented his Cabinet (minus the Ministers for Interior, Security and Defence) to the Council of Representatives.²⁸⁴ All were approved. Dr Hussain al-Shahristani was appointed Minister of Oil.

496. Mr Blair visited Iraq on 22 May. He met President Talabani and, separately, Prime Minister Maliki.

497. The following day, Sir Nigel Sheinwald wrote to Mr Straw's Principal Private Secretary setting out eight areas of work which were, in Mr Blair's view, priorities for Iraq.²⁸⁵ The final area of work listed was capacity building for Iraqi Ministries, including:

“During our visit, we were also asked for specific assistance in the areas of agriculture, and promoting investment by oil companies. I would welcome advice on both.”

498. A Cabinet Office official sent Mr Blair an update on work in those eight areas on 2 June.²⁸⁶ The official advised that the FCO was working closely with Shell and BP on an early visit to meet the new Minister of Oil, and on a plan for drawing in investors.

499. A further, more substantive update on work in the eight areas identified by Mr Blair was considered at the 15 June meeting of DOP(I).²⁸⁷ The update included a section on capacity-building for Iraqi ministries, but did not address promoting investment by oil companies (or the oil sector more generally).²⁸⁸

500. Mr Patey visited the Kurdish region on 14 June.²⁸⁹ He reported that he had encouraged KRG Prime Minister Nechirvan Barzani and KRG Minister of Natural Resources Dr Ashtee Hawramy to work with the federal Iraqi Government in drafting a Petroleum Law. Mr Barzani had warned that the Kurdish people would not give up hard-won concessions in the Constitution relating to the control of resources.

501. IPU and DTI officials met Dr Hawramy in London on 26 June.²⁹⁰ An IPU official reported that Dr Hawramy had said that he not been invited to sit on the drafting committee for the Hydrocarbons Law, and had outlined the content of a draft “KRG ‘Petroleum Law’”, which gave responsibility for signing contracts to regional

²⁸⁴ *BBC News*, 20 May 2006, *Iraqi Parliament approves Cabinet*.

²⁸⁵ [Letter Sheinwald to Hayes, 23 May 2006, 'Iraq'](#).

²⁸⁶ Minute Cabinet Office [junior official] to Prime Minister, 2 June 2006, 'Iraq: Follow-up to Your Visit'.

²⁸⁷ Minutes, 15 June 2006, DOP(I) meeting.

²⁸⁸ [Paper Cabinet Office, 13 June 2006, 'Follow-up to the Prime Minister's Visit, including Delivering a Step-change in Basra'](#).

²⁸⁹ eGram 24970/06 Baghdad to FCO London, 17 June 2006, 'Iraq: Visit to the Kurdish Region'.

²⁹⁰ Email IPU [junior official] to Casey, 7 July 2006, 'Meeting with KRG Minister of Natural Resources'.

Governments. Dr Hawramy thought PSAs were the only agreements that IOCs would consider.

502. UK officials responded that contracts should be signed by central Government. Dr Hawramy asked the UK to stop discouraging IOCs from investing in the Kurdish region.

503. An IPU official commented:

“While ... IOCs such as Shell and BP are currently unwilling to invest in the KRG, as the gap widens between the investment climate in the KRG and the rest of the country, a westernised, technocratic KRG Minister offering good PSA terms under a KRG Petroleum Law is going to be increasingly tempting.

...

“We were expecting him [Dr Hawramy] to express irritation at being excluded from central Government decision-making ... The impression he gave was more that the KRG was quite content to press on regardless ... We will need to work hard to persuade the Kurds that there is a game worth playing at the centre.”

504. Dr Howells visited Baghdad and the Kurdish Region from 6 to 7 July.²⁹¹ It was the first visit to the Kurdish region by a British Minister since 2004.

505. KRG Prime Minister Barzani told Dr Howells that relations between the KRG and the federal Government had “soured over oil”.

506. Dr Hawramy outlined the KRG’s draft Oil Plan and Petroleum Law. Dr Howells encouraged Dr Hawramy to “work through” the Oil Plan with the federal Government, and said that it was vitally important that the KRG Petroleum Law and the federal Government’s Hydrocarbons Law complemented each other.

507. The British Embassy Baghdad commented:

“The meetings [with Dr Howells] showed KRG determination to push forward on energy and reconstruction, the Oil Plan and the draft Petroleum Law being the flagships of their efforts.”

508. Mr Wicks met Dr Shahrastani in London on 24 July.

509. Mr Wicks’ briefing for the meeting stated that, while the UK had not seen a draft of the Hydrocarbons Law, it understood that it gave the federal Government responsibility for signing new oil exploration and production contracts: “This is a course of action that

²⁹¹ eGram 29832/06 Baghdad to FCO London, 11 July 2006, ‘Iraq: Dr Howells Visit to Kurdistan 6-7 July 2006’.

we [the UK] would endorse, as it would ensure that the sector was managed in the national interest.”²⁹²

510. The briefing also stated that the issue of corruption and transparency was rising up the UK’s agenda in Iraq.

511. At the meeting, Dr Shahrstani said the Iraqi Government’s aim was to get the Hydrocarbons Law through Parliament by the end of 2006.²⁹³ He asked Mr Wicks whether the UK could play a role in lobbying for a national, rather than regional, approach to signing oil exploration contracts. Mr Wicks agreed to reflect on how that message could best be conveyed.

512. A junior official in the British Embassy Baghdad reported on 21 September that there was little support for the EITI within the Ministry of Oil.²⁹⁴ The official identified a number of possible approaches to increase support, including asking the IOCs to express their support for the EITI to the Iraqi Government, as: “The Oil Ministry cares more about what they [the IOCs] think than about what we think.”

513. The work to develop a “comprehensive programme of engagement” for the oil sector that was initiated in March concluded in September with the production of a paper entitled, ‘Iraq: Building a Framework for Oil Sector Development’.²⁹⁵

514. The paper stated that:

“Our [the UK’s] starting point is that decisions on oil sector management could support or fatally undermine efforts to preserve the territorial integrity and democratic development of Iraq. Our key concern is therefore to preserve the integrity and competence of the Iraqi state as a basis for national unity, as well as to create a long-term basis for transparency and adequate investment in the sector.”

515. The paper defined four principles which would guide the UK’s approach:

- The oil industry should be structured to allow for managerial and financial autonomy of business units, “within an environment principally regulated at the federal (national) level”.
- The emphasis should be on creating an effective public sector national oil company. Within that overall framework, and subject to decisions by the Iraqi Government, private resources accessed through FDI, bonds, and commercial and concessional lending were likely to be needed.

²⁹² Briefing, [undated], ‘Mr Wicks’s Meeting with Dr Hussain Al-Shahristani (Iraqi Minister of Oil) and Dr Abd Al-Sudani (Iraqi Minister of Trade)’.

²⁹³ Record, [undated], ‘Mr Wicks’s Meeting with Dr Hussain Al-Shahristani (Iraqi Minister of Oil) and Dr Abd Al-Sudani (Iraqi Minister of Trade): Monday 24 July’.

²⁹⁴ Email FCO [junior official] to FCO [junior official], 21 September 2006, ‘EITI – Update’.

²⁹⁵ Paper British Embassy Baghdad, September 2006, ‘Iraq: Building a Framework for Oil Sector Development’.

- Any agreement on resource management must be accompanied by a guaranteed revenue-sharing formula acceptable to the KRG and Iraq's governorates.
- Transparency in the role of government institutions and in the collection and disbursement of revenues was critical. The UK endorsed the principles of the EITI.

516. The paper set out the UK's lobbying strategy in support of those principles, and stated:

"The current situation is characterised by severe constitutional uncertainty, a low level of trust between the key players and a lack of sense of urgency on the part of the Ministry of Oil.

"On most interpretations, the current text of the Constitution leaves the federal Government emasculated on oil sector management. Promoting the vision outlined in the main body of this paper will therefore be difficult ..."

517. The paper stated that the KRG refused to countenance the possibility that the "substantive" concessions they had won in the constitutional negotiations – which gave regional authorities control over the development of new fields and on some interpretations the rights to revenues from those fields – would be revisited. Meanwhile, the KRG was "putting facts on the ground" by signing PSAs with "mainly small, high-risk" IOCs, and moving ahead quickly with its own Petroleum Law.

518. A junior official at the British Embassy Baghdad commented that since 2003 successive interim and transitional Iraqi Governments had not had the opportunity to address oil sector management.²⁹⁶ The issue was now "rising up the agenda" in Iraq, and the UK had to be ready to engage at a senior level.

519. The UK first saw a draft of the Hydrocarbons Law in late October/early November 2006.

520. The British Embassy Baghdad reported on 1 November that the Ministry of Oil had sent a draft Hydrocarbons Law to the Council of Ministers, for consideration before submission to the Council of Representatives.²⁹⁷ The Embassy had seen a version of the draft Law. It made clear that oil resources must be controlled by central Government, and cited Article 109 of the Constitution (which stated that oil and gas resources were the property of the whole nation) in support of that position. The Embassy commented that it was unlikely that the KRG would accept the draft.

²⁹⁶ Email FCO [junior official] to Paterson, 21 September 2006, 'Oil Sector Structure Submission'.

²⁹⁷ eGram 48261/06 Baghdad to FCO London, 1 November 2006, 'Iraq: Hydrocarbons Law Update'.

521. The British Embassy Baghdad produced a “core script” setting out the UK’s response to the draft Hydrocarbons Law on 7 November.²⁹⁸ Key messages for the UK to relay to Iraqi contacts included:

- It was crucial that an agreed national law was passed soon, given the importance of oil to national economic and security interests.
- The Iraqi Constitution stated that oil resources belonged to all Iraqi citizens. The federal Government was best placed to ensure that those resources were developed to the maximum benefit for all Iraqi citizens.
- A national law should be agreed before the KRG passed a regional law.

522. UK officials continued to meet regularly with Ministers and senior officials in the Iraqi Government and the KRG to discuss progress towards agreeing a Hydrocarbon Law.

523. The IPU provided Dr Howells with an update on negotiations on a Hydrocarbons Law on 14 February 2007.²⁹⁹ While there was not yet any agreement, there was a “strong impetus to achieve consensus”. President Bush had identified the passing of the Hydrocarbons Law as a key indicator of progress in Iraq. The US Ambassador was working hard to bring the key players together. The UK had “remained in close touch with the key negotiators ... in support”.

524. The update advised that the latest draft Hydrocarbons Law addressed only two of the four principles which the UK had defined in September 2006 (it would establish a national public-sector oil company and contained helpful clauses on transparency).

525. The update proposed that, while the UK’s influence was “limited”, it should, alongside the US, continue to lobby key Iraqi players, and encourage the IMF and World Bank to play an active role in providing assistance and advice on the more technical aspects of the negotiations.

526. Dr Howells accepted that proposal, and agreed that the UK’s influence was limited.³⁰⁰

527. Mr Asquith reported from Baghdad in May that disagreements continued over the extent of regional authority in the oil sector and on the implications of foreign investment.³⁰¹ He commented:

“The political mood makes quick passage of the HCL [Hydrocarbons Law] unlikely. Differences between the Kurds and Baghdad go beyond simple posturing, with Kurdish hardball tactics generating worrying anti-Kurdish sentiment among Arab politicians. Resolution by the summer would be an achievement.”

²⁹⁸ Email FCO [junior official] to IPU [junior official], 7 November 2006, ‘HCL – Core Script’.

²⁹⁹ Minute IPU [junior official] to PS/Dr Howells, 14 February 2007, ‘Iraq: Hydrocarbons Law Update’.

³⁰⁰ Email APS/Howells [FCO] to junior official [IPU], 19 February 2007, ‘Iraq: Hydrocarbons Law Update’.

³⁰¹ eGram 20342/07 Baghdad to FCO London, 14 May 2007, ‘Iraq: Update on the Hydrocarbons Law’.

528. Mr Gordon Brown became Prime Minister on 26 June 2007.

529. Before Mr Brown's final visit to Iraq as Chancellor of the Exchequer in June 2007, he commissioned advice on how the UK could increase support for economic development and reconstruction in Iraq and, in particular, in Basra.³⁰²

530. The Treasury advised that greater security and political solutions were key to stability, but needed to be complemented by a focus on priority economic problems.³⁰³ There were three priorities to boost economic growth:

- maintaining macroeconomic stability;
- improving the efficiency and effectiveness of the public sector; and
- expanding and improving the efficiency of the oil industry. That required:
 - a political agreement on a Hydrocarbons Law;
 - better security, to facilitate a significant increase in investment (including foreign investment); and
 - an integrated energy strategy for investment and reform, to ensure that the development of the sector delivered visible improvements in electricity supply to drive private sector recovery.

531. The negotiating process for a Hydrocarbons Law should be allowed to “run its course”, to minimise technical ambiguities and force all parties to address difficult political issues. The UK was “working to bring in” the World Bank to assist Iraq in developing and implementing an integrated energy strategy.

532. Mr Brown wrote to Prime Minister Maliki on 29 July, setting out some suggestions for how the UK could help on initiatives to develop the Iraqi economy.³⁰⁴ Those included:

“Working with the World Bank, we are ready to help you develop an integrated energy strategy, outlining investments and reforms in oil, gas and electricity sectors.”

533. Prime Minister Maliki replied on 7 October, welcoming the UK's interest in supporting private sector development in Iraq.³⁰⁵ In relation to oil, Iraq would welcome UK help on infrastructure repairs, installation development and the development of an integrated energy strategy.

534. Mr Brown met Prime Minister Maliki in the UK on 3 January 2008.³⁰⁶ Mr Brown said that he wanted to see rapid progress on the Hydrocarbons Law and local elections.

³⁰² Email Bowler to Pillay and FCO [junior official], 12 May 2007, 'Iraq – Latest Situation/Economic Development'.

³⁰³ [Paper Pillay, 24 May 2007, 'Economic Aspects of Stability in Iraq'](#).

³⁰⁴ Letter Brown to Maliki, 29 July 2007, [untitled].

³⁰⁵ Letter Maliki to Brown, 7 October 2007, [untitled].

³⁰⁶ Letter Fletcher to Carver, 3 January 2008, 'Prime Minister's Bilateral with Prime Minister of Iraq, 3 January'.

535. The British Embassy Baghdad provided an update on the oil sector in January 2008.³⁰⁷ The Embassy reported that with negotiations stalled, the KRG had passed its own regional Hydrocarbons Law in August 2007 and “vigorously resumed signing contracts”. Dr Shahrstani had pronounced those contracts illegal and void and the Iraqi Government had threatened to boycott all companies that signed contracts with the KRG.

536. The Iraqi Government and the KRG continued to discuss a Hydrocarbons Law, but “fundamental personality clashes and political obstacles” remained and early progress was unlikely. The US continued to “shepherd” the negotiations, but to little effect.

537. In the update, the Embassy did not report on or propose any UK action with respect to the Hydrocarbons Law.

538. The Embassy also reported that, as those negotiations continued, the Iraqi Government was pursuing technical service agreements (TSAs) with IOCs to improve oil production in five major oilfields. The Embassy commented that the TSAs were less attractive to IOCs than PSAs and would increase production by only a “fraction” of what might be achieved under PSAs. There remained substantial political resistance, “on sovereignty grounds”, to PSAs within the Iraqi Government.

539. Oil production in 2007 had averaged 2.1m bpd, the same as in 2006. Higher oil prices – US\$73 a barrel in 2007 against US\$65 in 2006 – had meant higher revenues – US\$41bn in 2007 against US\$31bn in 2006.

540. Section 9.7 describes discussions within the UK Government from autumn 2008 on the transition to a normal bilateral relationship with Iraq.

541. On 9 December, the Overseas and Defence Sub-Committee of the Committee on National Security, International Relations and Defence (NSID(OD)), the successor to DOP(I), discussed a paper entitled ‘Iraq: Arrangements for Transition’.³⁰⁸ An annex to the paper suggested that the key elements of future relations with Iraq should be:

- diplomatic and political activity,
- economic development,
- defence,
- energy,
- commercial, and
- education.

³⁰⁷ Telegram 2973/08 Baghdad to FCO London, 27 January 2008, ‘Hydrocarbons Law: Deadlock Continues’.

³⁰⁸ Minutes, 9 December 2008, NSID(OD) meeting; Paper, 8 December 2008, ‘Iraq: Arrangements for Transition’.

542. The objective of the energy component was to:

“... ensure security of Iraq’s oil supply and long-term increase in oil output through political lobbying on hydrocarbons legislation and national energy policy and regional support.”

543. The paper invited Ministers to agree that Mr David Miliband, the Foreign Secretary, should circulate detailed proposals on the UK’s future relations with Iraq, for agreement in writing.

544. Summing up the discussion, Mr Brown said that it was important to make progress on the Hydrocarbons Law.³⁰⁹

545. NSID(OD) agreed that sign-off for the UK’s long-term strategy for Iraq would be sought out of committee.³¹⁰

546. Mr Miliband’s Private Secretary circulated a draft strategy for “UK policy towards and relations with Iraq following military drawdown” on 13 January 2009.³¹¹

547. The draft strategy stated that the UK had a strategic national interest in a strong, stable and non-hostile Iraq, which:

“... contributes positively to stable world energy markets by maximising its potential as a producer and exporter of oil and gas; and increased EU energy security through developing new supply routes.”

548. The strategy identified a number of essential factors for establishing a strong and stable Iraq, including:

“... a functioning economy. In the medium term [that] will be driven by hydrocarbon production and export, which in turn requires agreement on a Hydrocarbons Law articulating the governance and development of the energy sector.”

549. The UK’s aim in the energy sector should be to:

“... help Iraq to maximise [its] potential, and hence its contribution to global oil markets and EU energy security. This will involve a combination of political lobbying on Iraqi legislation, policy dialogue and education, capacity building in central government ministries (including through a specific skills initiative), and working alongside foreign investors who can inject capital and skills into the wider Iraqi energy sector.”

³⁰⁹ Minutes, 9 December 2008, NSID(OD) meeting.

³¹⁰ Minutes, 9 December 2008, NSID(OD) meeting.

³¹¹ [Letter Hickey to Catsaras, 13 January 2009, ‘Iraq: Strategy’ attaching Paper, \[undated\] ‘Iraq: a Review of Strategy’.](#)

550. An annex to the main paper described “problem areas”, including:

- no broad agreement on the extent of political and economic centralism versus devolution, including in relation to energy sector development and revenue sharing; and
- the Iraqi Government’s reliance on oil revenues (which comprised more than 90 percent of revenues). A protracted period of low oil prices could even affect the Government’s ability to fund operational expenditure.

551. On 9 February, Mr Brown’s Assistant Private Secretary told the Private Secretaries to Mr Miliband and Lord Mandelson, the Business, Enterprise and Regulatory Reform Secretary, that Mr Brown had endorsed the strategy.³¹²

552. Sir Mark Lyall Grant, FCO Political Director, told the Inquiry that the strategy reflected the strategic importance of Iraq to the UK:

“There is no doubt in my mind that Iraq is a very important strategic country for the United Kingdom ... and that, therefore, we should have a long-term strategic relationship with Iraq ...

“The reason I say that on Iraq is because Iraq is a country which sits on the dividing line between Persia and the Arab world. It sits on the dividing line between Sunni and Shia communities. It is a neighbour of Turkey, and, therefore, could be a neighbour of the European Union, if Turkey joins the European Union. It has got massive oil and gas reserves. We therefore have a very strong strategic interest in Iraq being a successful, prosperous, stable country, and in being an ally of the United Kingdom.”³¹³

553. Sir Mark said that it was not possible to strictly prioritise the UK’s political, commercial and socio-economic interests in Iraq, in terms of their importance to the UK.³¹⁴ What was “essential” from the UK’s perspective was that Iraq remained a single state with secure borders, with a functioning Government that could exert full security control of the country and a functioning economy.

Table 1: Iraqi crude oil production and revenue (selected years)

	1989	2002	2003	2004	2005	2006	2007	2008	2009
Oil production (m bpd) ³¹⁵	2.90	2.02	1.31	2.01	1.88	2.00	2.09	2.38	2.39
Oil revenue from exports (US\$bn) ³¹⁶	–	–	5.1	17.2	23.3	31.9	38.3	61.2	39.2

³¹² Letter Catsaras to Hickey & Abel, 9 February 2009, ‘Iraq Strategy’.

³¹³ Public hearing, 20 January 2010, pages 21-22.

³¹⁴ Public hearing, 20 January 2010, page 26.

³¹⁵ US Energy Information Administration website. *Iraq Crude Oil Production by Year*.

³¹⁶ Brookings Center for Middle East Policy, Iraq Index, *Comparison of Oil Revenue from Exports, 2003-2012*.

UK Government support for UK business

UK commercial interests, 2001 to 2002

554. Sections 1.1 and 1.2 describe the increasing challenges from 1999 to the US/UK policy for the containment of Iraq.

555. In January 2001, the FCO's Middle East Department drew up an internal paper for a meeting of the FCO Policy Board, which reassessed the UK's "fundamental interests" in relation to Iraq and recommended a new approach to promoting them.³¹⁷ The UK's interests were identified as:

- regional stability, including through the non-proliferation of Weapons of Mass Destruction (WMD);
- energy security: the region accounted for 33 percent of the world's oil production and 66 percent of world oil reserves;
- a "level playing field" for UK companies: at its peak, UK trade with Iraq was US\$500m a year;
- preserving the credibility and authority of the UN Security Council;
- maintaining the coherence of UK policy, including on human rights, adherence to UN Security Council resolutions, and non-proliferation;
- improving the humanitarian and human rights situation in Iraq;
- avoiding a US/UK split; and
- reducing the UK's isolation in the EU.

Planning and preparing for a post-conflict Iraq

556. From 20 September 2002, the Cabinet Office-led Ad Hoc Group on Iraq (AHGI) co-ordinated all non-military cross-government work on post-conflict issues. The focus of the AHGI's work was a series of analytical papers by the FCO and other departments on the post-conflict administration and reconstruction of Iraq, and the possible consequences of conflict for the UK.

557. The AHGI held its first meeting on 20 September.³¹⁸ Mr Jim Drummond, Assistant Head of the Cabinet Office Overseas and Defence Secretariat (OD Sec), wrote to Mr Desmond Bowen, Deputy Head of OD Sec, the day before, suggesting issues for discussion and proposing departmental responsibilities for those issues.

558. Neither Mr Drummond's minute to Mr Bowen nor the record of the 20 September AHGI meeting indicated that work was being or should be undertaken on promoting UK commercial interests in a post-conflict Iraq.³¹⁹

³¹⁷ Paper FCO, January 2001, 'Iraq: A fresh look at UK interests'.

³¹⁸ Minute Drummond to Bowen, 19 September 2002, 'Ad Hoc Group on Iraq (AHGI)'.

³¹⁹ Minute Drummond to Bowen, 19 September 2002, 'Ad Hoc Group on Iraq (AHGI)'; Minute Drummond to Manning, 23 September 2002, 'Ad Hoc Group on Iraq'.

559. The record of the first AHGI meeting stated that work should remain “as internal thinking within departments” for the next few weeks.³²⁰

560. The AHGI remained the principal Whitehall co-ordination mechanism for non-military Iraq planning until the creation of the inter-departmental Iraq Planning Unit (IPU) in February 2003.

561. The AHGI did not commission or receive any papers relating to UK commercial interests in a post-conflict Iraq during its operation.

562. On 12 September 2002, Sir David Manning, the Head of OD Sec and Mr Blair’s Foreign Policy Adviser, commissioned a paper from the FCO setting out what a post-Saddam Government might look like.³²¹

563. The FCO sent its paper on post-Saddam government in Iraq, entitled ‘Scenarios for the future of Iraq after Saddam’, to Sir David on 26 September.³²² It was circulated separately to the AHGI.

564. The paper stated that to influence developments on Iraq, the UK needed “the clearest possible sense of our objectives for Iraq”. The UK’s “fundamental interest in a stable region providing secure supplies of oil to world markets” suggested four overarching priorities:

- termination of Iraq’s WMD programme and permanent removal of the threat it posed;
- a more inclusive and effective Iraqi Government;
- a viable Iraq which was not a threat to its neighbours; and
- an end to Iraqi support for international terrorism.

565. The UK also had a number of “second order” objectives, including ensuring that British companies benefitted from any post-war reconstruction contracts.

566. Sir Christopher Meyer, British Ambassador to the US, responded to the paper by questioning whether it was right to classify securing reconstruction contracts as a second order objective.³²³ Russia and France were, by all accounts, anxious about their economic interests in Iraq after Saddam Hussein. UK interests were not something to press immediately, but should be a “top priority” in post-Saddam contingency planning. Mr Blair would have to pursue the issue with President Bush if the UK were to have any impact.

³²⁰ Minute Drummond to Manning, 23 September 2002, ‘Ad Hoc Group on Iraq’.

³²¹ Letter Manning to McDonald, 12 September 2002, ‘Iraq’.

³²² [Letter McDonald to Manning, 26 September 2002, ‘Scenarios for the future of Iraq after Saddam’ attaching Paper FCO, \[undated\], ‘Scenarios for the future of Iraq after Saddam’.](#)

³²³ Telegram 1256 Washington to FCO London, 1 October 2002, ‘Iraq: Dividing the Spoils’.

567. Sir Christopher concluded:

“We [the UK] will need to register with the Americans that, in the event of war, the UK will expect to get a generous share of reconstruction and oil contracts after Saddam’s defeat. This did not/not happen in Kuwait after the Gulf War.”

568. An oil industry representative called on Mr Edward Chaplin, FCO Director Middle East and North Africa, on 2 October to express his concern that “by sticking to the rules over Iraq and not going for post-sanctions contracts”, UK oil companies would lose out.³²⁴ There were rumours that some countries would “sell their support” for US action in return for a guarantee that their deals with Saddam Hussein’s regime would be honoured by a new administration.

569. Mr Chaplin said that the FCO was “seized of the issue” and “determined to get a fair slice of the action for UK companies”. Most of the rumours could be discounted.

570. Trade Partners UK (TPUK)³²⁵ began considering in early October 2002 what it could and should do in the event that Iraq returned to “any degree of normalcy”.³²⁶

571. On 15 October, Mr Bill Henderson, TPUK Director International Group 1, advised Baroness Symons, joint Department of Trade and Industry (DTI)/FCO Minister of State for International Trade and Investment, that TPUK’s contingency planning was “purely internal and at a very early stage”.³²⁷ TPUK had made provision for a Commercial Officer to be included in the initial stage of a re-established UK mission in Baghdad. There were likely to be significant commercial opportunities for UK firms, although there were limits on what TPUK could do to identify those opportunities:

“For the moment there is some sensitivity to giving prominence to the commercial aspects. We are keen to avoid giving the impression that commercial interests are driving our policy in Iraq.”

572. On 25 October, Mr Tony Brenton, Deputy Head of Mission at the British Embassy Washington, reported a conversation with Vice President Dick Cheney’s office, in which he had been told that Vice President Cheney was about to discuss Iraqi oil contracts with former Russian Prime Minister Yevgeny Primakov. Mr Primakov would be told that the “bids of those countries which co-operated with the US over Iraq would be looked at more sympathetically than those which did not”.³²⁸

³²⁴ Email Chaplin to Gray, 2 October 2002, ‘Iraq – Views of UK Business’.

³²⁵ Trade Partners UK was the division of British Trade International (BTI) responsible for promoting UK exports until October 2003, when BTI was renamed UK Trade and Investment (UKTI) and the Trade Partners UK identity fell out of use.

³²⁶ Minute TPUK [junior official] to Henderson, 2 October 2002, ‘Iraq – Getting Back into the Market’.

³²⁷ Minute Henderson to PS/Baroness Symons, 15 October 2002, ‘Iraq: Contingency Planning Commercial Aspects’.

³²⁸ Letter Brenton to Chaplin, 25 October 2002, ‘Iraq: Oil’.

573. Representatives of BP, Shell and British Gas met Baroness Symons on 31 October to discuss their concerns.³²⁹ Mr Christopher Segar, Head of the FCO's Aviation Maritime and Energy Department (AMED), reported that all three companies had argued that they had been scrupulous in observing sanctions but were keen to play a part in any reconstruction effort. They did not want a privileged position but equally did not want to be "locked out" through deals done by the US for wider political purposes. They wanted a "level playing field".

574. In response, Baroness Symons had said that, given the Russians' considerable economic interest in Iraq, it was "very possible that a deal or deals" might be under discussion in the US.

575. Baroness Symons reported her meeting to Mr Jack Straw, the Foreign Secretary, and commented:

"I said that we could not make any definitive undertakings [on securing contracts], given our determination that any action in relation to Iraq is prompted by our concerns over WMD, and not a desire for commercial gains.

"However, I undertook to draw this issue to your attention as a matter of urgency. They were genuinely convinced that deals were being struck and that British interests are being left to one side."³³⁰

576. The British Embassy Washington reported on 31 October that it had reassured BP representatives that the Embassy had seen no evidence of any deals.³³¹ The Embassy had agreed to "keep a watchful eye".

577. The Cabinet Office reported to Sir David Manning on 31 October that the instruction to departments not to engage with external actors on contingency planning for post-conflict Iraq (confirmed in the record of the first meeting of the AGHI on 20 September) was, in practice, being overtaken.³³² There was particular pressure for consultation from the UK oil industry; a delegation from BP would be visiting the FCO on 6 November.

578. The FCO hosted a presentation on Iraqi energy on 6 November given by a team from BP.³³³ Mr Rycroft sent the record of the presentation to Mr Jonathan Powell, Mr Blair's Chief of Staff, and Sir David Manning as evidence of why Iraq was so important to BP.³³⁴

³²⁹ Minute Segar to PS/Baroness Symons, 31 October 2002, 'Iraq Oil'.

³³⁰ Minute Symons to Straw, 1 November 2002, 'Iraqi Oil and Gas'.

³³¹ Telegram 1418 Washington to FCO London, 31 October 2002, 'BP & Iraqi Oil'.

³³² Minute Dodd to Manning, 31 October 2002, 'Iraq: After the UNSCR'.

³³³ Minute FCO [junior official] to Arthur, 13 November 2002, 'BP/Iraqi Energy'.

³³⁴ Manuscript comment Rycroft, 18 November 2002, on Minute FCO [junior official] to Arthur, 13 November 2002, 'BP/Iraqi Energy'.

579. Mr Powell forwarded the record to Mr Blair, who commented: “But what do we do about it?”³³⁵

580. On 8 November, the AHGI confirmed that departments were now “encouraged, where necessary, to engage those outside Government in prudent contingency planning as long as such contact is discreet. This extends to DTI planning on the UK role in a post-Saddam economy, particularly in the oil sector.”³³⁶

581. Sir Christopher Meyer wrote to Sir David Manning on 15 November, reporting the Embassy’s recent discussions with UK oil industry representatives:

“We have made clear that the US motivation as regards Iraq parallels our own: this is a matter of national security, not oil. We emphasised the flat denials we have received from State Department that any such discussions [between non-UK companies and the US Administration] are under way.

“Nevertheless, the rumours persist. It is not clear ... what went on behind the scenes at the US/Russia energy ‘summit’ in Houston last month ... We have seen a report from our team at CENTCOM [US Central Command] which suggests that the Pentagon has already awarded a contract to Kellogg, Brown and Root, a subsidiary of Halliburton, to restore the Iraqi oil industry to production levels of 3m bpd ... We have so far been unable to obtain collateral for this from the Administration, and it might well in any case amount to no more than prudent contingency planning to stabilise Iraqi oil facilities if Saddam attempts to damage them in a conflict.

“Either way, there is clearly an issue here which we need to tackle ... My view remains that the only realistic way in to this is via a PM [Mr Blair] intervention with Bush ... The points to make would be:

- Once Saddam has been disarmed ... Iraq’s oil industry will be central to ... economic recovery.
- We, as you, have energy majors who have skills and resources to help ...
- To give the lie to suggestions that this campaign is all about oil, it is vitally important that, once sanctions are lifted, there is seen to be a level playing field for all companies to work in Iraq.”³³⁷

582. Sir Christopher stated that “by being too squeamish and slow off the mark, the UK did badly out of the Kuwait reconstruction contracts in 1991”. The approach outlined above was the least the UK should do, to avoid a similar outcome.

583. The Kellogg, Brown and Root (KBR) contract referred to by Sir Christopher was likely to be the US\$1.9m contract to plan the repair of Iraq’s oil infrastructure awarded

³³⁵ Manuscript comment Blair on Minute FCO [junior official] to Arthur, 13 November 2002, ‘BP/Iraqi Energy’.

³³⁶ Minute Dodd to Manning, 11 November 2002, ‘Ad Hoc Group on Iraq’.

³³⁷ [Letter Meyer to Manning, 15 November 2002, ‘Iraqi Oil’.](#)

to KBR under the US Army's Logistics Civil Augmentation Program (LOGCAP) on 8 November.³³⁸

584. Sir David Manning raised oil and gas contracts during a meeting with Dr Condoleezza Rice, President Bush's National Security Advisor, in Washington on 9 December.³³⁹ A TPUK briefing note produced for Sir David Manning in advance of the meeting summarised the UK's position:

"It would be inappropriate for HMG [Her Majesty's Government] to enter into discussions about any future carve-up of the Iraqi oil industry. None-the-less it is essential that our companies are given access to a level playing field in this and other sectors ..."³⁴⁰

585. At the meeting, Sir David said that he hoped UK energy companies "would be treated fairly and not overlooked if Saddam left the scene".³⁴¹ Dr Rice said that it would be particularly unjust if companies that had observed sanctions since 1991, a category which included UK companies, were not among the beneficiaries of post-Saddam Iraq.

586. The US Agency for International Development (USAID) began the process of letting its major post-conflict reconstruction contracts in December 2002.³⁴² At that time, US military preparations were gathering pace. It was clear that very little time remained before a military campaign.

587. The UK participated in two rounds of US/UK/Australia talks on post-conflict issues, on 6 November 2002 and 22 January 2003 (see Sections 6.4 and 6.5). There are no indications that commercial interests were discussed during those talks.

588. Mr Blair met with President Bush and Dr Rice in Washington on 31 January 2003 to discuss post-conflict planning.

589. A briefing prepared for Mr Blair by the FCO included in its list of objectives: "To convince President Bush ... the US needs to pay much more attention, quickly, to planning on 'day after' issues; and that the UN needs to be central to it."³⁴³

Key messages included:

- Restoring oil production will be an immediate challenge. Oil sector will need some technology and a lot of capital. We must encourage an open investment regime and a level playing field for foreign companies."

³³⁸ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

³³⁹ [Minute Manning to Prime Minister, 11 December 2002, 'Iraq'](#).

³⁴⁰ [Paper TPUK, 29 November 2002, 'Note for Sir David Manning on UK Oil Company Interests in Iraq'](#).

³⁴¹ [Minute Manning to Prime Minister, 11 December 2002, 'Iraq'](#).

³⁴² Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

³⁴³ [Paper FCO Middle East Department, 30 January 2003, 'Prime Minister's visit to Camp David, 31 January: Iraq'](#).

590. A short Cabinet Office paper offered Mr Blair a “few OD Sec points, just in case they slip through the briefing”.³⁴⁴ Those included:

- “• Agree the importance of transparency in the use of oil revenues. Argue for a level playing field for UK companies on new exploration contracts.”

591. The record of the meeting between President Bush and Mr Blair does not show any discussion of oil issues.³⁴⁵

592. Officials from TPUK, the FCO, the Export Credit Guarantee Department (ECGD) and a representative from the British Consultants and Contractors Bureau (BCCB) met on 7 February to discuss post-conflict commercial issues.³⁴⁶

593. Following that meeting, Mr Henderson provided a further update for Baroness Symons on TPUK’s contingency planning. He advised that:

“Until now, most of our [TPUK] meetings have involved only internal players, and have been relatively low key, in view of our wish to avoid giving undue prominence to the commercial aspects of HMG’s handling of the crisis. The participation of BCCB in this meeting marked a new phase of our planning process.”

594. The meeting had concluded that the assistance needed by UK companies would fall into three categories:

- During “Stage 1”, a small number of UK companies would want UK Government help to gain quick access to infrastructure that they had installed in Iraq, as part of the humanitarian and reconstruction effort but also “to protect their competitive advantage”. Planning would require close consultation with the MOD.
- During “Stage 2”, TPUK would provide UK companies with information on opportunities arising from the initial stages of the humanitarian and reconstruction effort.
- During “Stage 3”, TPUK would help UK companies position themselves to take advantage of short- and medium-term reconstruction contracts. Close contact with the US would be a key factor.

595. Mr Henderson advised that UK companies were arguing strongly that the UK Government should press the US Government to guarantee a “level playing field” for UK companies on reconstruction contracts, including for oil and gas contracts. Six business representatives had recently written to Baroness Symons, expressing their concern that the UK was not extracting sufficient commercial advantage from its support for the US.

³⁴⁴ [Minute Drummond to Rycroft, 28 January 2003, ‘Iraq: US Visit’.](#)

³⁴⁵ Letter Manning to McDonald, 31 January 2003, ‘Iraq: Prime Minister’s Conversation with President Bush on 31 January’.

³⁴⁶ [Minute Henderson to Symons, 12 February 2003, ‘Iraq: Post-Conflict Commercial Issues’.](#)

596. Mr Henderson concluded by commenting that although TPUK participated in the weekly meetings of the AHGI:

“... the overall Whitehall agenda appears to attach little importance to the commercial aspect and the interests of UK companies.”

597. Mr Geoff Hoon, the Defence Secretary, discussed post-conflict issues with Mr Donald Rumsfeld, US Secretary of Defense, and Dr Rice in Washington on 12 February.

598. Mr Drummond sent Mr Ian Lee, MOD Director General Operational Policy, a final version of the UK’s “key messages” on post-conflict Iraq on 11 February, for Mr Hoon to use in his meetings.³⁴⁷ The final key message was:

“Level playing field: Big contracts to rebuild Iraq. Putting UK lives on line. Expect level playing field for UK business in oil and other areas.”

599. The British Embassy in Washington’s record of Mr Hoon’s meetings with Secretary Rumsfeld and Dr Rice on 12 February did not include any reference to a discussion on commercial issues.³⁴⁸

600. Mr Henderson advised an FCO official on 25 February that the “general point” that UK companies should be in a position to access opportunities arising from reconstruction and rehabilitation in Iraq had been raised at an (unspecified) high level with the US Government.³⁴⁹ The UK had been assured that a level playing field would apply. Mr Henderson commented: “however, the reality is that US companies will be in a privileged position”.

601. Mr Henderson sought Baroness Symons’ agreement on 27 February that officials should adopt a “more open, pro-active approach” in their dealings with UK companies.³⁵⁰ Interest from UK companies was growing, and the UK Government needed to be seen to respond.

602. Baroness Symons forwarded Mr Henderson’s minute to Mr Straw and Ms Patricia Hewitt, Secretary of State for Trade and Industry and Minister for Women and Equality.³⁵¹ In a covering letter, Baroness Symons reported that more and more companies were approaching her and TPUK about post-conflict reconstruction. The UK Government had been careful not to take a more public stance in support of UK business. That was the

³⁴⁷ [Letter Drummond to Lee, 11 February 2003, ‘Iraq Post Conflict: Key Messages’ attaching Paper Cabinet Office, 11 February 2003, ‘Iraq Post Conflict: Key Messages’.](#)

³⁴⁸ Telegram 203 Washington to FCO London, 13 February 2003, ‘Iraq: Defence Secretary’s Visit to Washington.’

³⁴⁹ Minute Henderson to FCO [junior official], 25 February 2003, ‘Iraq: UK/US issues’.

³⁵⁰ Minute Henderson to PS/Symons, 27 February 2003, ‘Iraq Contingency Planning: Commercial Aspects’.

³⁵¹ Minute Symons to Straw and Hewitt, [undated], ‘Iraq: Commercial Aspects’.

right approach, bearing in mind the UK was making the case that the conflict was about WMD and not oil:

“But the pressure from businesses is building and I fear that some of our business community fear we are not engaged. Some think that the US and France are ahead of the game already ...”

603. Baroness Symons concluded that she felt strongly that the time was right “to be more on the front foot”.

604. At the end of February, Mr Keith Allan, TPUK Deputy Director International Group 1, reported to TPUK colleagues that Mr Dominick Chilcott, the Head of the IPU, had told him that there was scope for a “TPUK slot” in the US Office of Reconstruction and Humanitarian Assistance (ORHA).³⁵² The US needed more resources in ORHA and Mr Chilcott believed that ORHA would welcome someone who could make a substantive contribution. Mr Chilcott had made it clear that the individual would need to do “a real job”.

605. Mr Allan commented:

“We see this as a key opportunity for UK plc. As Dominick [Chilcott] said, there would be no guarantees of contracts, but it would be a clear demonstration of our commitment to do our best for UK companies.”

606. A junior official in British Trade International (BTI) joined ORHA (then based in Washington) on 9 March. He subsequently deployed with ORHA to Kuwait and Baghdad.³⁵³

607. On 8 March, the US Army Corps of Engineers (USACE), which had responsibility within the US Government for the reconstruction of the oil sector, awarded a contract for the repair of Iraq’s oil infrastructure, worth up to US\$7bn, to KBR.³⁵⁴ *Hard Lessons* reported that the contract was the single largest reconstruction contract in Iraq and the largest known sole-source contract in US history.

608. Mr Brenton reported on 10 March that “a commercial contact” had passed the British Embassy Washington a version of a USAID invitation to select US companies to bid for a US\$600m contract for infrastructure reconstruction.³⁵⁵ USAID had confirmed that it had issued the invitation on 12 February with a closing date of 27 February. Mr Brenton had pressed for more transparency.

³⁵² Email Allan to Warren, 27 February 2003, ‘Iraq: TPUK Position in US Office of Reconstruction and Humanitarian Assistance (ORHA)’.

³⁵³ Email BTI [junior official] to Henderson, 13 June 2003, ‘End of assignment to OCPA and replacement planning’.

³⁵⁴ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

³⁵⁵ Telegram 320 Washington to FCO London, 10 March 2003, ‘Iraq Day After: Infrastructure Reconstruction Contracts’.

609. Mr Brenton also reported that it was not clear how that USAID contract related to a separate contract “allegedly being let by the US Army Corps of Engineers” and reported in the UK press on 9 March.

610. On 11 March, “with the agreement of Ministers”, Mr David Warren, TPUK Director International Group, hosted a meeting with representatives of a number of UK companies to discuss possible post-conflict reconstruction opportunities in Iraq.³⁵⁶ He reported to Baroness Symons the following day that it had been a useful opportunity to emphasise that UK policy was to secure Iraq’s disarmament. The group’s main concern had been that the US was moving ahead quickly on reconstruction and UK companies would be frozen out.

611. At Prime Minister’s Questions on 12 March, Dr Vincent Cable asked whether Mr Blair was aware that the US Government had “pointedly excluded British and foreign firms” from bidding for US contracts.³⁵⁷ Mr Blair rejected Dr Cable’s charge that Mr Bush regarded international co-operation with contempt.

612. Mr Mike O’Brien, FCO Minister of State, visited Washington on 13 March, to discuss post-conflict issues with US interlocutors.³⁵⁸

613. A senior official from the US National Security Council (NSC) briefed Mr O’Brien on US plans for the oil sector.³⁵⁹ In that context, Mr O’Brien emphasised the importance that the UK Government attached to UK companies having “a fair crack of the whip” in competing for contracts. He accepted that it was reasonable for US companies to be the recipients of US money for emergency contracts, but the field should be opened up “once Iraqi money came on stream”. The NSC official agreed, and said that it would not be US policy to restrict oil sector contracts to US companies.

614. Mr O’Brien also called on Mr Andrew Natsios, USAID Administrator.³⁶⁰ Mr Natsios advised that, for security reasons, USAID had invited only a few US companies with the necessary clearances to bid for the 17 primary reconstruction contracts. There were no such constraints on subcontracts, and he hoped that UK companies and non-governmental organisations (NGOs) with the right expertise would be successful in securing those contracts.

615. In response to a question from Mr O’Brien, Mr Natsios said that it would be possible for UK companies to acquire the necessary security clearances to bid for primary contracts. Mr O’Brien agreed to send Mr Natsios a list of “trustworthy” UK companies.

³⁵⁶ Minute Warren to PS/Symons, 12 March 2003, ‘Iraq contingency planning: record of meeting with UK companies.’

³⁵⁷ House of Commons, *Official Report*, 12 March 2003, column 287.

³⁵⁸ Telegram 341 Washington to FCO London, 13 March 2003, ‘Iraq Day After: Mr O’Brien’s Visit’.

³⁵⁹ Letter Gooderham to Chilcott, 13 March 2003, Iraq: Day After: The Oil Sector’.

³⁶⁰ Telegram 341 Washington to FCO London, 13 March 2003, ‘Iraq Day After: Mr O’Brien’s Visit’.

616. On 14 March, Mr Straw marked Baroness Symons' letter to Mr Simon McDonald, his Principal Private Secretary, with the comment:

“This is really important. Please make sure it is factored into Mike O'Brien's discussions and that a senior official ... takes a personal lead on this.”³⁶¹

617. Later that day, Mr McDonald instructed Mr Chilcott that Baroness Symons' concerns should be factored into the IPU's follow up to Mr O'Brien's discussions in Washington.³⁶²

618. A No.10 official sent Mr Blair a note on reconstruction contracts on 15 March, at his request.³⁶³ The note reported the conclusions of Mr O'Brien's meeting with Mr Natsios on 13 March.

619. Ms Hewitt spoke to Mr Natsios by telephone the following week, to lobby for UK companies.³⁶⁴

620. The Coalition began military action against Iraq on the night of 19-20 March 2003.

Influencing the Coalition Provisional Authority and the US

621. Mr Antony Phillipson, Counsellor (Trade and Transport) at the British Embassy Washington, summarised the effect of recent UK lobbying of the US in a report to Mr Allan on 24 March.³⁶⁵ Mr Natsios had told both Mr O'Brien and Ms Hewitt that UK companies would have the opportunity to bid for subcontracts, that USAID would sponsor UK companies to secure the necessary security clearances, and that UK bids for subcontracts would be welcomed. UK companies could not bid for primary contracts.

622. Mr Phillipson reported that he had followed up those discussions with a meeting with a USAID official, who:

“... reiterated the assurances that ... Natsios had given that the UK will get a bite at the cherry when the subcontracts came up. The US prime [contractor] would be instructed to this effect and [the USAID official] could not be more blunt than to say that 'the fix is in'.”

623. ORHA would undertake the detailed assessments of the subcontracts; it had also been told of the need to include the UK in the process.

624. Mr Phillipson advised that the next step was to translate that “political assurance” into practice. The “Buy America” provisions and the inclusion of a list of US standards and specifications in the USAID “mother contract” were a cause for concern. The best

³⁶¹ Manuscript comment Straw, 14 March 2003, on Minute Symons to Straw and Hewitt, [undated], 'Iraq: Commercial Aspects'.

³⁶² Minute McDonald to Chilcott, 14 March 2003, 'Iraq: Commercial Aspects'.

³⁶³ [Minute Cannon to Prime Minister, 15 March 2003, 'Iraq: Reconstruction Contracts'](#).

³⁶⁴ *Observer*, 23 March 2003, *Hewitt begs US for Iraq deals*.

³⁶⁵ Minute Phillipson to Allan, 24 March 2003, 'Iraq: Contracts'.

approach would be for the Embassy and UK companies to focus on establishing links with the US prime contractor (rather than continuing to lobby USAID).

625. Mr Allan informed senior TPUK colleagues on 4 April that the BTI official seconded to ORHA:

“... has a full role to play in the Office of Reconstruction and Humanitarian Assistance ... However, his immediate priorities for us remain the identification of opportunities for UK companies; bringing UK expertise to the attention of ORHA; and identifying key contacts for UK companies. [He] has started to identify openings (e.g. oil and gas; airports).”³⁶⁶

626. The IPU briefing for Mr Blair in advance of his 8 April meeting with President Bush at Hillsborough advised:

“We need to be able to demonstrate that UK company interests continue to be raised at high levels. It would be helpful to say that UK companies remain keen to work alongside US companies ... UK companies have vast experience and knowledge of doing business in the Middle East and have a great deal to offer.”³⁶⁷

627. The record of the Hillsborough meeting does not show any exchange on that issue.³⁶⁸

628. Baroness Symons met representatives of UK companies on 8 April to discuss commercial opportunities in Iraq.³⁶⁹ A TPUK official reported that she had made it clear that the UK was “not in this conflict for business opportunities”, but that UK companies had a great deal of expertise and knowledge to offer and should be involved in the redevelopment of Iraq.

629. The official reported that UK companies had raised a number of issues, including:

- DFID should provide more information on its requirements, and should not overlook UK companies;
- DFID should ring-fence reconstruction funds for UK companies, given the unique circumstances;
- the legality of working in Iraq without a UN mandate; and
- whether the requirement to meet US standards would prevent UK companies from securing subcontracts.

³⁶⁶ Email Allan to Henderson, 4 April 2003, ‘Iraq: Role of Sector Teams in Supporting [junior official] and Post-Conflict Sector Activity’.

³⁶⁷ Letter Owen to Rycroft, 7 April 2003, ‘Hillsborough: Iraq’ attaching Paper IPU, 6 April 2003, ‘Iraq: Phase IV: authorising UNSCR’.

³⁶⁸ Letter Rycroft to McDonald, 8 April 2003, ‘Iraq: Prime Minister’s meeting with Bush, 7-8 April’.

³⁶⁹ Minute Allan to PS/Baroness Symons, 8 April 2003, ‘Iraq: record of meeting with UK companies’.

630. Ms Hewitt reported those concerns to the first meeting of the Ad Hoc Ministerial Group on Iraq Rehabilitation (AHMGIR) on 10 April.³⁷⁰ She said that she had turned down the proposal that there should be a UK reconstruction fund for the exclusive use of UK companies. There were worrying signs that the US was setting technical standards which only US firms could meet.

631. Ms Hewitt wrote to Mr Blair on the issue of technical standards in USAID contracts on 15 April.³⁷¹

632. The Inquiry has seen no indication that Ms Hewitt received a reply, or that Mr Blair saw the letter.

633. On 16 April, the US Government established the Iraq Relief and Reconstruction Fund (IRRF) and provided US\$2.475bn to fund humanitarian relief and reconstruction activities.³⁷² USAID received just over 70 percent of those funds.

634. The following day, USAID announced that it had awarded its main infrastructure reconstruction contract, worth up to US\$680m, to Bechtel International.³⁷³

635. TPUK hosted the first meeting of the Iraq Industry Working Group (IIWG) on 24 April.³⁷⁴ TPUK intended that the IIWG would act as a channel of communication between the UK Government and industry, to support the Government's efforts to help UK companies access commercial opportunities in Iraq.

636. In July 2003, the IIWG established six sector working groups: power, water, oil and gas, health, education and telecommunications.³⁷⁵

637. Baroness Symons visited Washington on 16 May, accompanied by representatives of the IIWG, the BCCB and the Confederation of British Industry (CBI), to discuss the participation of UK companies in Iraq's reconstruction with the US Government and Bechtel.³⁷⁶

638. Baroness Symons wrote to Mr Straw and Ms Hewitt on 19 May, reporting that she had been repeatedly assured of US enthusiasm for granting subcontracts to UK companies.

³⁷⁰ Minutes, 10 April 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

³⁷¹ Letter Hewitt to Prime Minister, 15 April 2003, 'Iraq Reconstruction: Standards Issues'.

³⁷² Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

³⁷³ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

³⁷⁴ Paper TPUK, 6 May 2003, 'Annex G: Iraq: Progress on Commercial Opportunities'.

³⁷⁵ Minute Warren to TPUK [junior official], 30 July 2003, 'Iraq Sector Approach'.

³⁷⁶ Letter Symons to Straw, 19 May 2003, 'British Construction/Humanitarian Help in Iraq'.

639. Mr Straw and Ms Hewitt wrote to Mr Blair on 22 May, reflecting on Baroness Symons' visit:

“Our main objective has been to create a favourable political atmosphere in which UK companies can position themselves to bid for subcontract work from these initial US-funded projects.

“However, we understand that as yet only 180 of the 3,500 companies which have registered with Bechtel as potential subcontractors ... are British. A share in the commercial effort proportionate to our contributions to the military campaign will require a higher level of commitment on the part of UK firms if they are not to be squeezed out by international competition. We could also try to secure firmer political guarantees from the US, and aim for a more co-ordinated HMG approach (e.g. involving ECGD, DFID and MOD ...).

“The feedback on the action we have taken so far from UK business and organisations such as the BCCB and the CBI has been positive. We have created the conditions in which UK companies can pursue business in a favourable climate, and contracts for British companies are now coming through. This is encouraging. But it is for the companies themselves to take advantage of these favourable conditions ...”³⁷⁷

640. The Inquiry has seen no indications that Mr Straw and Ms Hewitt received a reply, or that Mr Blair saw their letter.

641. On 23 May, TPUK and the US Embassy London held a joint seminar on US-funded reconstruction contracts for Iraq.³⁷⁸ The event was attended by representatives of 250 companies “located in Britain”.

642. On 29 May, the UK Deputy to Ambassador Ole Olsen, the Danish Head of ORHA (South), reported to Baroness Symons' Private Secretary that some ORHA(South) secondees were, in addition to their ORHA work, “scouting around” for commercial opportunities for their parent companies.³⁷⁹ The UK Deputy commented that UK secondees should be doing the same.

643. Baroness Symons' Private Secretary passed the record of the conversation to Mr Henderson, and advised that Baroness Symons was keen to “make the most” of this opportunity and would welcome advice on “how best this might be done”.

644. Mr Allan responded later that day, advising that the BTI official seconded to ORHA in March (and now based in Baghdad) was already “playing the sort of role” proposed

³⁷⁷ [Letter Straw and Hewitt to Blair, 22 May 2003, 'Iraq: Commercial Opportunities and UK Companies'](#).

³⁷⁸ Trade Partners UK, Press Release, 23 May 2003, *Meeting on redevelopment of Iraq sponsored by Trade Partners UK and the US Embassy*.

³⁷⁹ Email UK [junior official] to Henderson, 30 May 2003, 'Basra Commercial Opportunities'.

by the UK Deputy.³⁸⁰ TPUK would consider the possibility of seconding individuals from UK companies to ORHA.

645. The UK Deputy reported her first impressions of ORHA(South) to Mr Chilcott on 1 June (see Section 10.1).³⁸¹ She advised that Denmark was keen to capitalise commercially from its leading role in the South (although Ambassador Olsen was at pains to distance himself from that effort). Many of the Danish staff in ORHA(South) were sponsored by private companies. Although they had agreed not to pursue commercial opportunities while working in ORHA, they were focusing their attention and expertise in areas which might offer commercial opportunities. She concluded that “the Danish model is an excellent one and something we should copy”. It provided ORHA with the managers it needed, stimulated the local commercial sector, and could help UK business.

646. The UK Deputy reported that she had re-tasked a UK secondee to ORHA(South) to “take on the trade portfolio including, more surreptitiously, a watching UK trade brief”.

647. Mr Blair visited Basra and Umm Qasr on 29 May. The visit prompted Mr Blair to direct Whitehall to go back to a “war footing” to avoid “losing the peace in Iraq” (see Section 10.1).

648. On his return from Iraq, Mr Blair sent a personal Note to President Bush containing specific suggestions on how to accelerate progress in delivering visible improvements in Iraq, including: “Bechtel needs to move far more quickly in letting contracts for infrastructure reconstruction – patching up won’t do.”³⁸²

649. Mr Blair chaired a meeting on Iraq on 3 June attended by Mr Hoon, Baroness Amos (the International Development Secretary), Sir Michael Jay (FCO Permanent Under Secretary) and No.10 officials.³⁸³ Mr Blair said he had returned from Iraq convinced that “an enormous amount needed to be done”, including that:

- Coalition Provisional Authority (CPA) and US decision-making processes were too slow: contracts needed to be processed faster; and
- UK companies needed to be energised to take up opportunities in Iraq.

650. Following the meeting, a No.10 official commissioned a number of papers for a further meeting to be chaired by Mr Blair on 6 June. Those included a list of 10-15 outstanding practical issues for Mr Blair to raise with President Bush that would “make a big difference to the people of Iraq if they are resolved”.

³⁸⁰ Email Allan to Chatterton Dickson, 30 May 2003, ‘Basra Commercial Opportunities’.

³⁸¹ [Minute UK \[junior official\] to Chilcott, 1 June 2003, ‘ORHA South – First Impressions’.](#)

³⁸² Letter Manning to McDonald, 2 June 2003, ‘Iraq: Prime Minister’s Note’ attaching ‘Note’.

³⁸³ [Letter Cannon to McDonald, 3 June 2003, ‘Iraq: Prime Minister’s meeting, 3 June’.](#)

651. That list was produced by the IPU on 5 June and sent to Mr Blair the same day under a covering minute from Mr Straw.³⁸⁴ The IPU list identified as a priority:

“Baghdad needs an extra 400 MW of power capacity now. Siemens UK can put in 170 MW in a few weeks – all they need is a letter of intent. This seems to be stuck in Washington.”

652. Mr Straw highlighted that issue in his covering minute to Mr Blair, stating that Ms Hewitt was keen for Mr Blair to lobby President Bush on behalf of Siemens UK, whose bid had been stalled in Washington “by counter-lobbying from GE [General Electric]”.³⁸⁵

653. On the same day, Mr Straw sent a separate and personal letter to Mr Blair, asking him to raise a number of points “very forcefully” with President Bush.³⁸⁶ Those included:

“Contracts: As you know, the US are completely ruthless on favouring US companies, and will not help UK companies unless you play hardball with Bush.”

Mr Straw offered as an example of this behaviour a Bechtel subcontract for electricity systems. Siemens UK had almost secured that contract, when it had “gone cold”.

654. Mr Blair held a further meeting on Iraq on 6 June, to agree the points to put to President Bush.³⁸⁷ The meeting agreed a number of key messages and actions, including that Ms Hewitt should try to visit Iraq to promote the involvement of UK business.

655. Mr Blair spoke to President Bush later that day.³⁸⁸ Mr Blair raised delays in Bechtel’s operations, including unnecessary delays in agreeing a contract for Siemens UK. The US was chasing Bechtel.

656. Ms Hewitt visited Iraq on 9 July, to ensure that British business expertise was not overlooked in the reconstruction effort and to ensure that Iraqi women were being properly involved in the political process.³⁸⁹

657. Ms Hewitt reported to Mr Blair on 11 July that she had raised with Ambassador Paul Bremer, the Head of the CPA, the UK’s concern about the way proposals for subcontract work from Siemens UK and Balfour Beatty were being handled by Bechtel. Ambassador Bremer had undertaken to look into the issue.

658. During the visit, Ms Hewitt was joined by an IIWG “scoping mission” for discussions with senior Iraqi officials and US members of the CPA’s economics team. Ms Hewitt

³⁸⁴ Letter Owen to Rycroft, 5 June 2003, ‘Iraq: Reconstruction Priorities’ attaching Paper IPU, 5 June 2003, ‘Iraq Reconstruction: 30 Day Priorities, 5 July 2003’.

³⁸⁵ [Minute Straw to Blair, 5 June 2003, ‘Iraq: Winning the Peace’.](#)

³⁸⁶ [Minute Straw to Blair, 5 June 2003, ‘Iraq’.](#)

³⁸⁷ [Letter Cannon to McDonald, 6 June 2003, ‘Iraq: Prime Minister’s Meeting 6th June’.](#)

³⁸⁸ Letter Cannon to McDonald, 6 June 2003, ‘Iraq: Prime Minister’s Conversation with Bush, 6 June’.

³⁸⁹ [Minute Hewitt to Prime Minister, 11 July 2003, ‘Report of my Visit to Baghdad’.](#)

reported that with CPA officials, the group had discussed “the need to get a procurement expert into the CPA quickly (not least to ensure not all contracts go to US firms)”.

659. TPUK seconded a procurement officer to the CPA in August:

“... to ensure that DFI [Development Fund for Iraq] and Iraqi Ministry procurement meets international procurement standards. Our aim is to create a level playing field for UK companies in the DFI, then help to give them a competitive advantage through support and advice from TPUK.”³⁹⁰

660. On 10 and 11 August, Basra experienced severe rioting.³⁹¹ Section 10.1 describes the UK’s assessment of the causes of that disturbance, and its response.

661. Representatives of Siemens’ Washington office met officials from the British Embassy Washington on 14 August.³⁹² The Embassy reported to the DTI:

“Siemens report a favourable change in CPA attitudes to their participation in the power sector, which they attribute to HMG teamwork on their behalf in London, Baghdad and Washington. The crisis in Basra over fuel and electricity may also have tipped the balance in their favour.”

662. Mr Gregor Lusty, Head of the DTI’s Iraq Unit, commented to DTI colleagues on that report:

“Siemens has turned out to be quite a success story after all. A good indication of the level of political support which may be needed to unblock the US system, and the level of determination to get business success in Iraq.”³⁹³

663. On 14 August, Mr Blair appointed Mr Brian Wilson as his Special Representative on Trade Opportunities for British Business.³⁹⁴ Mr Wilson’s remit was to:

- support BTI in identifying and developing opportunities for British business to help rebuild the infrastructure of Iraq and Afghanistan; and
- support BTI’s work in helping British business to invest in the energy sector.

664. Mr Wilson had previously been the Minister for Energy and Construction.

665. Mr Wilson met Sir Stephen Brown, TPUK Chief Executive, and senior TPUK officials on 4 September to discuss the practicalities of the appointment.³⁹⁵ They agreed that the priority “was clearly Iraq”, where Mr Blair had asked departments to raise their game.

³⁹⁰ Paper TPUK, 3 September 2003, ‘Iraq Action Plan’.

³⁹¹ Telegram 114 IraqRep to FCO London, 12 August 2003, ‘Situation in Basra’.

³⁹² Telegram 3 Washington to DTI London, 15 August 2003, ‘British Commercial Interests in Iraq: Follow-up’.

³⁹³ Email Lusty to TPUK [junior official], 19 August 2003, ‘British Commercial Interests in Iraq: Follow-up’.

³⁹⁴ *PA News*, 14 August 2003, *Special Representative for British business abroad*.

³⁹⁵ Email Tibber to Gallagher, 5 September 2003, ‘Brian Wilson’.

666. President Bush announced on 7 September that he had asked Congress for a further US\$20.3bn to support Iraq's reconstruction.³⁹⁶

667. Mr Lusty advised TPUK colleagues on 12 September that, following President Bush's announcement that the US would provide further funding for Iraq's reconstruction, establishing a TPUK office in Baghdad was:

“... not so much timely as a critical necessity. Without a dedicated commercial presence on the ground we will continue to miss out on ensuring that the UK private sector plays the role it is capable of to reconstruct Iraq.”³⁹⁷

668. Mr Lusty reported that the British Office in Baghdad had recently secured additional space in the Green Zone in Baghdad, which could accommodate a commercial office. The “concept” was that the commercial office would initially be staffed by two members of TPUK staff and two consultants from AMEC plc in a “public/private partnership”.

669. TPUK deployed three Commercial Officers to Baghdad during September.³⁹⁸ A secondee from AMEC, to provide advice on infrastructure, followed in November.

670. The AMEC secondee deployed under the Short-Term Business Attachment programme, which included a conflict of interests clause in the contract.³⁹⁹

671. Those were the first Commercial Officers to deploy to Iraq after the invasion. A June 2004 briefing advised that the FCO had reneged on a pre-invasion agreement that there would be a Commercial Officer among the initial deployment of UK officials to Baghdad.⁴⁰⁰

672. TPUK deployed a Commercial Officer to Kuwait to cover Basra and southern Iraq in January 2004.

673. The Annotated Agenda for the 18 September meeting of the AHMGIR advised Ministers that the US had decided to establish a Program Management Office (PMO) to oversee CPA reconstruction funds.⁴⁰¹ The decision was a response to the persistent problems in transferring funds from CPA(Baghdad) and CPA regional offices. However:

“Our initial response is sceptical: the PMO will manage predominantly US funds, which will require US contracting and procurement procedures to be followed.

The prospect of developing Iraqi capacity, and of opening up contracts to include UK

³⁹⁶ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

³⁹⁷ Minute Lusty to Henderson, 12 September 2003, ‘Baghdad: TPUK Presence’.

³⁹⁸ Briefing UKTI, 7 June 2004, ‘Permanent Secretaries’ Meeting on UK Civilian Staffing in Iraq, 8 June 2004’.

³⁹⁹ Briefing UKTI, 25 November 2003, ‘Mr O’Brien’s Meeting with AMEC’.

⁴⁰⁰ Briefing UKTI, 7 June 2004, ‘Permanent Secretaries’ Meeting on UK Civilian Staffing in Iraq, 8 June 2004’.

⁴⁰¹ Annotated Agenda, 18 September 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

companies (in the interests of effectiveness and value for money) remains negligible. Nevertheless, without participating in some form in the PMO, we may lose a point of influence.”

674. Mr Lusty provided advice to Mr O’Brien on 25 September on how TPUK would ensure that procurement for Iraq’s reconstruction was transparent and created a level playing field for UK companies.⁴⁰² Mr Lusty advised that, although the CPA’s procurement rules were “generally fair”, UK business remained concerned about the lack of transparency and that the dominance of US personnel in the CPA resulted in a bias towards US contractors.

675. Mr Lusty continued:

“It has been clear from our contacts with the Americans at all levels that there will be no special favours for British business in bidding for reconstruction work in Iraq. We have made it clear to UK firms that there is no inside track ...

“To maximise UK business involvement in Iraq reconstruction, we must ensure a level playing field for international businesses bidding for reconstruction work from the CPA and from the US Government; and give British business a competitive advantage through our [TPUK’s] own bilateral trade promotion efforts.”

676. To achieve that, TPUK was:

- “Sending a ... procurement expert back to the CPA asap.” The BTI official seconded to ORHA/CPA in March (who had left at the end of June) had focused on improving procurement by the Iraqi Ministries; President Bush’s announcement of further, substantial funding for Iraq’s reconstruction and the creation of the PMO had shifted the priority back to the CPA.
- Identifying public and private sector secondees for the PMO, in response to a request from Rear Admiral (retired) David Nash, the Director of the PMO.

677. Mr Lusty recommended that Mr O’Brien press the US for greater transparency in procurement by the CPA and the US Government (especially the Department of Defense).

678. The UK Government seconded two consultants to the PMO; the first arrived in March 2004.

⁴⁰² Minute Lusty to PS/Mr O’Brien, 25 September 2003, ‘Iraq Reconstruction: UK Company Involvement’.

679. TPUK sent Mr Blair an update on commercial issues in Iraq on 10 October.⁴⁰³ TPUK's strategy was:

“... to position UK firms ... through the provision of information about contracts, procurement issues, etc, and to press the US authorities (and the CPA) to ensure a level playing field on which UK companies can compete.”

680. TPUK advised that the US had made it clear that while they welcomed the participation of UK companies, there was no “special deal”.

681. TPUK's major concern was the lack of openness in the CPA's tendering and procurement procedures, which might result in a bias towards US companies. TPUK was lobbying on this issue in Baghdad and Washington, and had funded a procurement consultant in the CPA Ministry of Finance “to make procurement more transparent and ensure that UK firms were on the CPA's bidding lists”. It would also fund secondments to the PMO.

682. The TPUK paper considered oil and gas contracts separately from other reconstruction contracts; oil and gas contracts are addressed earlier in this Section.

683. TPUK reported that UK firms were doing “quite well”, given that most of the work so far had been US-funded. An analysis of Bechtel's subcontracts showed that Iraqi firms had won 36 percent, US firms 28 percent and UK firms 16 percent. UK firms had also won major contracts in other areas.

684. British Trade International was subsequently renamed UK Trade and Investment (UKTI) and the Trade Partners UK (TPUK) identity fell out of use.

685. Congress approved the CPA's request for additional funds on 6 November, allocating US\$18.4bn to the Iraq Relief and Reconstruction Fund (IRRF2).⁴⁰⁴

686. *Hard Lessons* recorded that, at that time, the PMO comprised only Adm Nash, two US Government officials, and 13 contractors.⁴⁰⁵

687. In December, Mr David Warren, Director of the UKTI's International Trade Division, provided a review of UKTI's experience of promoting UK business for Mr Stephen Haddrill, Director-General of the UKTI's Fair Markets Group:

“It took time, initially, to persuade Ministers that this [promoting UK commercial interests] was a legitimate objective that the Government should be seen to be promoting actively, rather than by default ...

⁴⁰³ [Letter Zimmer to Rycroft, 10 October 2003, 'Iraq: Update on Commercial Issues' attaching Paper UKTI, 10 October 2003, 'Iraq: Update on Commercial Issues'.](#)

⁴⁰⁴ Emergency Wartime Supplemental Appropriations Act, 2003.

⁴⁰⁵ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

“The inter-departmental structures to handle reconstruction issues ... allowed UK Trade and Investment to register this interest. But the departments responsible for overseeing this co-ordination made clear at an early stage that UK commercial interests were a lower priority than other aspects of reconstruction. The result ... was that the contribution that the private sector could make to post-conflict reconstruction was less well registered. This contrasts with the US use of the private sector at the planning stage.”⁴⁰⁶

688. Mr Warren also advised that DFID’s concentration on international competitive tendering and the ECGD’s “understandable” reluctance to offer cover had further inhibited a “proactive and joined-up approach”. Co-operation with DFID at a working level had been “reasonable”.

689. The result had been that promoting UK companies was seen solely as the responsibility of UKTI.

690. Mr Warren concluded that the interests of the private sector had not been a high enough priority for the Government, and that the potential contribution to reconstruction that could have been made by private sector had not been recognised by the Government. UKTI activities had nevertheless resulted in “a reasonable amount” of business for UK companies.

691. UK Government lobbying on behalf of UK business intensified in early 2004, in anticipation of contracts that would flow from IRRF2 and against a background of growing press and Parliamentary criticism that UK companies were at a disadvantage in bidding for US-funded contracts.

692. CPA officials briefed UK private sector representatives on the CPA’s objectives and requirements at a conference in London on 21 November.⁴⁰⁷

693. On 5 December, the US announced that companies from the US, Iraq, “Coalition partners and force-contributing nations” were eligible to bid for prime contracts under IRRF2.⁴⁰⁸ Prime contracts under IRRF1 had been open to US companies only.

694. In mid-December, the US Department of Defense invited bids for 12 major IRRF2 design and build construction contracts and six reconstruction management contracts.⁴⁰⁹

695. USACE awarded two design and build construction contracts in the oil sector on 16 January 2004 (the first contracts awarded under IRRF2).⁴¹⁰ The contracts were won by a US company (KBR, for the southern oilfields) and a joint US/Australian venture (for the northern oilfields). Bids submitted by three UK companies were unsuccessful.

⁴⁰⁶ [Minute Warren to Haddrill, 10 December 2003, ‘Post-Conflict Resolution: Iraq’.](#)

⁴⁰⁷ Annotated Agenda, 27 November 2003, Ad Hoc Group on Iraq Rehabilitation meeting.

⁴⁰⁸ Paper Wolfowitz, 5 December 2003, ‘Determination and Findings’.

⁴⁰⁹ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

⁴¹⁰ Briefing DTI, [undated], ‘Key Points Brief on DTI Issues: Ad Hoc Ministerial Meeting on Iraq’.

696. In response, Sir Nigel Sheinwald, Mr Blair's Foreign Policy Adviser, commissioned a paper on UK access to US-funded reconstruction contracts for the 22 January meeting of the AHMGIR.⁴¹¹

697. The 20 January meeting of ISOG concluded that, in contrast to the UK's success in 2003, the UK's "current record" on winning US contracts was not good.⁴¹² The ISOG agreed that the UK needed a "proper campaign plan" involving Ministers and the British Embassy Washington, targeting the next tranche of US-funded contracts that would be awarded by the PMO in March.

698. UKTI submitted a draft paper on UK access to US-funded reconstruction contracts to the 22 January meeting of the AHMGIR.⁴¹³

699. The draft paper stated that UK companies had good access to most US-funded contracts, but had achieved only limited success so far. US procurement rules were complex; several UK companies had formed joint ventures with US companies to overcome that barrier. The recent award of the US-funded oil contracts to US companies (bids with significant UK components had not been successful, despite lobbying by Ministers) suggested that the UK needed to take a "stronger and more active political line" in Washington to lobby for UK commercial interests.

700. The draft paper stated that while the British Embassy Washington conceded that UK lobbying had not been successful, the Embassy was not convinced that the UK had yet reached the stage where "high level political pressure" was appropriate.

701. The draft paper concluded that, as a first step, the Government should take the line that UK companies had expertise and capacity in areas needed for Iraq's reconstruction, and that the Government wanted to see a significant UK component in the PMO's prime contracts. DTI and FCO Ministers should lead the UK's lobbying. The UK should consider targeted lobbying visits by Ministers to Washington closer to the announcement of the PMO contracts.

702. UKTI prepared a final version of the paper for the next meeting of the AHMGIR, on 12 February.

703. At Mr Straw's request, Sir Stephen Brown contacted the three unsuccessful UK companies for their views on the process.⁴¹⁴

704. Sir Stephen reported to Mr O'Brien on 30 January that UK companies were unsurprised at the result; the scale and complexity of the work was such that "US giants"

⁴¹¹ Briefing DTI, [undated], 'Key Points Brief on DTI Issues: Ad Hoc Ministerial Meeting on Iraq'.

⁴¹² Minutes, 20 January 2004, Iraq Senior Officials Group.

⁴¹³ Annotated Agenda, 21 January 2004, Ad Hoc Ministerial Group on Iraq Rehabilitation meeting attaching Paper UKTI [draft], 20 January 2004, 'Access to US-funded Reconstruction Contracts'.

⁴¹⁴ Minute Brown to O'Brien, 30 January 2004, 'Iraq: Access to US Funded Reconstruction Contracts'.

were exceptionally well placed. The bidding process had been “fair but ... pedantic and complex”.

705. Mr O’Brien circulated a core script for a lobbying campaign targeting the US Government to Mr Straw, Ms Hewitt, Mr Paul Boateng, the Chief Secretary to the Treasury, Mr Hilary Benn, the International Development Secretary, and senior officials on 9 February.⁴¹⁵

706. The core script highlighted the strengths of UK industry and expressed the hope that UK companies would be given the opportunity to display those strengths in the reconstruction process.

707. In his covering note, Mr O’Brien stated that although UK companies had not secured either of the oil sector contracts, they were winning other contracts, including from the US Government. UK companies assessed that US procurement procedures were “essentially fair” and were not critical of the UK Government’s support, but were convinced that there was a window of opportunity to press the US. It was now vital that UK Ministers ensured that their US interlocutors were “in no doubt about the political importance we attach to UK firms being seen to contribute actively to the reconstruction process”.

708. On 12 February, the AHMGIR received a final version of the UKTI paper on access to US-funded reconstruction contracts.⁴¹⁶ The paper stated that UK companies had good access to most US-funded contracts, and recommended that the UK Government should take a concerted approach to lobbying for US-funded contracts.

709. The final paper presented a significantly more positive picture of the UK’s experience of, and potential for, accessing US-funded contracts than the draft paper which had been prepared for the 22 January meeting of the AHMGIR.

710. Mr Straw wrote to US Secretary of State Colin Powell on 17 February, expressing the UK’s disappointment that UK companies had not secured either of the oil infrastructure rehabilitation contracts.⁴¹⁷ Mr Straw hoped that UK companies would play a significant role in Iraq’s reconstruction, and highlighting in general terms the capability of UK companies.

711. Sir Nigel Sheinwald wrote to Dr Rice on 19 February, in similar terms.⁴¹⁸

⁴¹⁵ Minute O’Brien to Foreign Secretary, 9 February 2004, [untitled] attaching Paper, [undated], ‘UK Bids for CPA Program Management Office Prime Contracts’.

⁴¹⁶ Annotated Agenda, 12 February 2004, Ad Hoc Group on Iraq Rehabilitation meeting attaching Paper UKTI, February 2004, ‘Access to US-Funded Reconstruction Contracts’.

⁴¹⁷ Letter Straw to Powell, 17 February 2004, [untitled].

⁴¹⁸ Letter Sheinwald to Rice, 19 February 2004, ‘Iraq: Contracts’.

712. Mr Wilson and Mr O'Brien made separate visits to Washington on 18 to 20 February and 20 February respectively, to lobby the US on behalf of UK companies bidding for the US-funded PMO contracts.⁴¹⁹

713. Sir Nigel Sheinwald reported to Mr Blair on 21 February that Mr Wilson and Mr O'Brien had "conspicuously failed to de-conflict their programmes and insisted on seeing the same people".⁴²⁰ Sir Nigel continued: "To make things worse, Brian Wilson's visit seems to have been organised, at least in part, by a private American lobbying organisation."

714. The Inquiry has seen no indications that Mr Blair responded to that report.

715. The British Embassy Washington reported on 23 February that Mr O'Brien and Mr Wilson had stressed with all their interlocutors that the UK was not alleging any unfair treatment of UK companies, but had pointed out that there would be "intense scrutiny" of the PMO contract awards and it would be "very difficult for us [the UK], politically, if we had no successes".⁴²¹

716. The Embassy reported that, in response, US officials "on the technical side" (described by the Embassy as comprising the PMO, US Department of Defense, and USACE) had stressed that PMO contracts would be awarded on merit, with no scope for political interference. The "political response" (from the NSC, the CPA and the Department of State) had been "more nuanced", with a recognition of the political problem that the process could cause the UK.

717. The Embassy commented:

"The message from those on the technical side was not surprising, although given the way the process has gone so far it is hard to take at face value their insistence that they are immune to political pressure ... The response from the political contacts was as encouraging as we could hope for. They genuinely understand the problems that this could cause us."

718. Mr Henderson, who had accompanied Mr Wilson and Mr O'Brien to Washington, reported on the visits on the same day.⁴²² Copies of his report were sent to officials in UKTI, DTI, the FCO and No.10. The UK's "core message" had been to demonstrate strong UK Government support for the involvement of UK companies but stop short of

⁴¹⁹ Telegram 4 Washington to UKTI London, 23 February 2004, Iraq Reconstruction: Lobbying the US'.

⁴²⁰ Minute Sheinwald to Prime Minister, 21 February 2004, 'Visit to Washington, 20 February'.

⁴²¹ Telegram 4 Washington to UKTI London, 23 February 2004, Iraq Reconstruction: Lobbying the US'.

⁴²² Minute Henderson to Tibber, 23 February 2004, 'Iraq Reconstruction: Visits of Brian Wilson and Mike O'Brien to Washington 18 – 20 February'.

demanding a “fair share”. Mr Henderson commented that it remained to be seen whether the visits would make a difference:

“... my impression is that despite the insistence of the technocrats that the process was not subject to political influence or interference, it will be more difficult now for the collective US machinery involved to produce a result that did not give the UK companies a significant share of the action.”

719. Mr Henderson wrote to Sir Stephen Brown on 23 February, reporting that Mr O’Brien was “deeply unhappy” that Mr Wilson’s programme had included a number of political calls, which breached the guidelines (as Mr O’Brien understood them) that Mr O’Brien should concentrate on official contacts and Mr Wilson on the private sector.⁴²³ Copies of the minute were sent to UKTI officials only.

720. Mr Henderson concluded:

“... it is clear that the arrangement is not working ... We run the risk of spending more time on this than on the core task of helping UK companies to win business.”

721. Mr Henderson also reported that the British Embassy had been “furious” at the activities of a public relations company contracted by AMEC, which had sought to organise Mr Wilson’s visit.

722. Sir David Manning, the British Ambassador in Washington, wrote to Sir Michael Jay on 3 March, detailing the Embassy’s concerns.⁴²⁴ He highlighted two issues, both of which had caused significant problems for the Embassy:

- the lack of clarity regarding the roles of Mr O’Brien and Mr Wilson, and the lack of communication between their offices; and
- the relationship between Mr Wilson and AMEC, which appeared uncomfortably close, with a significant risk of serious embarrassment to the UK.

723. Sir David concluded that the roles of Mr Wilson and Mr O’Brien needed to be clearly defined, and the potential for a conflict of interest arising from Mr Wilson’s links to AMEC resolved.

724. ISOG discussed the opportunities for UK companies on 24 February.⁴²⁵ Sir Nigel Sheinwald confirmed that Mr Blair was prepared to write or speak to President Bush on the issue.

⁴²³ Email Henderson to Brown, 23 February 2004, ‘Wilson and O’Brien Visits to Washington 18-20 February’.

⁴²⁴ Letter Manning to Jay, 3 March 2004, [untitled].

⁴²⁵ Letter Owen to Cannon, 25 February 2004, ‘Iraq Reconstruction Contracts’.

725. Mr Blair wrote to President Bush on 5 March, identifying some of the UK companies bidding for PMO contracts and highlighting in general terms the expertise of UK companies.⁴²⁶

726. The US Department of Defense awarded the major remaining IRRF2 contracts during March, comprising seven project management contracts and 10 design and build construction contracts.⁴²⁷

727. The Annotated Agenda for the 18 March meeting of the AHMGIR stated that, following a campaign of high-level lobbying, UK companies had “achieved success” in the latest round of US reconstruction contracting.⁴²⁸ Three of the project management contracts, with a total value of up to US\$80m, had been awarded to consortia with a significant UK content, and two of the design and build construction contracts with a total value of up to US\$1.1bn had been awarded to consortia with a significant UK content. It was not possible at this stage to calculate the exact value to the UK of those contracts.

728. Ministers were advised on 2 April that consortia with significant UK content had secured three further design and build construction contracts.⁴²⁹ The total value of the contracts was capped at US\$1.6bn.

729. Following Admiral Nash’s request for UK help in staffing the PMO, UKTI contracted two consultants to work in the PMO, initially for three months. The first deployed in early March 2004, the second in early April.⁴³⁰

730. A UKTI official told ISOG that:

“Their [the consultants] role would be one of intelligence, to enable UKTI to help UK companies frame their bids [for PMO contracts] ...”⁴³¹

731. The security situation in Iraq deteriorated significantly in March and April, leading to the withdrawal of many aid agency personnel and contractors.

732. The FCO tightened its travel advice on 8 April to read: “Even the most essential travel to Iraq should be delayed, if possible.”⁴³² Companies involved in reconstruction were encouraged to “ensure that they have made the appropriate security arrangements”.

733. The UK company Foster Wheeler Energy Ltd, which had been contracted by the PMO to provide oil and gas project management services, informed the PMO on

⁴²⁶ [Letter Blair to Bush, 5 March 2004, \[untitled\]](#).

⁴²⁷ Bowen SW Jr. *Hard Lessons: The Iraq Reconstruction Experience*. U.S. Government Printing Office, 2009.

⁴²⁸ Annotated Agenda, 17 March 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

⁴²⁹ Letter Dodd to Owen, 2 April 2004, ‘Iraq: Update’ attaching Paper Cabinet Office, 2 April 2004, ‘Iraq: update’.

⁴³⁰ Minute UKTI [junior official] to PS/O’Brien, 21 June 2004, [untitled].

⁴³¹ Minutes, 3 February 2004, Iraq Senior Officials Group meeting.

⁴³² FCO Travel Advice for Iraq, 8 April 2004.

14 April that it intended to postpone the deployment of its staff to Iraq, citing the 8 April FCO travel advice.⁴³³

734. Under its contract, Foster Wheeler had committed to deploy 34 staff to Baghdad by 21 April.⁴³⁴

735. In response, the PMO warned Foster Wheeler that postponement could lead to the termination of its contract.⁴³⁵

736. Mr David Richmond, the Prime Minister’s Deputy Special Representative on Iraq, reported on 18 April on the challenges of “designing and executing post-conflict reconstruction in what effectively remains a conflict zone”.⁴³⁶ He advised that there was:

“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.”

737. Mr Richmond concluded that the UK needed to consider the advice it gave to UK development partners and contractors, and the divergence between UK and US advice. US contractors appeared to operate “as if their even stricter advice against coming to Iraq does not exist”. The UK’s travel advice gave the Embassy “no option but to counsel caution ... and to reinforce with [UK contractors] the importance of ensuring robust security arrangements”. Foster Wheeler encapsulated the dilemma: “risk coming out or losing out.” Mr Richmond advised that the UK should maintain its current line.

738. The Annotated Agenda for the 22 April meeting of the AHMGIR advised that security had deteriorated “markedly” over Easter (9 to 12 April) and that the risks to UK civilian staff in Iraq were high.⁴³⁷ The deployment of civilians had been reviewed and, as a temporary measure, new deployments to Baghdad had been suspended and staff unable to operate in the current security environment had been withdrawn.

739. The British Embassy Baghdad informed UKTI on 3 May that, largely because of deteriorating security, there were “next to no” UK business visitors in Baghdad requiring UKTI assistance.⁴³⁸

740. In advance of the 6 May meeting of the AHMGIR, Mr O’Brien was advised by a DTI official that UKTI continued to try to “bridge the differences” between Foster Wheeler and

⁴³³ Letter O’Connell to CPA/PMO, 14 April 2004, ‘Oil Sector Program Management Contractor’.

⁴³⁴ Minute Lusty to PS/O’Brien [FCO], 10 May 2004, ‘Iraq: Foster Wheeler: Dealing with the Potential Fallout’.

⁴³⁵ Letter CPA/PMO to O’Connell, 18 April 2004, ‘Contract No. W914NS-04-C-0007’.

⁴³⁶ [Telegram 173 IraqRep to FCO London, 18 April 2004, ‘Iraq: Effects of the Recent Crisis on Reconstruction’](#).

⁴³⁷ Annotated Agenda, 21 April 2004, ‘Ad Hoc Meeting on Iraq Rehabilitation meeting’.

⁴³⁸ Email Allen to Lusty, 3 May 2004, ‘Baghdad Commercial Staffing’.

the PMO.⁴³⁹ Mr Straw was taking “a much more bullish line, and wants Foster Wheeler to deploy immediately”, but that would go beyond current UK travel advice and “play badly if leaked to the press”. The official concluded that the final decision must rest with Foster Wheeler.

741. The Annotated Agenda for the 6 May meeting of the AHMGIR advised that:

“If ... the [Foster Wheeler] contract is terminated the impact may go beyond the immediate loss of business and negatively affect the chances of other British companies winning US contracts in Iraq.”⁴⁴⁰

742. At the meeting, Sir Stephen Brown reported that Mr O’Brien had spoken to Foster Wheeler to emphasise the serious implications of its delayed deployment, including for other UK companies.⁴⁴¹

743. Mr Lusty advised Mr O’Brien on 10 May that if talks between Foster Wheeler and the PMO broke down and Foster Wheeler sought UK Government support for its position, the Government should take the line that this was a contractual issue and not get drawn into a wider discussion on travel advice or the safety of foreign contractors in Iraq.⁴⁴²

744. Mr Lusty advised that the FCO’s travel advice was clear. The decision on whether to travel remained “a matter of personal or commercial judgement”. There was “no agreed position” within the Government on reconciling FCO travel advice with the need to pursue reconstruction. UKTI staff in Washington, Baghdad and the UK continued to work with Foster Wheeler to help it address its security concerns.

745. A UKTI official informed Mr O’Brien on 14 May that Foster Wheeler and the PMO had reached an agreement on deploying staff to Iraq.⁴⁴³

746. On 24 May, Mr Bob Morgan, an adviser to the Iraqi Oil Ministry employed by the FCO, and his bodyguard Mr Mark Carman, were killed in Baghdad.⁴⁴⁴

747. Mr O’Brien spoke to Mr Ian Bill, Chairman and CEO of Foster Wheeler, on 26 May.⁴⁴⁵ Mr Bill said that although Foster Wheeler had deployed staff to Iraq, it remained concerned that security provided by the PMO was not adequate. One of its staff had already decided to leave as he was accommodated in a tent in the Green Zone with no protection from mortar rounds.

⁴³⁹ Briefing DTI Energy Markets Unit, 5 May 2004, ‘Key Points Brief on DTI Issues: Ad Hoc Ministerial Meeting on Iraq’.

⁴⁴⁰ Annotated Agenda, 6 May 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

⁴⁴¹ Minutes, 6 May 2004, Ad Hoc Group on Iraq Rehabilitation meeting.

⁴⁴² Minute Lusty to PS/O’Brien [FCO], 10 May 2004, ‘Iraq: Foster-Wheeler: Dealing with the Potential Fallout’.

⁴⁴³ Minute Lusty to PS/O’Brien, 14 May 2004, ‘Iraq: Foster Wheeler Reach Agreement with the PMO’.

⁴⁴⁴ Minutes, 25 May 2004, Iraq Senior Officials Group meeting; *BBC News*, 26 May 2004, *Oil Expert Killed in Iraq ‘felt safe’*.

⁴⁴⁵ Minute Lusty to PS/O’Brien, 26 May 2004, ‘Iraq: Foster-Wheeler’.

748. In a 7 June briefing, the UKTI advised that it had stopped “all proactive commercial work” in Iraq, although it remained heavily involved in providing information to UK companies and in helping them manage existing commitments.⁴⁴⁶ UKTI planned to maintain one UK Commercial Officer post in Baghdad, which it considered the “minimal level for operational needs” (reduced from the three Commercial Officers deployed in September 2003).

749. Mr Lusty advised Sir Stephen Brown on 9 June that the IIWG had “run its course”.⁴⁴⁷ Private sector participation was poor. The IIWG had originally been conceived as the core of an early UK trade mission to Iraq, but the security situation had made that impossible. It had served instead as a useful forum for briefing industry. That function had now been taken over by the six sector working groups.

750. In early June, UKTI began to consider whether to continue to fund the two consultants in the PMO.⁴⁴⁸

751. A UKTI official set out the arguments for Mr O’Brien on 21 June:

“We can claim indirect benefit to UK plc from these consultants, but it is difficult to quantify any direct commercial benefit. PMO procurement still (rightly) has to go through a full competitive process ... But these consultancies have earned us a great deal of goodwill from PMO senior management, ensured a UK voice at the highest levels of the organisation, and [have been] a useful but unacknowledged source of commercial information.”⁴⁴⁹

752. The PMO had identified a prime contractor that was willing to take over the contract of one of the UKTI-funded consultants. The contract of the second ended in September.

753. The official recommended that given the difficulty in identifying any direct commercial benefit to the UK and the high cost of the consultants, UKTI should not agree to Admiral Nash’s request to extend the consultants’ contracts.

754. Mr O’Brien’s Assistant Private Secretary responded on 23 June, asking officials to look for an alternative source of funding for the posts.⁴⁵⁰

755. Discussions within UKTI and between UKTI and the FCO and DFID failed to identify further funding for the posts.⁴⁵¹

⁴⁴⁶ Briefing UKTI, 7 June 2004, ‘Permanent Secretaries’ Meeting on UK Civilian Staffing in Iraq, 8 June 2004’.

⁴⁴⁷ Minute Lusty to Brown, 9 June 2004, ‘What should we do with the Iraq Industry Working Group?’

⁴⁴⁸ Minute Lusty to Fletcher, 9 June 2004, ‘Iraq: UKTI Consultancy Support for the PMO’.

⁴⁴⁹ Minute UKTI [junior official] to PS/Mr O’Brien, 21 June 2004, [untitled].

⁴⁵⁰ Minute APS/O’Brien to UKTI [junior official], 23 June 2004, ‘UKTI Secondees to the PMO in Baghdad’.

⁴⁵¹ Minute UKTI [junior official] to PS/Mr O’Brien [FCO], 13 August 2004, ‘UK Secondees in the Project and Contracting Office (PCO) Baghdad’.

THE SUCCESS OF UK COMPANIES IN SECURING CONTRACTS IN IRAQ

756. On 30 July, Mr Fergus Harradence, Head of the UKTI's Gulf Unit, provided an update for Mr O'Brien on UK commercial success in Iraq.⁴⁵²

757. Mr Harradence advised that there were over 60 UK companies working in Iraq, involved in contracts which UKTI estimated were worth a total of US\$2.6bn. That figure did not represent the total value of work undertaken and goods supplied by UK companies, but rather the total value of the contracts on which UK companies worked as contractors or subcontractors.

758. UK companies had been successful in winning contracts from all the major contracting organisations (the US, the CPA and Iraqi Ministries, the UN and DFID), although UK companies had been particularly successful in winning work as contractors or subcontractors to US Government agencies.

759. UKTI believed that it had played a "leading role" in helping UK companies to secure work on contracts worth approximately US\$1.8bn (of which AMEC had secured work on contracts worth US\$1.6bn).

760. At BP's request, on 30 August, during his introductory call on Mr Thamir Ghadban, the Iraqi Minister of Oil, Mr Chaplin raised BP's bid for a contract relating to the Rumalia oilfield.⁴⁵³ Mr Ghadban responded that the contract would be awarded on technical and commercial criteria, and commented that BP appeared more cautious than other companies in turning expressions of interest into "real engagement". Mr Chaplin commented:

"This is not the first time we have heard criticism of excessive caution from BP (and to a lesser extent Shell). Rightly or wrongly, the perception amongst the Iraqi oil establishment is that they are less committed than many of their international competitors."

761. Sir Stephen Brown met senior UKTI officials on 5 November 2004 to discuss UKTI's future engagement on Iraq, on the basis of a paper produced by UKTI's Iraq Unit.⁴⁵⁴

762. The paper stated that private sector interest in Iraq had started at a "feverish level", but had declined after April 2004 when contractors started to be targeted by insurgents, and had now levelled off. Over 1,300 business people had attended UKTI events in London since August 2003 and over 200 had attended UKTI-supported events in the region. UKTI had organised trade missions from Iraq to the UK focusing on financial services, health, education, oil and gas, and power and water.

⁴⁵² Minute Harradence to PS/O'Brien, 30 July 2004, 'Impact of UK Firms in Iraq'.

⁴⁵³ Telegram 167 Baghdad to FCO London, 31 August 2004, 'Iraq: Introductory Call on Thamir Ghadban, Minister of Oil'.

⁴⁵⁴ Minute Lusty to Fletcher, 5 November 2004, 'Iraq Unit' attaching Paper UKTI Iraq Unit, October 2004, 'Iraq: Next Steps'.

763. The paper stated that staffing in London had been reduced as the number of enquiries from companies had declined, and staffing overseas would be kept under constant review; UKTI needed to retain the flexibility to move quickly to support UK companies as security improved.

764. The slowdown in reconstruction in Iraq had severely hampered UKTI's ability "to play a useful role in the Whitehall process, and reduced our need to be involved".

765. The paper concluded:

"UK business is now a strong player in post-conflict Iraq. We have met high Ministerial and business expectations and avoided a US dominance ..."

766. Sir Stephen agreed the paper.⁴⁵⁵

Responding to renewed commercial interest in Iraq, 2008

767. The UK Commercial Officer post in Basra was cut in 2006 because of the security situation and UKTI's desire to free up resources for emerging markets.⁴⁵⁶

768. The remaining UK Commercial Officer post in Baghdad was cut in July 2007.⁴⁵⁷ A UKTI official commented:

"UKTI has retained a UK-based presence in Baghdad (and previously Basra) until now because of the political imperatives of doing so rather than on the basis of the normal criteria relating to business demand ... The on-going security situation raises serious questions about whether retaining the UK-based ... slot can be justified. The resource is also very expensive – some £560,000 in cash terms ... which could be deployed more productively in other markets."

769. From July 2007, the UK Commercial Section in the British Embassy Baghdad comprised one junior Iraqi Commercial Officer supported by a UKTI officer based in Amman, Jordan.⁴⁵⁸

770. Mr Gordon Brown succeeded Mr Tony Blair as Prime Minister in June 2007. Section 10.2 describes the development and implementation from July 2007 of Mr Brown's economic initiatives for Iraq, which included measures to facilitate private sector investment in Basra and across Iraq.

771. The British Embassy Baghdad reported to UKTI in September 2007 that the new arrangement (of one junior Iraqi Commercial Officer supported by UK staff based in Amman, Jordan) was not working.⁴⁵⁹ The lack of a senior Commercial Officer meant that

⁴⁵⁵ Minute Lusty to Fletcher, 5 November 2004, 'Iraq Unit' attaching Paper UKTI Iraq Unit, October 2004, 'Iraq: Next Steps'.

⁴⁵⁶ Minute McInnes to PS/McCarthy, 20 June 2007, 'UKTI Resources in Baghdad'.

⁴⁵⁷ Minute McInnes to PS/McCarthy, 20 June 2007, 'UKTI Resources in Baghdad'.

⁴⁵⁸ Email Lodge to McInnes, 2 September 2007, 'Baghdad – Resourcing Commercial Work in Iraq'.

⁴⁵⁹ Email Lodge to McInnes, 2 September 2007, 'Baghdad – Resourcing Commercial Work in Iraq'.

opportunities were being missed. The Embassy recommended that UKTI recruit a senior Iraqi Commercial Officer to head the commercial team in Baghdad.

772. Mr Douglas Alexander, the International Development Secretary, announced the appointment of Mr Michael Wareing as joint Chair of the Basra Development Commission (BDC) in December.⁴⁶⁰ Mr Alexander described the BDC, which aimed to bring national, regional and international business knowledge together to provide strategic advice to the Iraqi authorities on investment and growth, as the “centrepiece” of Mr Brown’s economic initiatives.⁴⁶¹

773. Mr Wareing told the Inquiry that he had three roles:

- to champion economic development, particularly in Basra and the South;
- to champion international investment into Iraq; and
- to help set up and to chair the BDC.⁴⁶²

774. Mr Wareing said that his role was not specifically to promote investment from the UK:

“... the line that I pursued was ... to try to push investment, not just from a British or indeed a European or even a Western ... point of view, but basically any investment – and there was a significant amount of investment from the Gulf region.”⁴⁶³

775. Mr Des Browne, the Defence Secretary, visited Iraq with Mr Wareing in mid-March.⁴⁶⁴ Mr Browne reported to Mr Brown that: “The overall mood in Iraq is optimistic, reflecting the improved security situation, political progress and the new focus on economic regeneration to which Michael [Wareing] is contributing.” Mr Browne’s discussions with Iraqi Government Ministers had suggested several areas where the UK could do more, including:

- reinforcing the UK team in Basra and Baghdad to support Mr Wareing’s work; and
- redoubling the UK effort to unblock the investment and hydrocarbon legislation, and to encourage international business to invest in Basra.

776. Mr Brown hosted a reception at No.10 on 28 April 2008 to raise the profile of southern Iraq as an investment destination and to enhance Iraqi Government interaction with potential investors.⁴⁶⁵

⁴⁶⁰ Letter Jones to Aldred, 13 December 2007, ‘Basra: Situation Report’.

⁴⁶¹ [Letter Alexander to Brown, 9 November 2007, \[untitled\]](#).

⁴⁶² Public hearing, 16 July 2010, page 3.

⁴⁶³ Public hearing, 16 July 2010, page 12.

⁴⁶⁴ Letter Browne to Brown, 18 March 2008, ‘Visit to Iraq and Kuwait’.

⁴⁶⁵ Minute Cabinet Office [junior official] to Prime Minister, 25 April 2008, ‘Basra Investors’ Reception, No.10: 28 April 2008’.

777. The Cabinet Office subsequently advised Mr Brown that between 25 and 30 companies had expressed a serious interest in exploring investment opportunities in Iraq.⁴⁶⁶

778. Mr Nick McInnes, Director of UKTI's International Group, briefed UKTI colleagues on 3 May 2008 on the growing pressure from the British Embassy Baghdad and the MOD for a larger UKTI presence in Baghdad.⁴⁶⁷ Their arguments for that were:

- the increased interest in Iraq from UK companies;
- the likelihood that Mr Brown's economic initiatives would stimulate further interest; and
- the possibility of sales of UK military equipment to Iraq.

779. DFID advised members of the Iraq Strategy Group (ISG) on 8 May that several companies that had attended the reception had expressed an interest in visiting Iraq.⁴⁶⁸ DFID was working with MOD to arrange this. DFID cautioned that there was still work to be done to secure the correct conditions for inwards investment, and such investment was unlikely to start flowing in the immediate future.

780. UKTI and DFID officials met on 21 May, at DFID's request, to discuss UKTI's interests in Iraq.⁴⁶⁹ Mr Paul Taylor, Head of the UKTI's Middle East Department, reported to Mr Andrew Cahn, UKTI Chief Executive, that DFID had said it would be difficult for DFID to handle the "investment visits" which had emerged from Mr Brown's 28 April reception. DFID did not have the appropriate expertise and, more importantly, under the International Development Act, it could not favour UK companies by providing them with such support. DFID officials had asked UKTI to reinstate a UK Commercial Officer post in Baghdad. Mr Taylor had said that UKTI was highly unlikely to be able to find funding for such a post.

781. Mr Taylor reported to Mr Cahn on 2 July that a DFID proposal to fund a UK Commercial Officer post in Baghdad from the Stabilisation Aid Fund (SAF) had not proved viable.⁴⁷⁰ The pressure remained on UKTI to increase its presence in Baghdad.

782. In response, Mr Cahn stated his strong opposition to reinstating a UK-based Commercial Officer post in Baghdad.⁴⁷¹

783. The 11 September meeting of the ISG, chaired by Mr Simon McDonald, Mr Brown's Foreign Policy Adviser, discussed the need for a UKTI presence in Iraq.⁴⁷²

⁴⁶⁶ Minute Cabinet Office [junior official] to Prime Minister, 30 April 2008, 'Iraq: Meeting with Petraeus and Crocker, 1 May 2008'.

⁴⁶⁷ Email McInnes to Haird, 3 May 2008, 'Resourcing Commercial Work in Iraq'.

⁴⁶⁸ Letter DFID [junior official] to Cabinet Office [junior official], 8 May 2008, 'Iraq Strategy Group, 28 April – Response to DFID Action Points'.

⁴⁶⁹ Email Taylor to Cahn, 21 May 2008, 'UKTI and Iraq: Meeting with DFID – 21 May 2008'.

⁴⁷⁰ Email Taylor to Cahn, 2 July 2008, 'Resourcing Trade and Investment Work in Iraq'.

⁴⁷¹ Email Cahn to Taylor, 4 July 2008, 'Resourcing Trade and Investment in Iraq'.

⁴⁷² Letter Lyon to McDonald, 15 September 2008, 'Iraq Strategy Group, 11 September'.

At the meeting, it was agreed that Mr Cahn and Mr Wareing should discuss the issue further.

784. The following week, Mr Frank Baker, Head of the FCO's Iraq Group, wrote to Mr McInnes:

“The [11 September ISG] meeting concluded that we needed an official in Baghdad to identify investment opportunities in Basra, as well as help UK businesses work with the Government of Iraq, otherwise we risk falling behind our international competitors.”⁴⁷³

785. Mr Baker stated that, given the “exceptional circumstances” and the high priority that the UK Government attached to having a trade representative in Baghdad, that post could be funded from the SAF until the end of the UK financial year (31 March 2009).

786. Mr Cahn met Mr Wareing on 1 October.⁴⁷⁴ Mr Wareing said that the UK needed to exploit its excellent high-level relationships in Iraq. The UK had invested heavily in Iraq, and it would be a major disappointment if other countries went on to enjoy the fruits of stabilisation and economic development. UKTI needed to be “at the table”. Mr Cahn proposed that UKTI should recruit an international business specialist for a period of six months, to scope the market and produce recommendations for UKTI on the way forward.

787. Mr Alexander wrote to Mr Brown on 20 November to provide an update on progress in Basra.⁴⁷⁵ He reported that DFID had already facilitated 18 investor visits by 14 companies, with proposals worth over US\$9bn submitted to the Iraqi Government.

788. Mr Brown met Prime Minister Maliki in Iraq on 17 December.⁴⁷⁶ Prime Minister Maliki called for a wider long-term relationship, including investment and economic co-operation and stronger cultural and educational links.

789. Mr Brown's Assistant Private Secretary wrote to the Principal Private Secretary to Lord Mandelson, the Business, Enterprise and Regulatory Reform Secretary, the following day to advise that Mr Brown believed there were opportunities in Iraq and interest from British companies that were not being exploited.⁴⁷⁷ Mr Brown was convinced that there was an urgent need for a significant UKTI presence in both Baghdad and Basra, both to consolidate security gains and to ensure that UK investors had every chance to benefit from commercial opportunities in Iraq. Mr Brown asked UKTI to start planning immediately for a long-term presence in Iraq, consulting Mr Wareing and DFID.

⁴⁷³ Letter Baker to McInnes, 19 September 2008, 'Iraq: UKTI position'.

⁴⁷⁴ Minute, 2 October 2008, 'Meeting with Michael Wareing, co-Chair of the Basra Development Commission: Wednesday 1 October 2008'.

⁴⁷⁵ Letter Alexander to Brown, 20 November 2008, [untitled].

⁴⁷⁶ Letter Catsaras to Gould, 18 December 2008, 'Prime Minister's Meeting with Iraqi Prime Minister, 17 December'.

⁴⁷⁷ [Letter APS/Prime Minister to Abel, 18 December 2008, 'UKTI Presence in Iraq'](#).

790. Lord Mandelson's Principal Private Secretary replied on 16 January 2009, reporting that:

- A new Iraqi Commercial Officer would start work in the British Embassy Baghdad later that month.
- An international business specialist would deploy to Iraq on 24 January. He would support UK companies, scope opportunities for UK companies and make recommendations on UKTI's future footprint in Iraq by the end of March 2009. There would be no gap in commercial representation in Iraq.
- UKTI was recruiting an industry secondee to assist the International Business Specialist.
- The British Embassy Baghdad had just recruited a USAID employee into its vacant Commercial Assistant post.⁴⁷⁸

791. The international business specialist arrived in Baghdad at the end of January.⁴⁷⁹ He was joined by a second UKTI-funded consultant on 12 February.⁴⁸⁰

792. Lord Mandelson visited Iraq on 6 April, at the head of a delegation of 23 companies (the largest official business delegation for over 20 years).⁴⁸¹ The steering brief prepared for Lord Mandelson identified a number of objectives including:

- underlining the UK's commitment to building a new broad-based, long-term partnership with Iraq, with a strong emphasis on economic and trade co-operation;
- countering Iraqi complaints (from Prime Minister Maliki and others) about the lack of interest from UK business, while assisting the business delegation to build contacts with Iraqi Ministers and members of the Iraqi business community; and
- supporting UK companies pursuing business in Iraq.

793. The steering brief also advised:

"Interest [in the visit] in Iraq has been surprisingly high – perhaps underlining that the time is right for a big push in our commercial relations.

"Iraqis trust British companies and products. But Iraqi politicians feel that [the] UK has been slow off the mark in terms of exploiting opportunities in the country, and there is a view (perhaps unfair) that we are lagging behind competitors from the rest of Europe, China, Russia and Japan."

⁴⁷⁸ [Letter Abel to Catsaras, 16 January 2009, \[untitled\]](#).

⁴⁷⁹ Report DFID, 1 February 2009, 'Weekly update: 1st February 2009'.

⁴⁸⁰ Report DFID, 15 February 2009, 'Weekly update: 15th February 2009'.

⁴⁸¹ Paper BERR, [undated], 'Visit of the Rt Hon Lord Mandelson to Bahrain, Kuwait, Iraq, Abu Dhabi and Dubai, 5-8 April 2009'.

794. In response to demand from UK companies, UKTI now had four staff in Baghdad and a “senior trade diplomat” would arrive in mid-2009.

795. The briefing for the Iraq leg of the visit provided by the British Embassy Baghdad advised:

“With our [the UK’s] effort now refocusing on support for UK investors and developing the bilateral business relationship, UKTI are resuming lead responsibility and are increasing their presence in country.”⁴⁸²

Debt relief

796. The Treasury was the lead department within the UK Government on securing debt relief for Iraq.⁴⁸³ It worked closely with the Foreign and Commonwealth Office (FCO) and other departments.

UK policy

797. The UK’s ‘Contract with the Iraqi People’, which was developed between February and December 2001, included an objective “to facilitate Iraq’s access to financial markets by encouraging generous debt rescheduling through the Paris Club” (see Section 6.4).

798. The Paris Club describes itself as an informal group of official creditors whose role is to find coordinated and sustainable solutions to the payment difficulties experienced by debtor countries.⁴⁸⁴ The Paris Club only negotiates debt restructurings with debtor countries that:

- need debt relief: debtor countries are expected to provide a precise description of their economic and financial situation;
- have implemented and are committed to implementing reforms to restore their economic and financial situation; and
- have a demonstrated track record of implementing reforms under an International Monetary Fund (IMF) programme.

799. A Treasury official sent Mr Gordon Brown, the Chancellor of the Exchequer, a paper on the global, regional and local (Iraqi) economic impact of “war” in Iraq on 6 September 2002. The paper identified the urgency of dealing with Iraq’s “huge” external debt, and suggested that a generous Paris Club deal would be the “obvious” way to address it. The Russians might be a major stumbling block, given the size of Iraq’s debt to them (around US\$8bn, or 15 percent of Iraq’s total external debt). The paper is considered in detail in Sections 6.4 and 13.1.

⁴⁸² eGram 11967/09, [undated], ‘Iraq: Lord Mandelson’s visit to Baghdad and Basra: Scenesetter’.

⁴⁸³ Paper Treasury, 2010, ‘Iraq Briefing – Debt’.

⁴⁸⁴ Paris Club website, *About us: The six principles*.

800. The FCO Directorate of Strategy and Innovation (DSI) one-page paper ‘Vision for Iraq and the Iraqi People’, which was submitted to the Ad Hoc Group on Iraq on 11 October, listed actions that the UK/Coalition would take to help the Iraqi people, including “encouraging generous debt rescheduling”.⁴⁸⁵

801. In advance of the first round of US/UK/Australia talks on post-conflict issues on 6 November 2002, the Cabinet Office produced a paper synthesising work being undertaken by departments.⁴⁸⁶ That paper identified the need for debt rescheduling to reconcile Iraq’s “huge external debts with reconstruction and development needs”.

802. During the talks, the US agreed that Iraq would require debt rescheduling.⁴⁸⁷

803. On 11 February 2003, a Treasury official invited Mr Brown’s comments on officials’ “first thoughts” on Treasury policies in a post-Saddam Iraq.⁴⁸⁸ The official identified the Treasury’s “two main Finance Ministry interests” in Iraq as ensuring its prosperity and stability, while fairly sharing the costs of achieving this. An “emerging policy position” would include:

“... push for debt rescheduling, to ensure that Iraqi contributions [to its reconstruction] are not knocked off course by having to resume crippling debt service. The cost of this would conveniently fall to probable non-combatant countries.”

804. The official advised that although it was difficult to gauge the size of Iraq’s debt, the US State Department estimated that, as at 2002, Iraq owed around US\$82bn to external creditors. The State Department estimated that the four largest creditors were:

- Russia (US\$16.1bn, or some 20 percent of the total external debt);
- France (US\$9.1bn, 11 percent);
- Japan (US\$9.1bn, 11 percent); and
- Germany (US\$6.7bn, 8 percent).

The State Department estimated that the US was the sixth largest creditor (US\$4.4bn, 5 percent) and the UK the tenth largest creditor (US\$2.4bn, 3 percent).

805. The official commented that if those figures were accurate, Iraq was one of the most heavily indebted countries in the world.

⁴⁸⁵ Paper FCO [draft], [undated], ‘Vision for Iraq and the Iraqi People’.

⁴⁸⁶ [Minute Drummond to Manning, 1 November 2002, ‘Iraq: Post-Saddam’ attaching Paper Cabinet Office, \[undated\], ‘Iraq: Models and some questions for post-Saddam government’.](#)

⁴⁸⁷ Minute Drummond to Manning, 8 November 2002, ‘Iraq: Day After’.

⁴⁸⁸ [Minute Treasury \[junior official\] to Chancellor, 11 February 2003, ‘HMT Policy on Post-Saddam Iraq’ attaching Paper Treasury, 11 February 2003, ‘Post-War Iraq: International Financing Policy’.](#)

806. The official expanded upon the rationale for debt rescheduling:

“In post-war Iraq, the UK would be entitled to pursue repayment of US\$1 – US\$2 billion bilateral debts ... However, if all creditors did the same and were successful, Iraq’s ability to fund its own reconstruction would be severely compromised. This would lead to a fiscal financing gap for Iraq, probably filled largely by bilateral financing. In such a situation, the UK might be under pressure to make a big contribution ... The other advantage to rescheduling is that we suspect that most of the debt is owed to probable non-combatant countries (e.g. France, Russia), with debt relief thus providing a neat way of burden sharing. The other strong argument for debt relief is that, without it, multilateral lending is likely to prove very difficult.”

807. The Treasury told the Inquiry that Mr Brown did not comment on the submission.⁴⁸⁹

808. Mr John Dodds, Head of the Treasury’s Defence, Diplomacy and Intelligence Team, advised Mr Brown on 19 February that the UK’s Export Credit Guarantee Department (ECGD) had already made a 96 percent provision in relation to Iraq.⁴⁹⁰

809. On 6 March, Mr Blair chaired a meeting on post-conflict issues with Mr Brown and other Ministers (see Section 6.5).⁴⁹¹ At the meeting, Mr Brown said that the burden of reconstructing Iraq should not be borne by just the US and the UK; other countries (and the EU) should contribute. In the long term, Iraq’s oil should fund the country’s reconstruction. Mr Brown was particularly concerned that UK funds should not be used to repay Iraq’s debts.

810. Mr Blair concluded that Mr Brown should draw up “a funding plan, including securing funding from wider international sources, in particular the IFIs [international financial institutions]”.

811. The FCO sent a number of background papers to No.10 in advance of the 16 March Azores Summit, including a revised version of the UK’s ‘A Vision for Iraq and the Iraqi People’.⁴⁹² The revised version of the ‘Vision’ reflected a number of changes from the version developed in October 2002, including “Seeking a fair and sustainable solution to Iraq’s debt problems” in place of “Negotiating generous debt rescheduling”.

812. The *Vision for Iraq and the Iraqi People* issued by Mr Blair, President Bush and Spanish Prime Minister José María Aznar at the Azores Summit did not mention debt.⁴⁹³

⁴⁸⁹ Email Treasury [junior official] to Iraq Inquiry [junior official], 26 February 2010, [untitled].

⁴⁹⁰ Minute Dodds to Chancellor, 19 February 2003, ‘Iraq – “Aftermath” – UK Role’ attaching Paper Treasury, 19 February 2003, ‘Iraq Conflict – Public Expenditure Impact’.

⁴⁹¹ [Letter Cannon to Owen, 7 March 2003, ‘Iraq: Post-Conflict Issues’.](#)

⁴⁹² [Letter Owen to Rycroft, 15 March 2003, ‘Azores Summit’ attaching Paper FCO, \[undated\], ‘A Vision for Iraq and the Iraqi people’.](#)

⁴⁹³ Statement of the Atlantic Summit, 16 March 2003, *A Vision for Iraq and the Iraqi People*.

813. Mr Jeremy Heywood, Mr Blair’s Principal Private Secretary, passed the US State Department estimates of debt owed by Iraq to Sir David Manning, Mr Blair’s Foreign Policy Adviser, on 25 March.⁴⁹⁴ Mr Heywood advised that compensation claims from Kuwait’s Government and citizens could add up to US\$100bn to Iraq’s debt.

814. The Development Committee of the World Bank Group and IMF agreed at their April 2003 Spring Meetings that debt relief for Iraq should be pursued through the Paris Club.⁴⁹⁵

815. The Treasury prepared a paper for the 8 May meeting of the Ad Hoc Ministerial Group on Iraq Rehabilitation (AHMGIR), which considered whether a Paris Club agreement on Iraq would be achievable.⁴⁹⁶

816. A Treasury official advised Mr Paul Boateng, the Chief Secretary to the Treasury, in advance of the meeting that most creditors seemed content with that approach, though the US appeared to be “not fully committed” to the Paris Club route.

817. The Treasury paper stated that three of Iraq’s biggest Paris Club creditors – Russia, France and Germany – had been hostile to the invasion and would be deeply disappointed at the prospect of debt relief.⁴⁹⁷ There were also a number of encouraging factors, however, including:

- No creditor had been paid for more than a decade. A Paris Club deal was the only real prospect of recovering any funds.
- France, as Paris Club chair, would find it hard to resist a Paris Club deal.
- Many creditors would be keen to exploit new commercial opportunities which would require a regularisation of the debt position.

818. A Treasury official briefed Mr Brown on progress in securing debt relief for Iraq on 17 November, in advance of a meeting the following day with Mr John Snow, the US Secretary of the Treasury.⁴⁹⁸

819. The official warned that the US was becoming impatient with the pace of progress in the Paris Club and concerned over the US’s lack of control over the process; a poor outcome could leave Iraq with an unsustainable debt burden. The UK continued to believe that the most effective way to achieve debt relief was through the Paris Club.

⁴⁹⁴ Minute Heywood to Manning, 25 March 2003, ‘Iraq: Debt’.

⁴⁹⁵ Minute Treasury [junior official] to Chief Secretary, 7 May 2003, ‘Ad Hoc Ministerial on Iraq Rehabilitation, Thursday 8th May at 2.30pm’.

⁴⁹⁶ Annotated Agenda, 8 May 2003, Ad Hoc Group on Iraq Rehabilitation meeting attaching Paper Treasury, April 2003, ‘Iraq: Debt’.

⁴⁹⁷ Paper Treasury, April 2003, ‘Iraq: Debt’.

⁴⁹⁸ Minute Habeshaw to Chancellor, 17 November 2003, ‘Iraq: International Debt’ attaching Paper Treasury, [undated], ‘Chancellor – Secretary Snow: Iraq: International Debt’ and Paper Treasury, 17 November 2003, ‘Iraq: International Debt’.

820. The official advised that the UK estimated that Iraq had debts of at least US\$108bn, over 700 percent of GDP or 900 percent of exports. That level of debt was unsustainable, especially when it was combined with Iraq's commitment to meet at least US\$85bn in compensation claims from the Kuwait war. Preliminary Treasury analysis was that a reduction of almost 80 percent in the net present value of Iraq's external debt would be required to restore sustainability.

821. Mr Brown discussed debt relief for Iraq with Secretary Snow on 18 November.⁴⁹⁹ Mr Brown's Private Secretary reported that Secretary Snow had agreed that Iraq's debt should be dealt with through the Paris Club, though the terms would have to be more generous than usual.

The US push for substantial debt relief, December 2003

822. On 5 December, President Bush appointed Mr James T Baker III, former US Secretary of State, as his personal envoy on Iraqi debt.⁵⁰⁰ Mr Baker embarked on a series of meetings with key creditors.

823. President Bush, Mr Jacques Chirac (the French President) and Mr Gerhard Schröder (the German Chancellor) issued a joint statement on debt relief for Iraq on 16 December.⁵⁰¹ It confirmed that France, Germany and the United States agreed that there should be substantial debt reduction for Iraq, but stated that: "The exact percentage of debt reduction that would constitute 'substantial' debt reduction is subject to future agreement between the parties."

824. Mr Baker called on Mr Blair on 18 December.⁵⁰²

825. The Treasury advised Mr Blair that Mr Baker was expected to ask the UK to:

- advocate publicly for significant debt relief, perhaps as much as 90 percent;
- lobby other key creditors; and
- act with the US in providing bilateral debt relief, should the Paris Club not look like producing a sustainable solution.

826. In response, the UK should:

- Commit to advocating for "significant debt relief", but not to a specific figure. The US figure of 90 percent was an "extreme case".

⁴⁹⁹ Email Bowman to Treasury [junior official], 18 November 2003, 'Iraq Debt: CX Meeting with Secretary Snow'.

⁵⁰⁰ Minute Cannon to Blair, 17 December 2003, 'Iraqi Debt: Meeting with James Baker' attaching Paper Treasury, [undated], 'Brief on Iraq's International Debt'.

⁵⁰¹ Statement President Bush, President Chirac and Chancellor Schroeder, 16 December 2003, *Joint statement on Iraq and debt reduction*.

⁵⁰² Minute Cannon to Blair, 17 December 2003, 'Iraqi Debt: Meeting with James Baker' attaching Paper Treasury, [undated], 'Brief on Iraq's International Debt'.

- Urge the US to use the Paris Club. That offered Iraq the best chance of a sustainable solution. Bilateral debt relief would need to be funded through public expenditure.

827. At the meeting, Mr Baker said that he hoped to secure 80 percent debt relief for Iraq, though that might be optimistic.⁵⁰³ Mr Baker agreed with Mr Blair's proposal that the US should stick with the Paris Club mechanism. Mr Baker said that President Chirac was seeking debt reduction of no more than 50 percent and that Chancellor Schröder was starting from a position of 50 percent but was open to negotiation. Russia was giving mixed signals.

828. Mr Baker met Russian President Vladimir Putin on 18 December. The media reported that President Putin had told Mr Baker that Russia would join talks on settling Iraq's debt, but would negotiate on the issue taking into account the economic interests of Russia and Russian companies in Iraq.⁵⁰⁴

The UK seeks a better deal for the most heavily indebted countries

829. In January 2004, Mr Jon Cunliffe, Treasury Managing Director for Macroeconomic Policy and International Finance, highlighted to Mr Gary Edson, US Deputy Assistant to the President for International Economic Affairs, the UK's need to demonstrate broad consistency between debt relief for Iraq and debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, in order to avoid charges of "aid diversion" from poor countries to Iraq.⁵⁰⁵

830. Mr Edson argued that Iraq was a special case, but acknowledged the need to be "creative" in developing an acceptable debt relief agreement.

831. Mr Blair spoke to Mr Baker again on 18 May, at President Bush's request.⁵⁰⁶

832. The Treasury's briefing for Mr Blair restated the UK's "key interests":

- debt relief would facilitate Iraq's economic development;
- debt relief through the Paris Club would strengthen that multilateral process; and
- financial: the UK was Iraq's 14th largest creditor, holding claims of approximately £1.15bn; there was also a public expenditure issue.⁵⁰⁷

⁵⁰³ Letter Cannon to Bowman, 18 December 2003, 'Iraq Debt: Call on Prime Minister by James Baker'.

⁵⁰⁴ *The New York Times*, 19 December 2003, *Russia agrees to discuss debt relief for Iraq*; *People's Daily Online*, 20 December 2003, *Russia says business interests crucial in Iraq debt relief*.

⁵⁰⁵ Email Treasury [junior official] to Cunliffe, 9 January 2004, 'Iraq: NSC-HMG Telecon 08-01-04' attaching Note, [undated], 'Note of NSC-HMG Telecon'.

⁵⁰⁶ Letter Quarrey to Bowman, 18 May 2004, 'Iraqi Debt: Prime Minister's Phone Call with James Baker, 18 May' attaching Paper, [undated], 'Contingent HIPC Proposal: Extend HIPC, Accelerate Debt Reduction, Increase Grants'.

⁵⁰⁷ Minute Quarrey to Blair, 18 May 2004, 'Iraq Debt: Jim Baker, 18 May' attaching Paper Treasury, [undated], 'Prime Minister's Vidcon with Secretary Baker'.

833. The briefing described that public expenditure issue:

“Provided debt reduction can be justified on financial grounds, the cost of writing off commercial debts does not score as departmental expenditure but is borne by ECGD and the Treasury. In practice, the most effective way of demonstrating a good financial case is to use the Paris Club process. In contrast, if the UK were to write off debts on policy grounds ... the cost would score as departmental expenditure and would need to be financed by DFID or another spending department.”

834. The Treasury briefing identified a fourth interest: to use UK support for debt relief for Iraq to press the US to commit to more generous treatment of HIPC. That treatment should include extending the HIPC Initiative and providing additional relief if HIPCs experienced external shocks. The briefing observed that the cost of debt relief for Iraq was likely to exceed the cost of the debt relief for all 38 of the countries which had benefited from the HIPC Initiative.

835. The briefing stated that the US might be intending to cancel 100 percent of Iraqi debt owed to it, and might press the UK to do the same. Assuming a Paris Club agreement to write-off 80 percent of Iraq’s debt, such an additional write-off would cost the UK £230m. As that additional write off would be on policy (rather than financial) grounds, the cost would fall to DFID, which would almost certainly make a claim on the Reserve. The Treasury advised that while a 100 percent write-off could have presentational benefits, it might not represent the best use of the resources available to Iraq and that other debtor countries, including some that had large debts to the UK, might demand similar generosity.

836. Just before Mr Blair and Mr Baker’s conversation, Mr Baker’s office sent No.10 an outline proposal to extend the HIPC Initiative for up to three years and to accelerate the provision of debt reduction under HIPC programmes.⁵⁰⁸

837. During the phone call on 18 May, Mr Baker said that the US agreed with the UK’s proposal that debt reduction for Iraq should be accompanied by an extension of the HIPC Initiative.⁵⁰⁹ He told Mr Blair that President Bush was prepared to support the HIPC Initiative only if there was a “parallel agreement” on Iraq. Referring to the outline proposal that his office had sent to No.10, Mr Baker said that it would not fly if it was seen as a US initiative, but might if it was seen as a UK and French initiative to secure concessions from the US on the HIPC Initiative in return for deep debt reduction for Iraq.

838. Mr Blair said that this was an important initiative and undertook to send it to President Chirac.

⁵⁰⁸ Email Rogers to Bowman, 18 May 2004, ‘Heavily Indebted Poor Country (HIPC) Program’.

⁵⁰⁹ Letter Quarrey to Bowman, 18 May 2004, ‘Iraqi Debt: Prime Minister’s Phone Call with James Baker, 18 May’ attaching Paper, [undated], ‘Contingent HIPC Proposal: Extend HIPC, Accelerate Debt Reduction, Increase Grants’.

839. The IMF released the final elements of its Debt Sustainability Analysis (DSA) for Iraq on 25 May.⁵¹⁰ The DSA assessed that Iraq's debt stock was US\$124.8bn, of which US\$42bn was owed to Paris Club creditors, US\$67.3bn to non-Paris Club official creditors, US\$15bn to the private sector and US\$0.5bn to multilateral institutions.

840. A Treasury official briefed Mr Brown on the DSA two days later.⁵¹¹ He estimated that, on the basis of the DSA assessment, Iraq required debt reduction of at least 80 percent and preferably 90 to 95 percent; the higher figures would deliver a robust exit from debt unsustainability and enable Iraq to cope with economic shocks.

841. Mr Blair spoke to President Chirac on 1 June, and suggested that the UK and France should make a joint approach to the US on debt relief for Iraq and HIPC.⁵¹² President Chirac did not support the proposal.

842. The US sought to broker a deal on debt relief for Iraq at the 8 June 2004 G8 Summit at Sea Island, but without success.⁵¹³ The Summit did agree to extend the HIPC Initiative for two years until 31 December 2006 and to provide the necessary financing to complete the initiative, and to provide additional debt relief "where appropriate".⁵¹⁴

843. During a press conference at the end of the Summit, President Chirac was asked whether he still thought that 50 percent was the right level of debt relief for Iraq.⁵¹⁵ He replied:

"It is absolutely the right one ... Iraq is potentially a rich country even though she has a substantial debt. How will you explain to the very indebted poor countries ... that we're going to do for Iraq in three months more than we've done in ten years for the world's thirty-seven poorest and most indebted countries? That ... isn't right."

844. Treasury officials commented the following month that the Sea Island agreement had not gone as far as they had hoped, in part because there had been no concomitant agreement on debt relief for Iraq.⁵¹⁶ They reported that Mr Brown still believed that the UK should maintain a linkage between debt relief for Iraq and "a better deal for ... HIPC".

Paris Club agrees debt relief for Iraq, November 2004

845. Discussions continued over the summer between the Iraqi Government, the IMF and creditors on debt reduction and the terms of an IMF programme for Iraq.⁵¹⁷

⁵¹⁰ International Monetary Fund, 25 May 2004, *Iraq – External Debt Sustainability Analysis*.

⁵¹¹ Minute Habeshaw to Chancellor, 27 May 2004, 'Iraq Debt: IMF Debt Sustainability Analysis'.

⁵¹² Letter Rycroft to Adams, 1 June 2004, 'Prime Minister's Conversation with Chirac, 1 June'.

⁵¹³ Paper Treasury, 7 July 2004, 'Iraq Debt and HIPC'.

⁵¹⁴ Sea Island Summit 2004 Communiqué, 10 June 2004, *Debt Sustainability for the Poorest*.

⁵¹⁵ Présidence de la République, 10 June 2004, *Sommet du G8 – Conférence de Presse de M. Jacques CHIRAC Président de la République, à l'issue du Sommet*.

⁵¹⁶ Paper Treasury, 7 July 2004, 'Iraq Debt and HIPC'.

⁵¹⁷ Minute Habeshaw to Chancellor, 6 September 2004, 'Iraq Debt: Update'.

The UK's position remained that Iraq required debt reduction of at least 80 percent to deliver debt sustainability. The US and the Iraqi Government sought 95 percent, which the UK assessed would leave Iraq in a "very strong" financial position. The UK's negotiating line, including in a bilateral meeting with the French on 1 September 2004, was to support the US position "while hinting flexibility".

846. The IMF Board approved a US\$436m Emergency Post-Conflict Assistance programme for Iraq on 29 September.⁵¹⁸ The UK Delegation to the IMF reported that unanimous approval had followed "tetchy" discussions, with a number of Executive Directors expressing unease at the speed of approval (the timetable had been driven by US demands and the IMF had cut back substantially on formal review processes) and whether the Iraqi Government would be able to implement the necessary policy reforms if the security situation did not improve. The IMF had commented that agreement paved the way for discussions on debt relief.

847. In early November, at the request of the Paris Club and in anticipation of an agreement on debt relief for Iraq later that month, the IMF revisited its DSA for Iraq.⁵¹⁹ Treasury officials briefed Mr Brown that, on the basis of the new figures, debt reduction of between 75 and 85 percent was required to restore sustainability; debt reduction above 85 percent could not be justified financially. Officials also told Mr Brown that the US had now circulated a draft proposal seeking debt reduction of 89.5 percent in three phases, with a generous repayment profile. The UK supported that proposal as a negotiating position, but doubted that it could be agreed with Paris Club members.

848. A Treasury official warned Mr Brown on 12 November that the US had decided to offer Iraq additional debt relief following a Paris Club deal, writing off 100 percent of Iraq's debt.⁵²⁰ If the UK did the same it would cost between £172m and £344m, depending on the deal agreed at the Paris Club. Echoing the arguments offered in May 2004, the official advised that, while there were "political arguments" in favour of offering additional debt relief, there were also arguments against it:

- Significantly poorer countries had not received 100 percent debt relief.
- Iraq had no track record of using savings generated by debt relief for poverty reduction.
- Providing 100 percent debt relief would set a precedent for the UK's treatment of other countries.

849. The official recommended that the UK should not offer additional debt relief to Iraq.

⁵¹⁸ Telegram 25 UKDEL IMF/IBRD to Treasury, 30 September 2004, 'Iraq: IMF Approves Emergency Post Conflict Assistance'.

⁵¹⁹ Minute Habeshaw to Chancellor, 8 November 2004, 'Iraq Debt: New Debt Sustainability Numbers'.

⁵²⁰ Minute Treasury [junior official] to Brown, 12 November 2004, 'Iraq Debt: Update'.

850. The Treasury told the Inquiry that it has no record of Mr Brown responding to that advice.⁵²¹

851. Paris Club creditors agreed on 21 November to reduce Iraq's official debt by 80 percent.⁵²² The deal would be delivered in three stages: 30 percent immediately; 30 percent on approval of a standard IMF programme; and 20 percent on completion of the standard IMF programme. The deal would write off US\$31.1bn of the US\$38.9bn owed to Paris Club creditors. The Iraqi Government committed to seek comparable treatment from its non-Paris Club creditors.

852. The UK's share of that write-off was approximately US\$1.39bn,⁵²³ or £954m (£337m in UK financial year 2004/05, £337m in UK financial year 2005/06 and £280m in UK financial year 2008/09).⁵²⁴ The entire amount was charged to the ECGD.

853. A Treasury briefing for Mr Brown stated that the deal represented an important success for the international community, demonstrating an ability to act together on an issue as divisive as Iraq.⁵²⁵

854. The Treasury told the Inquiry that the agreement followed intense negotiations between G7 officials and Ministers, including between Mr Brown, Secretary Snow and Mr Nicolas Sarkozy, the French Minister of Finance.⁵²⁶ The deal had been finalised in a meeting between Secretary Snow and Mr Hans Eichel, the German Minister of Finance.

855. The Treasury told the Inquiry that it has no records of the discussions between Mr Brown and Mr Snow and Mr Sarkozy.⁵²⁷

856. The US wrote off 100 percent of Iraq's debt, totalling US\$4.1bn, on 17 December 2004.⁵²⁸

857. In November 2006, Mr Brown was asked by Dr Barham Salih, Iraqi Deputy Prime Minister, to provide 100 percent debt relief for Iraq.⁵²⁹ Mr Brown responded by highlighting the aid that the UK was already providing and his discussions with counterparts in the Gulf states and the EU on supporting Iraq.

⁵²¹ Email Treasury [junior official] to Iraq Inquiry [junior official], 17 April 2014, 'Further Queries Relating to Resources'.

⁵²² Paris Club, Press Communiqué, 21 November 2004, *Restructuring the Iraqi debt – Agreement between the Paris Club and Iraq*.

⁵²³ Briefing Treasury, [undated], 'Brief: Meeting with Barham Saleh, Deputy Prime Minister of Iraq'.

⁵²⁴ Letter Cabinet Office [junior official] to Aldred, 13 September 2011, 'Iraq Inquiry: Request for Further Information on Funding'.

⁵²⁵ Briefing Treasury, [undated], 'Brief: Meeting with Barham Saleh, Deputy Prime Minister of Iraq'.

⁵²⁶ Paper Treasury, 2010, 'Iraq Briefing – Debt'.

⁵²⁷ Email Treasury [junior official] to Iraq Inquiry [junior official], 22 April 2014, 'Further Queries Relating to Resources'.

⁵²⁸ Congressional Research Service, Report for Congress, 11 March 2005, *Iraq: Debt Relief*.

⁵²⁹ Record, [undated], 'Chancellor's Visit to Basra: 18/11/06'.

858. The UK did not provide additional bilateral debt relief for Iraq, beyond the agreement reached at the Paris Club.

Returning asylum seekers to Iraq

859. Iraq, with almost 50,000 applicants, was the biggest source of asylum seekers to the 29 industrialised countries that provided monthly data to the UN High Commissioner for Refugees (UNHCR) in 2002.⁵³⁰ Of those applicants, 14,565 applied for asylum in the UK.

860. Table 2 shows the number of asylum applications to certain industrialised countries and the UK originating in Iraq between 2002 and 2009.

Table 2: Asylum applications to industrialised countries and to the UK originating in Iraq

	Total number of applications originating in Iraq	Number of applications to the UK originating in Iraq	Percentage of total applications
2002 ⁵³¹	49,368	14,565	29.5
2003 ⁵³²	25,361	4,290	16.4
2004 ⁵³³	9,850	1,880	19.1
2005 ⁵³⁴	12,521	1,605	12.8
2006 ⁵³⁵	22,908	1,305	5.7
2007 ⁵³⁶	45,100	2,075	4.6
2008 ⁵³⁷	40,366	2,030	5.0
2009 ⁵³⁸	24,673	990	4.0

⁵³⁰ UNHCR, 24 February 2004, *Asylum Levels and Trends: Europe and non-European Industrialized Countries, 2003*.

⁵³¹ UNHCR, 24 February 2004, *Asylum Levels and Trends: Europe and non-European Industrialized Countries, 2003*. Figures reflect origin of asylum applications in 29 countries providing monthly data to UNHCR.

⁵³² UNHCR, 1 March 2005, *Asylum Levels and Trends: Europe and non-European Industrialized Countries, 2004*. Figures reflect origin of asylum applications lodged in 36 countries providing monthly data to UNHCR.

⁵³³ UNHCR, 17 March 2006, *Asylum Levels and Trends in Industrialized Countries, 2005*. Figures reflect origin of asylum applications lodged in 36 countries providing monthly data to UNHCR.

⁵³⁴ UNHCR, 23 March 2007, *Asylum Levels and Trends in Industrialized Countries, 2006*. Figures reflect origin of asylum applications lodged in 36 countries providing monthly data to UNHCR.

⁵³⁵ UNHCR, 18 March 2008, *Asylum Levels and Trends in Industrialized Countries, 2007*. Figures reflect origin of asylum applications lodged in 43 countries providing monthly data to UNHCR.

⁵³⁶ UNHCR, 24 March 2009, *Asylum Levels and Trends in Industrialized Countries, 2008*. Figures reflect origin of asylum applications lodged in 44 countries providing monthly data to UNHCR.

⁵³⁷ UNHCR, 23 March 2010, *Asylum Levels and Trends in Industrialized Countries, 2009*. Figures reflect origin of asylum applications lodged in 44 countries providing monthly data to UNHCR.

⁵³⁸ UNHCR, 28 March 2011, *Asylum Levels and Trends in Industrialized Countries, 2010*. Figures reflect origin of asylum applications lodged in 44 countries providing monthly data to UNHCR.

861. Establishing a programme to enable the return of Iraqi asylum seekers currently in the UK to Iraq was an early priority for the UK Government.

862. On 8 April 2003, as major combat operations in Iraq continued, Mr David Blunkett, the Home Secretary, wrote to Mr Blair:

“As the conflict in Iraq moves towards a successful conclusion, we need to look at the consequences for the tens of thousands of Iraqi asylum seekers currently in the United Kingdom.

“Once peace and stability have returned to Iraq I believe it is right to press ahead with a substantial returns programme ... The new Iraq needs the skills of its exiles to help in reconstruction. And with the threat from Saddam’s regime removed there is no justification for failed Iraqi asylum seekers and new arrivals to remain in the UK.”⁵³⁹

863. No.10 replied on 10 April, confirming that Mr Blair had asked departments to work towards “forced returns ... in the course of the next three months”.⁵⁴⁰

864. The International Organization for Migration (IOM) facilitated a small number of voluntary returns from the UK to Iraq, beginning in June 2003.⁵⁴¹

865. The Home Office reported in October 2003 that 50 Iraqis had so far returned on that basis.⁵⁴²

866. In October 2003, the UK sought the CPA’s agreement to expand its voluntary returns programme and to introduce an enforced returns programme, to the Kurdish Autonomous Zone (KAZ) only, for those who had no legal right to remain in the UK.⁵⁴³

867. Sir Jeremy Greenstock, the Prime Minister’s Special Representative on Iraq, reported on 7 November that the CPA was reluctant to agree those requests.⁵⁴⁴ Ambassador Paul Bremer, the Head of the CPA, had decided in July not to encourage returnees until Iraq’s infrastructure could deal with them. The CPA argued that while the KAZ was a more stable and better serviced area of Iraq:

- there were already more than 600,000 internally displaced people there;
- the ethnic balance remained sensitive;
- there was not yet a policy on resolving disputes over property ownership; and

⁵³⁹ Letter Blunkett to Blair, 8 April 2003, ‘Iraq: Organising Rapid Returns’.

⁵⁴⁰ Letter Miles to Razavi, 10 April 2003, ‘Iraq: Organising Rapid Returns’.

⁵⁴¹ Minute Baird to Hughes, 6 June 2003, ‘Returns to Iraq: Update’.

⁵⁴² Letter Baird to Fry, 16 October 2003, ‘Iraq: Return of Failed Asylum Seekers’ attaching Paper, [undated], ‘Iraq: Returns’.

⁵⁴³ Letter Baird to Fry, 16 October 2003, ‘Iraq: Return of Failed Asylum Seekers’ attaching Paper, [undated], ‘Iraq: Returns’.

⁵⁴⁴ Telegram 255 Baghdad to FCO London, 7 November 2003, ‘Iraq: Iraqi Returns’.

- UNHCR and IOM had no expatriate staff in Iraq to maintain and monitor returnee programmes.

868. The UK continued to lobby Ambassador Bremer.⁵⁴⁵

869. Ambassador Bremer agreed on 17 February 2004 that the UK could implement a pilot programme of enforced returns to northern Iraq from 1 April 2004.⁵⁴⁶ The agreement covered the lifetime of the CPA only. An IPU official commented that Ambassador Bremer had not agreed to accept enforced returns from any other Western country, including the US.

870. Later that month, Mr Blunkett announced that the UK intended to begin a pilot programme of voluntary and enforced returns to Iraq.⁵⁴⁷

871. It did not prove possible to implement that pilot programme.

872. The Kurdish Regional Government (KRG) wrote to UNHCR on 9 May stating its opposition to enforced returns.⁵⁴⁸

873. The FCO subsequently cancelled a scoping mission by a Home Office delegation scheduled for late May, due to the lack of helicopters and armoured vehicles to transport them to northern Iraq and to avoid antagonising the KRG.⁵⁴⁹

874. Mr Blunkett wrote to Mr Straw on 28 May, to urge him to reconsider.⁵⁵⁰ Mr Blunkett advised that Iraq consistently figured in the list of the “top ten asylum producing countries”. Unless the UK established the principle of forced return by sending out a flight of returnees before 30 June 2004 (the expected date of the transfer of power in Iraq from the CPA to an Iraqi Interim Administration), the new Iraqi authorities might insist that negotiations on enforced returns “recommence from the beginning”.

875. Mr Straw replied on 7 June, acknowledging Mr Blunkett’s concern but stating that making enforced returns before 1 July without consultation with the incoming Interim Iraqi Government (IIG), its ministries and the KRG could undermine broader UK diplomatic efforts and predispose the IIG to be unhelpful on returns in the future.⁵⁵¹

876. Mr Blunkett accepted Mr Straw’s response.⁵⁵²

⁵⁴⁵ Minute Greenstock to Bremer, 15 February 2004, ‘Iraqi Returns from the UK’.

⁵⁴⁶ Minute IPU [junior official] to PS/Baroness Symons, 18 May 2004, ‘Iraq: Enforced Returns of Failed Asylum Seekers to Iraq’.

⁵⁴⁷ Paper FCO, 26 February 2004, ‘No.10 Weekly Update – 26 February 2004’.

⁵⁴⁸ Letter Siwaily to UNHCR, 9 May 2004, ‘Iraqi returnees from Iran’.

⁵⁴⁹ Minute IPU [junior official] to PS/Baroness Symons, 18 May 2004, ‘Iraq: Enforced Returns of Failed Asylum Seekers to Iraq’.

⁵⁵⁰ Letter Blunkett to Straw, 28 May 2004, ‘Enforced Return of Failed Asylum Seekers to Iraq’.

⁵⁵¹ Letter Straw to Blunkett, 7 June 2004, ‘Enforced Return of Failed Asylum Seekers to Iraq’.

⁵⁵² Letter Blunkett to Straw, 22 June 2004, ‘Enforced Return of Failed Asylum Seekers to Iraq’.

877. The Iraqi Minister of Displacement and Migration visited the UK from 23 to 27 July, and agreed that Iraq and the UK should draw up a Memorandum of Understanding (MOU) to cover returns to Iraq.⁵⁵³

878. The Occupation of Iraq formally came to an end on 28 June. Power was transferred from the CPA and Iraqi Governing Council to the IIG.⁵⁵⁴

879. On 3 November, an IPU official provided an update for Mr Straw on enforced returns.⁵⁵⁵ A Home Office delegation had visited Iraq from 3 to 11 September and had “eventually persuaded” KRG Ministers and officials to accept forced returns. The Minister of Displacement and Migration had not yet signed the MOU. The Home Office believed that forced returns could go ahead without it as, under the Chicago Convention, Iraq had an obligation to take back its nationals who did not qualify to remain in the UK. The Home Office was therefore making plans to send the first 15 failed asylum seekers back to northern Iraq on around 23 November.

880. The IPU official advised that the FCO’s view was that no forced returns should take place until the MOU was signed, for three reasons:

- to ignore IIG views could generate “ill will” from the IIG and KRG, at a time when the UK needed their support on a number of political priorities;
- the planned destinations for returnees might not be safe; and
- the presentational issue of enforced returns coinciding with military operations in Fallujah, and with Ramadan.

881. Mr Blunkett’s Private Secretary wrote to No.10 on 15 November, reporting that the IIG accepted the principle of enforced return, but was unlikely to accept returnees until the following year.⁵⁵⁶ The Minister of Displacement and Migration had asked for an improved package of assistance for returnees. Mr Blunkett’s Private Secretary restated the FCO’s view that no enforced returns should take place without an MOU, and recommended that the UK should intensify its lobbying to secure the IIG’s signature to it.

882. No.10 replied on 18 November, confirming that Mr Blair agreed that no enforced returns should be made without an MOU.⁵⁵⁷

883. Mr Blair visited Baghdad on 21 December.⁵⁵⁸ In his record of Mr Blair’s meeting with Prime Minister Ayad Allawi, Mr Quarrey reported that Prime Minister Allawi had agreed that Iraq should sign an MOU covering enforced returns before the end of the month.

⁵⁵³ Minute IPU [junior official] to Straw, 3 November 2004, ‘Iraq: Update on Enforced Returns’.

⁵⁵⁴ Bremer LP III & McConnell M. *My Year in Iraq: The Struggle to Build a Future of Hope*. Threshold, 2006.

⁵⁵⁵ Minute IPU [junior official] to Straw, 3 November 2004, ‘Iraq: Update on Enforced Returns’.

⁵⁵⁶ Letter PS/Blunkett to No.10 [junior official], 15 November 2004, ‘Enforced Returns to Iraq’.

⁵⁵⁷ Letter No.10 [junior official] to PS/Blunkett, 18 November 2004, ‘Enforced Returns to Iraq’.

⁵⁵⁸ Letter Quarrey to Adams, 21 December 2004, ‘Prime Minister’s Visit to Baghdad, 21 December: Meeting with Allawi’.

884. The MOU was signed in January 2005 by the Ministry of Displacement and Migration, on behalf of the IIG, and the Home Office.⁵⁵⁹

885. Notwithstanding the signature of the MOU, discussions continued between the UK Government and the IIG on the implementation of an enforced return programme.⁵⁶⁰ The IIG's concerns included the impact of returnees within the KRZ and the package of assistance provided to returnees.

886. Mr Tim Torlot, Deputy Head of Mission at the British Embassy Baghdad, called on Prime Minister Ibrahim Ja'afari on 4 August. Mr Torlot reported to the FCO that Prime Minister Ja'afari had agreed that Iraq should abide by the terms of the MOU, and to instruct the Minister of Displacement and Migration to accept enforced returns. Prime Minister Ja'afari hoped that the UK would consider substantially increasing the assistance provided to returnees.

887. The UK planned to operate the first flight carrying enforced returnees on 28 August.⁵⁶¹

888. Mr Charles Clarke, who had succeeded Mr Blunkett as Home Secretary, wrote to Mr Blair on 25 August to confirm that he had postponed that flight, due to opposition from the KRG and a concern that the RAF aircraft carrying the returnees would be a target for insurgent activity.⁵⁶²

889. President Jalal Talabani and Mr Blair met at 10 Downing Street on 6 October.⁵⁶³ Mr Blair said that he attached great importance to early progress on the issue of enforced returns, and said that it would be helpful if President Talabani took a personal interest.

890. Mr Straw was advised on 17 November that the KRG had, following Ministerial pressure, finally agreed to accept enforced returnees.⁵⁶⁴

891. The first flight of enforced returnees, comprising 15 failed asylum seekers, took place on 20 November, landing in Erbil.⁵⁶⁵

892. Mr Clarke reported to Mr Blair on 25 November that the UK had not received "the expected legal challenge" to the returns on the grounds that Iraq was an unsuitable destination.

⁵⁵⁹ Paper, 26 January 2005, 'Memorandum of Understanding between the Ministry of Displacement and Migration of the Republic of Iraq and the Home Office for the United Kingdom of Great Britain and Northern Ireland'.

⁵⁶⁰ eGram 10598/05 Baghdad to FCO London, 5 August 2005, 'Iraq: Enforced Returns of Asylum Seekers: Call on Prime Minister'.

⁵⁶¹ Minute Clarke to Prime Minister, 25 July 2005, 'Enforced Returns to Iraq'.

⁵⁶² Minute Clarke to Prime Minister, 25 August 2005, 'Enforced Returns to Iraq'.

⁵⁶³ Letter Quarrey to Siddiq, 6 October 2005, 'Iraq: Talabani'.

⁵⁶⁴ Minute FCO [junior official] to Straw, 17 November 2005, 'Iraq: Enforced Return of Failed Asylum Seekers'.

⁵⁶⁵ Note Clarke to Blair, 25 November 2005, 'Enforced Returns to Iraq'.

893. No flights to central or southern Bagdad were made during the period covered by this Inquiry.

Post-conflict reconstruction and stabilisation

894. A cross-government review of the UK's approach to post-conflict reconstruction began in September 2003.⁵⁶⁶

895. The inter-departmental Post-Conflict Reconstruction Unit (PCRU) was established in September 2004.⁵⁶⁷ It became operational during 2005.⁵⁶⁸

896. In December 2007, the PCRU was renamed the Stabilisation Unit (SU).⁵⁶⁹

897. The PCRU and the SU focused their activity on Afghanistan. They made limited but valuable contributions in Iraq.

898. Since 2007, the SU has continued to evolve in response to the strategic and policy framework established by:

- the 2008 and 2010 National Security Strategies (NSSs);
- the 2010 Strategic Defence and Security Review (SDSR); and
- the 2011 Building Stability Overseas Strategy (BSOS).

The Post-Conflict Reconstruction Unit

899. On 16 September 2003, Mr Straw, Mr Hoon and Baroness Amos discussed post-conflict planning and preparation. A number of papers, including a joint FCO/DFID/MOD paper on post-conflict reconstruction, had been prepared beforehand.⁵⁷⁰

900. Mr Straw highlighted the contrast between the UK's preparation for domestic crises and post-conflict situations. More needed to be done to "get ahead of the curve".

901. Mr Hoon highlighted the absence of any civilian equivalent to military planning. The UK should aim for international agreement on the civilian resources and skills needed and where they were available.

902. Baroness Amos emphasised the need first to "link up" across government and to learn lessons from previous interventions.

⁵⁶⁶ [Paper \[unattributed\], 17 September 2003, 'Meeting of Secretaries of State for Foreign Affairs, Defence and International Development – 16 September 2003 at 2.15pm'](#).

⁵⁶⁷ Minute [DFID junior official] to Drummond, 29 June 2005, 'PCRU Update Meeting with the PUSS, 21 June'.

⁵⁶⁸ House of Commons, *Official Report*, 21 July 2005, column 155WS.

⁵⁶⁹ Paper Stabilisation Unit, December 2007, 'Stabilisation Unit'.

⁵⁷⁰ Paper [unattributed], 17 September 2003, 'Meeting of Secretaries of State for Foreign Affairs, Defence and International Development – 16 September 2003 at 2.15pm'.

903. Other points made in discussion included:

- the possibility of using Territorial Army (TA) training and pre-deployment centres for civilians involved in post-conflict work;
- the critical importance of policing and security;
- the possibility of establishing contingency arrangements to make it easier to start preparing earlier for post-conflict operations; and
- the importance of building capacity elsewhere, including in the UN and EU.

904. The three Ministers agreed that officials should:

- review the UK's approach to planning and preparing for post-conflict situations at the national level and then look at influencing others, with the EU a high priority;
- consider setting up an inter-departmental "co-ordinating mechanism", look at the tools needed and consider how to spread best practice; and
- take into account the resource implications.

905. On 28 November, Mr John Sawers, FCO Political Director, informed Sir Nigel Sheinwald, Mr Blair's Foreign Policy Adviser, that FCO, DFID and MOD officials were preparing a paper for discussion by Ministers in January 2004.⁵⁷¹ Mr Sawers identified three main issues to address:

- a. how we improve the UK performance in this area;
- b. how we help improve the international effort – especially in the UN;
- c. what our training and personnel management needs are.”

906. A trilateral FCO/MOD/DFID working group agreed on 7 January 2004 to focus on “the gap that has been identified in terms of planning for the initial implementation post-conflict phase”.⁵⁷²

907. Officials presented a paper setting out recommendations for the “better planning, implementation and management of the UK's contribution to post-conflict reconstruction” to DOP on 12 February.⁵⁷³

908. The paper, already agreed by Mr Straw, Mr Benn and Mr Hoon, recommended setting up an inter-departmental Post-Conflict Reconstruction Unit (PCRU) with a double remit:

- “**Policy:** developing government strategy for post-conflict reconstruction linked into concomitant military and humanitarian planning, the wider international

⁵⁷¹ [Letter Sawers to Sheinwald, 28 November 2003, 'Foreign Policy Strategy Group: First Meeting' attaching Paper \[unattributed and undated\], 'Post Conflict Reconstruction'.](#)

⁵⁷² Paper [unattributed and undated], 'Post Conflict Reconstruction Trilateral Working Group: Meeting at the Royal Artillery, Woolwich on 7 January 2004'.

⁵⁷³ [Letter Owen to Fergusson, 5 February 2004, 'Post Conflict Reconstruction: Paper for the DOP, 12 February' attaching Paper \[unattributed and undated\], 'Post Conflict Reconstruction'.](#)

community (separate from the broader political process underlying the need for intervention) and best practice.

- **Executive:** implementing and managing the UK's contribution to post-conflict reconstruction, including the identification and training of civilian personnel and the maintenance of databases, with deployable capability.”

909. Four options were proposed:

- a small non-permanent secretariat with a co-ordinating function;
- a small permanent unit of 15-18 people to inform strategy and devise operational plans;
- a unit of 40-50, with a component able to deploy alongside armed forces (the recommended option); and
- a large, permanent department of 150-200 of whom about half could be deployed.

910. DOP agreed the proposed remit and to a scale somewhere between options two and three.⁵⁷⁴ DOP did not envisage that the unit itself should have a deployable capacity.

911. Officials sent a second paper, setting out detailed structures and already agreed by Mr Straw, Mr Benn and Mr Hoon, to DOP on 23 July.⁵⁷⁵

912. The paper proposed that:

“The PCRU will bring together financial, analytical, planning and personnel resources that in the past have been distributed across government. This will enable HMG to:

- **Integrate planning** for the military and civilian components of any intervention ... Advance planning for post-conflict reconstruction should influence military planning ... and force composition ...
- **Co-ordinate with the international community and burden-share** ...
- **Identify resources in advance** ... Honeymoon periods in PCR situations are short. Failing to deliver a rapid and demonstrable improvement in the quality of life to the local population can have a negative impact ...”

913. The paper proposed that DFID would host the PCRU and meet administrative and running costs to the end of financial year 2007/08.

⁵⁷⁴ [Letter Fergusson to Drew, 19 February 2004, 'Post-Conflict Reconstruction: Follow Up to DOP'](#).

⁵⁷⁵ [Paper \[Cabinet Office\], 20 July 2004, 'DOP paper on the Post Conflict Reconstruction Unit'](#).

914. The paper explained that there had been “substantial discussion” between departments over governance and accountability. The proposed arrangements took into account the need for:

- policy and strategy decisions to be taken inter-departmentally (policy would be set jointly by departments through a Cabinet Office-chaired steering group, reporting to a DOP Sub-Committee chaired by the Foreign Secretary); and
- financial accountability to be the preserve of the DFID Permanent Secretary as Accounting Officer for DFID funds.

915. The paper stated that PCRU staffing would grow over two to three years to become fully operational with a core staff of about 40. It would have “an additional surge capacity and deployable element drawn from volunteers from across Whitehall, NGOs and the private sector”. The proposed size reflected:

“... the need to support the likely scales of effort and concurrency of UK military deployments as reflected in the Defence White Paper: one enduring minimum deployment (e.g. the Balkans or Iraq) plus either two enduring small-scale deployments (e.g. Sierra Leone or Mozambique flood relief) or one short-term medium deployment (e.g. Afghanistan).”

916. On 6 September, Sir Nigel Sheinwald informed members of DOP and Sir Andrew Turnbull, the Cabinet Secretary, that Mr Blair was content with the management arrangements set out in the July DOP paper. Mr Blair believed the PCRU should be “lean”, with an ability to surge when required, and wanted staffing to be kept under review.⁵⁷⁶ The Cabinet Office would now start to establish the necessary committee structures.

917. Mr Benn informed Parliament on 16 September of “the Government’s intention to improve the United Kingdom’s capacity to deal with immediate post-conflict stabilisation, including by integrating civilian and military policy, planning and operations”.⁵⁷⁷ The FCO, the MOD and DFID were working closely to develop the capabilities that were needed and expected to be in a position formally to establish the PCRU later in the year.

918. The PCRU was established in September 2004.⁵⁷⁸

⁵⁷⁶ [Letter Sheinwald to Malik, 6 September 2004, ‘Lessons of Iraq: Whitehall Responses’](#).

⁵⁷⁷ House of Commons, *Official Report*, 16 September 2004, column 173WS.

⁵⁷⁸ Minute [DFID junior official] to Drummond, 29 June 2005, ‘PCRU Update Meeting with the PUSS, 21 June’.

919. In March 2005, the House of Commons Defence Committee expressed concern that the PCRU might not achieve its initial operating capability by the target date of spring 2005.⁵⁷⁹ Issues still to be resolved included:

- identification of the best department to manage the deployment of civilian police officers;
- the need for the PCRU to operate in “a genuinely cross-departmental manner” and not as “the advocate of a particular department’s priorities”; and
- provision of the funding needed not only to establish itself but to pay for deployments.

920. On 4 May 2005, Mr Neil Crompton, the departing Head of the IPU, expressed doubts to Mr Sawers about the PCRU’s ability to achieve everything expected of it:

“MOD frustration with the pace of reconstruction has been a cause of much tension within Whitehall. The creation of the PCRU should help resolve some of the issues, but I doubt that it will solve the problem completely, HMG as a whole has lost the old ODA [Overseas Development Agency] ability to ‘fix things’. DFID no longer regard this as core business. Civilians and contractors have to operate under tight security rules which prevent them operating at the required pace in environments like Iraq.

“Part of the solution is for MOD to regard post-conflict reconstruction as their core business ... MOD need to follow US practice and develop civil affairs battalions ...

“In parallel, we need to sell the notion that military assets (particularly transport) belong to HMG as a whole and that decisions on how they are deployed should be determined by HMG, rather than MOD/PJHQ on the basis of military priorities ... We [FCO] and DFID should be involved in the force level review process in a more formal way than our participation in Chiefs of Staff allows, so that wider considerations are taken into account. PJHQ will resist – but we should persist.”⁵⁸⁰

921. Mr Sawers shared Mr Crompton’s scepticism about the PCRU, but suggested that it would need to be tested in a real crisis.⁵⁸¹ He added:

“The MOD’s resistance to doing civilian reconstruction has been a problem and I am attracted by your proposal that they should develop civil affairs battalions who can actually restore basic services in a post-conflict environment. With DFID’s near exclusive focus on poverty, and as you say their inability these days to ‘fix things’, it is always going to be difficult to get DFID to wholeheartedly commit to underpinning the political objectives of HMG. MOD is more resource constrained than DFID but this is an area worth exploring with the new Defence Secretary.”

⁵⁷⁹ Sixth Report from the Defence Committee, Session 2004-05, *Iraq: An Initial Assessment of Post-Conflict Operations*, HC 65-1, paras 267-270.

⁵⁸⁰ [Minute Crompton to Sawers, 4 May 2005, ‘Iraq Reflections’.](#)

⁵⁸¹ [Minute Sawers to Crompton, 9 May 2005, ‘Iraq: Reflections’.](#)

922. On 21 June, Mr Paul Schulte, Head of the PCRU, updated Mr Suma Chakrabarti, DFID Permanent Secretary, and Mr Drummond on progress setting up the Unit, explaining that it had expanded rapidly since being established in September 2004:

- 27 permanent staff had been appointed and recruitment was nearly complete;
- the PCRU had created a database of deployable civilian experts;
- progress had been made on a number of framework agreements to allow timely provision of services; and
- work on assessment and planning tools was well under way.⁵⁸²

923. Mr Schulte reported that a number of proposals for operational work were being considered, including in Afghanistan and Sierra Leone.

924. Mr Drummond cautioned against widening the PCRU's remit beyond stabilisation activities where UK forces were deployed.

925. Mr Chakrabarti asked to see a list of operations being considered and an explanation of how decisions were being made.

926. An internal review of the PCRU's first months, produced for Mr Schulte in July 2005, recommended a number of changes to the Unit and its remit.⁵⁸³

The recommendations included:

- greater engagement with multilateral operations;⁵⁸⁴ and
- promoting a new approach to civilian force generation to replace what remained an "unsystematic and largely ad hoc process" for identifying, recruiting and deploying personnel.⁵⁸⁵

927. Mr Benn updated Parliament on 21 July:

"I wish to inform parliament of the establishment and current capabilities of the Post-Conflict Reconstruction Unit (PCRU). The PCRU is an inter-departmental unit, which has been set up by our three departments to improve the United Kingdom's capacity to contribute to the creation of a stable environment in countries emerging from conflict. The Unit's work is overseen by the Defence and Overseas Policy (Conflict and Reconstruction) Committee, chaired by the Foreign Secretary.

"The PCRU has been established to carry out two main tasks: first, to develop government strategy for post-conflict stabilisation, which includes linking military and civilian planning, as well as working with the wider international community for

⁵⁸² Minute [DFID junior official] to Drummond, 29 June 2005, 'PCRU Update Meeting with the PUSS, 21 June'.

⁵⁸³ Minute Astle and Korski to Schulte, 14 July 2005, 'PCRU – A Look Ahead'.

⁵⁸⁴ Minute Astle and Korski to Schulte, 14 July 2005, 'Strategic Discussion Paper 1 – PCRU Concept of Operations'.

⁵⁸⁵ Minute Astle and Korski to Schulte, 14 July 2005, 'Strategic Discussion Paper 3 – Civilian Force Generation'.

the spread of best practice, capacity building and burden sharing; and, secondly, to plan and direct activities to create stability in post-conflict environments in the period immediately following the cessation of hostilities.

“The PCRU is nearly fully staffed and has reached an initial capacity to plan for, and support, stabilisation activities. The Unit is building up a database of civilian experts who can be deployed. It is also developing methods to help the Government reach an understanding of, and plan responses to, individual conflicts. In addition the Unit is writing a series of guidance papers on a range of specific issues that may need to be tackled in post-conflict situations, such as security sector reform and governance. The PCRU is also developing links with international organisations and other Governments to ensure that the UK’s efforts are part of a co-ordinated contribution to the international response to conflict. I expect the PCRU to be able, if necessary, to plan and organise a large-scale deployment of up to several hundred civilians, including police, as part of a post-conflict stabilisation operation by mid-2006.”⁵⁸⁶

928. In his valedictory report on leaving the PCRU in December 2005, Mr Schulte described it as “the most sophisticated and integrated arrangement we know of”, presenting “a significant opportunity to influence international – and particularly American and EU – thinking and practice”.⁵⁸⁷ But there had been difficulties, including finding people with the right experience and skills who were willing to join an unproven organisation and could be released quickly from their current jobs. There had also been “departmental sensitivities over responsibilities and boundaries”.

929. Mr Schulte concluded:

“... senior support will remain crucial for some time to ensure successful PCRU involvement in cross-Whitehall work. The Unit relies critically upon the development of coherent and effective cross-departmental working relationships. But they all impose costs and demands on the staff time of others. We have learned that it is sometimes difficult to persuade colleagues to take this on without direction from within their own organisations.”

930. A second internal review of the PCRU was carried out at the request of PCRU Directors in January and February 2006.⁵⁸⁸ Directors agreed the recommendation for a new statement of the PCRU’s role to reflect the experience of its first year:

“... to provide HMG and its partners with integrated assessment and planning, and operational expertise, to deliver more effective stabilisation operations.”⁵⁸⁹

⁵⁸⁶ House of Commons, *Official Report*, 21 July 2005, column 155WS.

⁵⁸⁷ [Minute Schulte to Drummond, 19 December 2005, ‘Valedictory Note’](#).

⁵⁸⁸ Paper PCRU, March 2006, ‘PCRU Internal Review – Key Findings’.

⁵⁸⁹ Paper PCRU, July 2006, ‘Principles for determining where PCRU deploy, what it funds and for how long’.

THE PCRU AND IRAQ

931. From autumn 2005, the PCRU looked for ways to support existing UK stabilisation operations while continuing to build capacity to undertake possible “but very unlikely” future large-scale deployments.⁵⁹⁰

932. At the request of the FCO, the PCRU provided a temporary head for the Political Section at the British Embassy Office Basra from 9 to 23 December 2005.

933. During March 2006, a member of the PCRU undertook a scoping study for the UK-led Basra Provincial Reconstruction Team (PRT), which became operational during May (see Section 10.2).

934. In April 2006, no UK department or international partner, including the US, had a budget for PRT running costs. The PCRU filled the gap.⁵⁹¹ It agreed to recruit and fund three staff for a six-week period, including Mr Mark Etherington, the PRT Team Leader, while discussions continued on funding.⁵⁹²

935. In July 2006, the PCRU’s support to the Basra PRT was extended to July 2007, at a total cost of £758,000. Most work was expected to be completed by December 2006.⁵⁹³

936. In late July 2006, Mr Richard Teuten, Mr Schulte’s successor as Head of the PCRU, visited Baghdad and Basra to understand better the stabilisation challenges in Iraq, assess the PCRU contribution and raise awareness of what the PCRU could offer.⁵⁹⁴

937. In September 2006, Mr Teuten reported that, in relation to Iraq, the PCRU had:

- supported PRT management from London;
- provided funding up to December 2006 for three Deployable Civilian Experts (DCEs): the PRT Team Leader and two support officers;
- helped identify a civilian expert to set up a Prosecution Mentoring Unit in Basra;
- identified and funded a specialist to design a communications strategy in support of the UK’s Southern Iraq Steering Group; and

⁵⁹⁰ Paper PCRU, July 2006, ‘Principles for determining where PCRU deploy, what it funds and for how long’.

⁵⁹¹ Minute Middle East and North Africa Department [junior official] to Private Secretary [DFID], 19 April 2006, ‘DOP(I) Briefing, 19 April 2006’ attaching Paper MENAD, 19 April 2006, ‘Iraq Update’.

⁵⁹² Minute PCRU [junior official] to Private Secretary [DFID], 25 April 2006, ‘Information Note: Basra Provincial Reconstruction Team & PCRU’.

⁵⁹³ Paper Post Conflict Reconstruction Unit, July 2006, ‘Project Memorandum: PCRU Support for HMG Engagement in Iraq’.

⁵⁹⁴ Minute Teuten to PCRU [junior official], 31 July 2006, ‘Visit to Baghdad and Basra 19-25 July’.

- begun a review of PRT management and support arrangements, comparing Basra and Helmand (Afghanistan).⁵⁹⁵

938. The Basra/Helmand review was one of two Iraq-related reports produced by the PCRU in 2006:

- ‘Provincial Reconstruction Teams (PRTs) in Iraq and Afghanistan – A Comparison’;⁵⁹⁶ and
- ‘Refocusing civilian efforts in Basra in the run up to PIC [Provincial Iraqi Control]’.⁵⁹⁷

The Stabilisation Unit

939. In December 2007, the PCRU was renamed the Stabilisation Unit (SU), reflecting the emergence of the broader concept of stabilisation and the Unit’s new role managing a £269m MOD Stabilisation Aid Fund announced as part of the September 2007 Comprehensive Spending Review.⁵⁹⁸

940. The SU’s key tasks were:

- assessment and planning: helping departments “plan together so there is a single UK aim and strategic framework”;
- deployments: providing experienced civilian personnel; and
- lesson learning: identifying and sharing best practice in the UK and internationally.

941. Afghanistan was the principal focus. On 12 December, Mr Brown announced in Parliament that the UK would make available £450m in development and stabilisation assistance for Afghanistan for 2009-2012, part of which would help fund:

“... Britain’s new cross-government Stabilisation Unit, which has Afghanistan as its first priority, and which, with a global budget of £260m over the next three years, will drive forward reconstruction projects and provide expert civilian support to rebuild basic services.”⁵⁹⁹

⁵⁹⁵ Minute Teuten to Drummond, 26 September 2006, ‘PCRU Directors’ Board Meeting: 2 October 2006’ attaching Paper PCRU, 27 September 2006, ‘PCRU Headline Achievements: August-September’ and Paper PCRU, September 2006, ‘PCRU: Lessons Learning and Evaluation’.

⁵⁹⁶ [Minute Teuten to PS/Minister\(AF\), 17 November 2006, ‘Provincial Reconstruction Teams \(PRTs\) in Iraq and Afghanistan – A comparison’ attaching Paper PCRU, ‘Review of Provincial Reconstruction Teams \(PRTs\) in Iraq and Afghanistan’.](#)

⁵⁹⁷ Report PCRU/DFID, 19 December 2006, ‘Refocusing civilian efforts in Basra in the run up to PIC’.

⁵⁹⁸ [Paper Stabilisation Unit, December 2007, ‘Stabilisation Unit’.](#)

⁵⁹⁹ House of Commons, *Official Report*, 12 December 2007, columns 305-306.

942. During 2008 and 2009, the SU produced three reports on Iraq, described in more detail in Section 10.2:

- a review of the Basra PRT;⁶⁰⁰
- a strategic review of the Governorates Capacity Building Project;⁶⁰¹ and
- a joint paper with the MOD Development, Doctrine and Concepts Centre on civilian-military relations in Basra.⁶⁰²

The Cabinet Office Task Force Review of Stabilisation and Civil Effect

943. On 19 March 2008, during a statement to Parliament on the launch of the UK's National Security Strategy, Mr Brown announced that:

“... the National Security Strategy proposes a new departure – and again, it is a lesson learned from recent conflicts ranging from Rwanda to Bosnia to Iraq, Afghanistan and Somalia. It proposes to create a stand-by international civilian capability so that for fragile and failing states, we can act quickly and comprehensively by combining the humanitarian, peacekeeping, stabilisation and reconstruction support that those countries need. In the same way as we have military forces ready to respond to conflict, we must have civilian experts and professionals ready to deploy quickly to assist failing states and to help rebuild countries emerging from conflict, putting them on the road to economic and political recovery.

“I can tell the house that Britain will start by making available a 1,000-strong UK civilian stand-by capacity that will include police, emergency service professionals, judges and trainers. I am calling on EU and NATO partners to set high and ambitious targets for their contributions to such a force.

...

“In order to maximise our contribution to all the new challenges of peacekeeping, humanitarian work and stabilisation and reconstruction, the Secretary of State for Defence is also announcing this afternoon that, as part of a wider review, the Government will now examine how our reserve forces can more effectively help with stabilisation and reconstruction in post-conflict zones around the world.”⁶⁰³

944. The Cabinet Office launched the Stabilisation Task Force Review of Stabilisation and Civil Effect (shortened to Cabinet Office Task Force (COTF)) in June 2008.⁶⁰⁴

⁶⁰⁰ [Paper Stabilisation Unit, 3 September 2008, 'Review of the Basra Provincial Reconstruction Team'](#).

⁶⁰¹ [Paper Stabilisation Unit, November 2008, 'Strategic Review of DFID Governorates Capacity Building Programme'](#).

⁶⁰² [Paper Stabilisation Unit and Development, Doctrine and Concepts Centre, 27 February 2009, 'Civilian-Military Relations in Basra'](#).

⁶⁰³ House of Commons, *Official Report*, 19 March 2008, columns 927-928.

⁶⁰⁴ [Letter Aldred to Gould, 24 July 2008, 'Stabilisation and Deployed Civil Effect' attaching Paper Stabilisation Review Team, 27 June 2008, 'Stabilisation and Deployed Civil Effect'](#).

945. Ms Margaret Aldred, Deputy Head of the Overseas and Defence Secretariat (OD Sec) in the Cabinet Office, sent an interim report to departments on 24 July.

946. Ms Aldred explained the background to the Review:

“The UK’s current civil effect capability has developed without a clear long-term strategy, and more specific guidance is required on what our capability goals should be. Our assessment is that existing mechanisms do not provide confidence that current activity is effective (in terms of the skills and experience of the personnel deployed) or sustainable (in terms of our ability to maintain current commitments indefinitely). Moreover, there is no robust basis on which we could calculate our “standby” or “total” capacity – of civil servants, police or contractors/consultants. If we are to make real progress then we need to agree broad policy objectives for the capability around which we can design effective structures (or improve existing ones).”

947. The interim report proposed definitions of “stabilisation” and “civil effect” to define the scope of the review:

“Stabilisation’ is support to places emerging from violent conflict in:

- preventing or reducing violence;
- protecting people and key institutions;
- promoting political processes which lead to greater stability; and
- preparing for longer-term development and non-violent politics.

‘Civil effect’ is activity to build public confidence and support for an enduring peace and focuses on the ‘survival functions’ of a state:

- public order and the rule of law;
- basic public services; and
- economic stability.

For success, an integrated effort – bringing together the efforts of civilian agencies (including multilateral), military and local partners – is required.”

948. The interim report proposed a capability that would:

- support joint civil-military stabilisation operations with at least 100 civilians and 50 police continuously deployed;
- make a further contribution of up to 100 civilians and 100 police to a wider range of multilateral deployments;
- identify at least 1,000 personnel as a “UK Civilian Standby Capability”; and
- incorporate a “Stabilisation Volunteer Network” able to draw on a wider range of volunteers than existing mechanisms.

949. The report emphasised that funding issues would need to be resolved. Such a capability would cost between £8m and £10m a year to maintain, with additional and more substantial deployment costs.

950. On the multilateral response, the interim report recommended establishing a shared international assessment of need, leading by example in seeking agreed national targets for contributions, and seeking to improve international structures.

951. The Cabinet Office produced a supplementary report on 5 September.⁶⁰⁵ The report proposed four options:

- the status quo: about 270 civilian personnel deployed at an estimated annual cost of £70m to £90m;
- a UK standby capacity able to deploy up to 350 better qualified personnel, costing £98m to £140m per year;
- an expanded standby capacity able to deploy 550 personnel, costing £122m to £171m; or
- a Civilian Reserve Corps of around 2,500 able to deploy 500 personnel at any one time, at significant additional cost.

952. The final paper, reflecting discussions between Sir Gus O'Donnell, Sir Andrew Turnbull's successor as Cabinet Secretary, and the FCO, MOD and DFID Permanent Secretaries, was produced for NSID(OD) on 21 January 2009.⁶⁰⁶

953. The paper stated that, although the UK's performance was improving as previous reforms and learning from operational experience took effect, the review had identified a number of problems:

“Whitehall structures to deliver civil effect are currently fragmented. MOD, DFID, FCO and the Stabilisation Unit each deploy personnel to stabilisation and civil effect missions. Problems include the lack of single-point accountability for stabilisation policy, objectives, capability and delivery in Whitehall: multiple and poorly co-ordinated mechanisms for resourcing civil effect; no effective unified performance management of individuals; little effective measurement of the overall impact of civil effect; no cross-Whitehall register of available skills; limited UK civil effect planning capability; and a SU role that lacks clarity, focus and authority.”

954. The paper's recommendations included:

- creation of a Civilian Standby Capacity (CSC) from at least 1,000 civilians and a further 500 police, to provide a capability to deploy continuously at least 350 pre-trained personnel;

⁶⁰⁵ [Paper Stabilisation Review Team, 5 September 2008, 'Review of Stabilisation and Deployed Civil Effect, Capability Options'](#).

⁶⁰⁶ [Letter Aldred to Gould, 16 January 2009, 'Civil Effect' enclosing Paper Cabinet Office, \[undated\], 'Stabilisation and Deployed Civil Effect'](#).

- expansion and refocusing of the SU, under Director-level leadership, to become the single government delivery unit for civil effect with an enhanced planning capacity and rapid response capability;
- DFID to take increased responsibility for the SU and the CSC;
- the SU to lead delivery of civil effect on operations, but conflict and regional policy to remain a joint Cabinet Office/FCO/DFID/MOD responsibility;
- establishment of a cross-Whitehall Civil Service Stabilisation Cadre (CSSC), initially of at least 200 personnel;
- development of a new International Police Assistance Group (IPAG);
- creation of a Stabilisation Volunteer Network (SVN) to widen substantially the range of potential volunteers available; and
- the MOD to identify members of the Armed Forces Volunteer Reserves with relevant skills to be available to deploy as part of the CSC.

955. The review made no specific recommendations on enhancing multilateral stabilisation capacity, but stated:

“A significant UK commitment to develop enhanced national civilian capabilities ... will put us in a stronger position to argue for ambitious new capability targets for civilian deployable capacity, and to galvanise other contributions to improve the effectiveness of multilateral stabilisation and early recovery capabilities.”

956. The review explained that previous efforts to strengthen capabilities had “lacked the strategic drive, authority and resources to overcome the obstacles encountered”. Short-term operational requirements had diverted attention from medium-term capability development. An implementation team would therefore be set up before the end of February.

957. Sir Gus O’Donnell commented on 20 January that, while he agreed with the report, it had:

“... taken some time to get inter-departmental agreement on the way ahead ... I hope that departments will now be able to devote the energy and resources to this issue which will be essential if we are to have significant progress to report on delivery of real capability when the update of the National Security Strategy is published before the Summer Recess.”⁶⁰⁷

958. Ministers agreed the recommendations in the Cabinet Office review on 21 January.⁶⁰⁸

959. Dr Nemat Shafik, Sir Suma Chakrabarti’s successor as DFID Permanent Secretary, replied to Sir Gus O’Donnell on behalf of DFID, the FCO and the MOD.

⁶⁰⁷ [Letter O’Donnell to Gould, 20 January 2009, ‘Civil Effect’.](#)

⁶⁰⁸ [Letter Shafik to O’Donnell, 16 February 2009, ‘Civil Effect’.](#)

She explained that DFID had already taken increased responsibility for the SU. The DFID Director chairing the SU Board would act as Senior Responsible Officer for the Unit and be responsible for developing capability and overall performance. More broadly, departments had agreed that the SU Board needed to provide “more active governance and direction” for the Unit than had been the case in the past.

960. In October 2009, the SU took over responsibility from the FCO for managing the deployment of civilians and police officers to international missions.⁶⁰⁹

961. The MOD, FCO and DFID produced a joint memorandum on progress against the recommendations in the Cabinet Office review for the House of Commons Defence Committee in December 2009.⁶¹⁰ The joint memorandum stated:

“A 1,000 strong civilian capability (of whom 200 can be deployed at any one time) has been developed ahead of schedule; greater capacity for planning and rapid reaction in [the] Stabilisation Unit will be in place by the December [2009] target date; and progress has also been made on deployment of military Reservists in a civilian capacity and police deployments. The additional capabilities have been developed at a significantly lower cost than originally envisaged.”

962. In a brief reference to Iraq, the joint memorandum stated:

“... SU managed consultants to support capacity building in Basra International Airport, leading to the handover to Iraqi control in January 2009, improved the effectiveness of donor support in rule of law nationally and undertook a series of reviews to improve the effectiveness of the Basra PRT and identify future lessons.”

963. In August 2010, the Royal United Services Institute (RUSI) published a review of the Government’s progress in promoting stability in countries emerging from conflict.⁶¹¹ The review was written by Mr Richard Teuten, a Senior Visiting Fellow at RUSI and a former Head of the PCRU, and Mr Daniel Korski, Senior Policy Fellow at the European Council of Foreign Relations and a former Deputy Head of the PCRU.

964. The review concluded that, between 2005 and 2010, a drive towards greater inter-departmental co-operation had led to a number of institutional innovations, an increase in the resources available for stabilisation, new cadres of practitioners and

⁶⁰⁹ Briefing Stewart, [undated], ‘From Iraq to Afghanistan – The evolution of “Stabilisation”’.

⁶¹⁰ Seventh Report from the Defence Committee, Session 2009-10, *Third supplementary memorandum from the Ministry of Defence, the Foreign and Commonwealth Office and the Department for International Development: Strengthening of the Stabilisation Unit and implementation of the Cabinet Office Task Force review of stabilisation and civil effect, 15 December 2009.*

⁶¹¹ R. Teuten and D. Korski, *Preparing for Peace. Britain’s Contribution and Capabilities*, RUSI, 2010.

improved co-ordination in-country, but that the UK was “not yet delivering on its full potential to engage in fragile states”. Five issues were highlighted:

“The first has been a mismatch between ambitions and resources ... a gap existed between what was expected by Cabinet Ministers and promised to the public, and what was resourced by way of programmes and capabilities ...

“The second concerns the mechanisms for the allocation of resources ... and the decisions on relative priorities ... The current system pushes effort towards current crises at the expense of forestalling future crises [and] perpetuates an imbalance between the use of military and civilian tools ...

“The third problem is the fact that loyalty remains to departments rather than to the Government as a whole ... Pooled funding arrangements account for only a small proportion of resources devoted to fragile states.

...

“Fourth, there are still areas where the UK’s ability to send the right people ... to work in hostile environments needs to be on a more sustained and reliable footing ... The gap between government ambition and UK capability on policing, for example, has if anything grown rather than diminished.

“Fifth and finally ... Lessons are recorded and stored by the MOD, DFID, the Foreign Office and academia, but rarely dusted off when new decisions have to be made at Ministerial or official level.”

965. In November 2010, the SU produced a paper on lessons learned from the UK’s growing experience of stabilisation activities.⁶¹² Designed to “provide policymakers and practitioners with accessible material, which conveys both the breadth and depth of challenges facing the UK and other international partners”, the lessons included the need to:

- exercise caution when transferring lessons from one conflict to another;
- ensure that economic and development objectives complement and support efforts to promote a peaceful political process (an effective response required understanding of multiple political interests and how they are leveraged to impede or facilitate stabilisation);
- form a single multi-disciplinary and multi-departmental team;
- implement activities in a way that builds on local culture, context and the operating environment;
- adopt a flexible and adaptive approach to monitoring and evaluation;
- secure community engagement;

⁶¹² Paper Stabilisation Unit, November 2010, ‘Responding to Challenges in Hostile and Insecure Environments: Lessons Identified by the UK’s Stabilisation Unit’.

- apply rigorous quality assurance in selecting the right people;
- recognise non-state forms of local governance, security, justice and dispute resolution that are often more familiar and meaningful to most of the population than state-wide government; and
- adopt a two-speed approach to security (short-term stabilisation, principally through local actors, at the same time as creating the conditions for longer-term security sector reform).

966. Sir Gus O'Donnell and Sir Peter Ricketts, the National Security Adviser, sent an update on the SU to the Inquiry on 19 January 2011.⁶¹³ They reported that:

- 1,289 civilians had been approved for the Civilian Stabilisation Group (CSG), including 1,012 Deployable Civilian Experts (DCE) and 277 members of the CSSC;
- the SVN now included the Local Government Association (LGA), the National Health Service (NHS), private sector companies and a number of NGOs;
- the MOD and the SU continued to discuss the best ways of identifying Reservists' civilian skills and increasing interoperability;
- now the SU was responsible for international secondments and police deployments, it was the sole government delivery unit for civil effect;
- the SU could provide planning support to UK operations with or without a UK military presence, and to international partners;
- the SU would take the lead in establishing Stabilisation Response Teams (SRTs), the joint civilian-military capability announced in the 2010 SDSR; and
- a new International Police Assistance Group (IPAG) had been formed in September 2009 to develop more robust arrangements for delivering police capabilities for civil effect. A pool of 125 police officers was now on standby for deployment for stabilisation efforts.

967. The Building Stability Overseas Strategy (BSOS) was published in July 2011 by DFID, the FCO and the MOD.⁶¹⁴ The three departments undertook to strengthen their integrated approach to tackling instability and conflict by increasing the integration of skills and capacities across government. Those included:

- strong intelligence and assessments;
- diplomacy;
- development work;
- defence engagement;
- promotion of trade and open markets; and
- the SU.

⁶¹³ Statement, 19 January 2011, Annex C.

⁶¹⁴ DFID, FCO and MOD, July 2011, *Building Stability Overseas Strategy*.

968. The BSOS stated that the SU could:

“... respond rapidly to conflict or pre-conflict situations on behalf of the Government, and in partnership with other key players. The Unit draws upon expertise from across government, the police and the military to deliver these outcomes. It also manages the Civilian Stabilisation Group of over 1,000 civilian experts from the public and private sector with critical stabilisation skills and expertise.”

969. The MOD told the Inquiry in 2013 that Reservists mobilised through the Military Stabilisation Support Group (MSSG) were routinely employed by the SU in a civilian capacity in the CSG.⁶¹⁵ The MOD explained that the MSSG provided a full-time Regular Liaison Officer to the SU. The Commander of MSSG was a member of the SU Management Board and attended the Building Stability Overseas Board as an observer.⁶¹⁶

970. ‘The UK Government’s Approach to Stabilisation (2014)’, published by the SU in May 2014, listed four characteristics of the Government’s approach:

- Any action “will be planned and implemented with an overtly political objective in mind, ideally with a means of identifying success and a process of transition to longer-term recovery”. In some environments the political need to act might make things worse in the short term.
- It will be integrated and civilian-led, unifying effort across government, including when there are military-led tasks such as patrols to bolster security.
- It will be “flexible and targeted” and can be applied in a state or part of a state affected by violent political conflict.
- Stabilisation “will be transitory but cannot afford to be short term in outlook or objectives” and “must be planned or implemented with reference to other parallel or longer-term engagement”.⁶¹⁷

971. The SU paper listed three “mutually reinforcing components of stabilisation”:

- protecting political actors, the political system and the population;
- promoting, consolidating and strengthening political processes; and
- preparing for longer-term recovery.

972. The SU used the example of Iraq to illustrate the importance of security as one of the three components:

“... the disbanding of the Iraqi security forces after the US-led invasion in 2003 meant that large numbers of previously enfranchised Sunnis at senior and junior levels now had no role in the new Iraqi state. This not only created a security

⁶¹⁵ [Letter Ryan to Aldred, 7 June 2013, ‘Deployment of Military Reservists in a Civilian Role’.](#)

⁶¹⁶ [Letter Ryan to Aldred, 17 September 2013, ‘Deployment of Military Reservists in a Civilian Role’.](#)

⁶¹⁷ Paper Stabilisation Unit, May 2014, ‘The UK Government’s Approach to Stabilisation (2014)’.

vacuum which Allied forces did not have the capacity to fill but also resulted in alienation of the former army. This actively contributed to deterioration in security, hampered political progress and was a factor leading to the subsequent insurgency ...”

973. In 2014/15, the SU was based in the FCO and jointly owned by the FCO, MOD and DFID.⁶¹⁸ It used DFID financial and risk management systems and had a DFID Senior Responsible Officer.

974. The SU’s 2014/15 Business Plan explained that the Unit had an operational role across all three pillars of the BSOS:

- early warning;
- rapid crisis prevention and response; and
- investing in upstream prevention.⁶¹⁹

975. The SU’s contribution included:

- being the hub for Joint Analysis of Conflict and Stability (JACS);
- supporting the UK National Security Council (NSC) by facilitating development of cross-government strategies for fragile and conflict-affected states;
- providing high-quality advice on the design and implementation of programmes funded by the Conflict Pool/Conflict, Stability and Security Fund (CSSF);⁶²⁰
- supporting the development of monitoring and evaluation guidance;
- capturing and disseminating lessons learned;
- maintaining the CSG database; and
- providing a hub for the Government’s non-operational international policing activity.

The impact of the PCRU and the SU

976. Witnesses to the Inquiry gave conflicting evidence on the impact of the PCRU and the SU.

977. Mr Benn told the Inquiry:

“I think the PCRU and now the Stabilisation Unit is a very practical response to a need that has been identified.

⁶¹⁸ Stabilisation Unit, March 2014, ‘Stabilisation Unit Business Plan 2014-15’.

⁶¹⁹ Stabilisation Unit, March 2014, ‘Stabilisation Unit Business Plan 2014-15’.

⁶²⁰ The Conflict Pool funded UK conflict prevention, stabilisation and peacekeeping activities in support of the Building Stability Overseas Strategy. In April 2015 it was replaced by the Conflict, Stability and Security Fund (CSSF).

“Of course, it doesn’t provide the whole of the answer, but it means that you are in a better position to do that range of work that is required in these kinds of circumstances. So it is about learning lessons, building capacity to be able to do it better in the future.”⁶²¹

978. Lord Walker, Chief of the Defence Staff from May 2003 to April 2006, was critical of the early days of the PCRU. He told the Inquiry that the problem of pulling together the strands of post-conflict activity had been an issue since the Balkans, but the PCRU had gone into “university mode: lots of discussions sitting round the table”.⁶²²

979. Sir Suma Chakrabarti also commented on the PCRU’s difficult start in 2005, but told the Inquiry that its performance had improved during 2006 and 2007, when it became “more focused on operational work, rather than ... policy and strategy, which was left with the three departments”.⁶²³

980. Dr Shafik, who succeeded Sir Suma Chakrabarti as Permanent Secretary at about the time the PCRU became the SU, told the Inquiry that the SU’s contribution in Iraq was “relatively modest, because, by that stage, the numbers of people that we needed to deploy were relatively small”, whereas in Afghanistan it had been “hugely important”.⁶²⁴ In the early days the Unit had been a “body shop”, but it had “evolved enormously”, becoming “the repository for expertise on how to do stabilisation well” and, as it had built its credibility in Whitehall, starting to lead programmes in Afghanistan.⁶²⁵

981. Dr Shafik also confirmed that agreement had been reached with the MOD on incorporating military Reservists into the pool of deployable expertise available to the SU. The key was:

“... when people deploy, they have to be clear what they are doing. Are they there as a soldier or are they there as a civilian? I think that distinction of roles is quite important, but tapping into the expertise is a huge potential gain ... if a reservist, for example, happens to have skills in accounting or in agriculture, they can be employed by the Stabilisation Unit, but in their civilian capacity.”

982. Ms Lindy Cameron, Head of DFID Baghdad from 2004 to 2005, told the Inquiry that it was only the SU’s work to put civilians on military courses that had eventually begun to undermine some of the military’s preconceptions about DFID. It was not until then “that people realised that actually there was a real intention on DFID’s part to actually make this work collectively”.⁶²⁶

⁶²¹ Public hearing, 2 February 2010, page 41.

⁶²² Public hearing, 1 February 2010, pages 63-64.

⁶²³ Public hearing, 22 January 2010, page 42.

⁶²⁴ Public hearing, 13 January 2010, page 30.

⁶²⁵ Public hearing, 13 January 2010, pages 32-34.

⁶²⁶ Public hearing, 22 June 2010, page 84.