IRAQ: CONTINUING EROSION OF SANCTIONS

Key Judgements

I. **Most governments around the world still respect UN sanctions.** Around 80% of Iraq’s overall revenues are controlled through oil-for food and the UN escrow account. There is broad international consensus to maintain the arms embargo at least as long as Saddam remains in power. This severely limits Iraq’s ability to re-build its military threat. (Para 5)

II. **Nevertheless, the effectiveness of sanctions continues to erode.** Iraq’s illicit earnings are likely to exceed $3 billion this year, up from about $1.8 bn in 2000. Syria has become the major export route for illegal Iraqi oil, […]. This could rise further. (Paras 6-9)

III. **Syria, Jordan and Turkey** benefit from cheap Iraqi oil and associated trade with Iraq. In the absence of compensation or P5 unit, they will remain reluctant to support revised sanctions or allow closer monitoring of trade. Regional support for revising sanctions will be increasingly difficult to achieve as Iraq extends trade benefits to more Arab states, and the Palestinian crisis undermines […]. (Paras 3-4)

IV. In early July, […], Russia blocked a revised UN sanctions regime because it believed its trade prospects would be severely curtailed. But Russia may not feel able to stand in the way of a further resolution on sanctions. (Paras 1-2)

V. **Iraq’s isolation has diminished.** Land, sea and air transport links are being revived. Wider Arab sympathy for Iraq is bolstered by Saddam’s championing of Palestinian rights, the widespread Arab perception that the US is compromised by its support for Israel, and false propaganda about incidents in the No Fly Zone. (Paras 10-12)

VI. Saddam would only accept the return of UN weapon inspectors if it were accompanied by the immediate suspension of sanctions, with a clear timetable for their lift. He would also demand access to oil revenues and try to obtain the abolition of the No Fly Zones. (Para 13)

VII. For now, Saddam will avoid measures that would unite the wider Arab world against him and undermine his efforts to build regional economic ties. This will further reduce the risk of military threats to Kuwait or Saudi Arabia. But he will still seek to shoot down coalition aircraft in the No Fly Zones. (Paras 14-15)
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As efforts to refocus sanctions on Iraq continue, we assess Saddam’s strategy and the prospects for sanctions-busting trade over the remainder of the year. This paper assumes there will be no change to the existing sanctions regime until the end of the year. It does not assess the prospects of achieving P5 unity and our new approach at that time.

1. Efforts to introduce revised sanctions against Iraq in early July were unsuccessful, primarily because of Russian opposition. The existing regime has been rolled over for five months and the focus has now switched to introducing the new approach at the end of that period.

Exploiting poor friends and neighbours
2. **Russia […]**:
   - Russian officials claimed that the Iraqi threat to extend the suspension of oil-for-food (OFF) arrangements would cost it more than $1 billion in a year;
   - Iraq owes Russia some $10 billion […];
   - a pro-Iraq lobby operates in the Duma. It has a close relationship with the Russian oil companies which trade with Iraq; and
   - […].

   […] Although economic self-interest will continue to dominate Russian policy towards Baghdad, there are signs that Russia might not feel able to stand in the way of a further resolution.

3. The reluctance of **Iraq’s neighbours** to co-operate gave Russia additional justification to threaten its veto. But when revised sanctions were first mooted, Iraqi officials were deeply concerned that neighbouring countries would implement them. In public […], Saddam warned Iraq’s neighbouring states not to co-operate or risk the loss of the subsidised oil trade. […].

4. **Syria, Jordan and Turkey** benefit from cheap Iraqi oil and associated trade. The degree to which they would co-operate with monitoring at Iraq’s borders would depend in part on arrangements for a safety net to compensate for lost business. They would also be more likely to co-operate if faced with P5 unity. […], however, Iraq intends to strengthen political and commercial ties with its neighbours and Russia in order to make it even harder for an effective resolution to be passed in the future. It has signed free trade agreements with many Arab countries; trade and Egypt and Lebanon, for example, is increasing.

Sanctions remain largely effective…
5. Most governments around the world still respect UN sanctions. Around 80% of Iraq’s overall revenues are still controlled through OFF and the UN escrow account. There is broad international consensus to maintain the **arms embargo** at least as long as Saddam remains in power. Components and spares for the military, and some dual-use goods, slip through the net. For example, the arrival of needed spares probably accounts for the recent increase in flying by Iraqi
MIRAGE fighters. But we have seen no reliable evidence that Iraq has imported major or complete
weapon systems. As a result, Iraq is unable to re-build and re-equip the military.

...but are gradually eroding

6. Iraq’s illegal trade continues to rise both in absolute terms and relative to UN-approved trade. Overall, we expect illicit revenue to exceed $3 billion this year (see box), up from $1.8bn in 2000. US estimates are a little lower, but show a similar rise compared to 2000. Conversely, OFF trade is likely to fall from $17bn in 2000 to $14bn in 2001, largely as a result of Iraq’s temporary suspension of OFF oil deliveries in January and June/July.

7. The largest component of illicit trade, and the main source of higher figures for 2001, is trade with Syria. Rapprochement between the two countries gathered pace over the last year. It is a marriage of convenience rather than trust, based largely on mutual commercial advantage:

- Syria is now the largest purchaser of illicit Iraqi oil, [...], as well as truck and rail. Limited deliveries of oil (via truck) only began in 1999 but oil pipeline deliveries will raise Iraq’s earnings [...];

- [...]; and

- [...] Syria is becoming a more favoured route for the supply of military spare parts, telecommunications equipment and chemicals to Iraq. The number of border crossings increase the opportunity for such trade compared to older routes through UAE or Jordan. Senior Syrians are involved in the trade.

There is scope for the illegal trade between Iraq and Syria to grow further. Existing pipelines may not be operating at full capacity. And in the medium term there are plans for a new pipeline and additional road and rail links.

8. In addition to its trade protocols with Jordan and Turkey, Iraq has recently signed trade agreements with Egypt, Tunisia, Morocco, Libya and Lebanon. Of these, Egypt and probably Lebanon have started to buy Iraqi oil outside UN controls. [...].

9. On past form, if one illicit oil export route is closed, Saddam will try to replace it with another. A second border crossing between Iraq and Turkey is being planned. Deliveries through Iranian waters and the UAE, which have been relatively low this year, could be increased. But Iran
continues to deny passage in the Gulf to most oil smugglers. And exports to Syria would be difficult to replace because they are now so large.

**Iraq's isolation continues to diminish**

10. Last year's widespread renewal of Iraq's diplomatic contacts abroad has been extended this year by a variety of bilateral and multilateral meetings, mainly to develop economic relations. International flights, begun last September, continue to operate. Iraq-based civil aircraft fly round-trip from Baghdad to Damascus three or four times per week, and a similar number of foreign aircraft fly into Baghdad, mainly from Russia, Turkey and other Arab countries. Three ferries a week operate between the UAE, Bahrain and Iraq, carrying passengers and cargo which is largely unregulated. Road/rail traffic is increasing with Syria and Turkey and is likely to increase elsewhere.

11. **Arab sympathy for Iraq** is bolstered by:

   - Saddam's championing of Palestinian rights against Israel, including money donations and the creation of a new military force in support of the Palestinian cause;
   - the widespread Arab perception that the US is compromised by its support for Israel, in particular that it applies double standards in relation to UN resolutions;
   - Iraqi success in falsifying incidents in the No Fly Zones; and
   - Maintaining the illusion that UN sanctions inflict suffering on the Iraqi people.

12. Most of those who deal with Iraq have not changed their minds about Saddam and the Iraqi regime. Saddam has no friends in Saudi Arabia or Kuwait. And he distrusts both King Abdullah of Jordan and President Bashar of Syria. But his strategy is to place Syria and Jordan under greater obligation than the west or Gulf States will be willing to buy out. He also gains influence though offering contracts, both legal and illegal, and gifts or concessions to friendly officials abroad. [\ldots].

**Saddam defiant, secure**

13. As President Putin admitted to the Prime Minister, [\ldots], the Iraqi leadership has little interest in making concessions to obtain a relaxation of sanctions. The regime feels stronger for having an external enemy and the elite is profiting. All of Saddam's close associates have become $ millionaires through sanctions-breaking trade. In current conditions, we judge that Saddam would only accept the return of UN weapons inspectors if it were accompanied by the immediate suspension of sanctions, with a timetable for their subsequent lifting. He would demand unrestricted access to oil revenues and try to obtain the abolition of the No Fly Zones.

14. [\ldots], Saddam judges his position to be the strongest since the Gulf War. Although much of this is based on regional dependence on illicit oil, the regime is secure:
• more money means that state patronage can extend to a wider ring of support amongst the military, Baath Party and government officials, tribal leaders and journalists;

• the Shia are currently quiet. In late June, security precautions pre-empted trouble following the suspicious death of another leading cleric. Shia opposition groups are mounting fewer military operations. They are divided and their coffers are empty; and

• Saddam is trying to build administrative dependencies with the Kurds of northern Iraq [...]. In the longer term he aims to re-integrate them, by persuasion or force, at a time of his choosing.

15. Although Saddam through overconfidence is prone to miscalculation, we judge that for now he is unlikely to rattle his cage by military threats to north or south. He could repeat his western deployments of last autumn, for political effect, as he focuses his activities on the Palestinian cause. But he will avoid any measures that would unite the wider Arab world against him and undermine his efforts to build regional economic ties. For now, this further reduces the risk of military threats to Kuwait and Saudi Arabia. But he will still seek to shoot down coalition aircraft in the No Fly Zones.