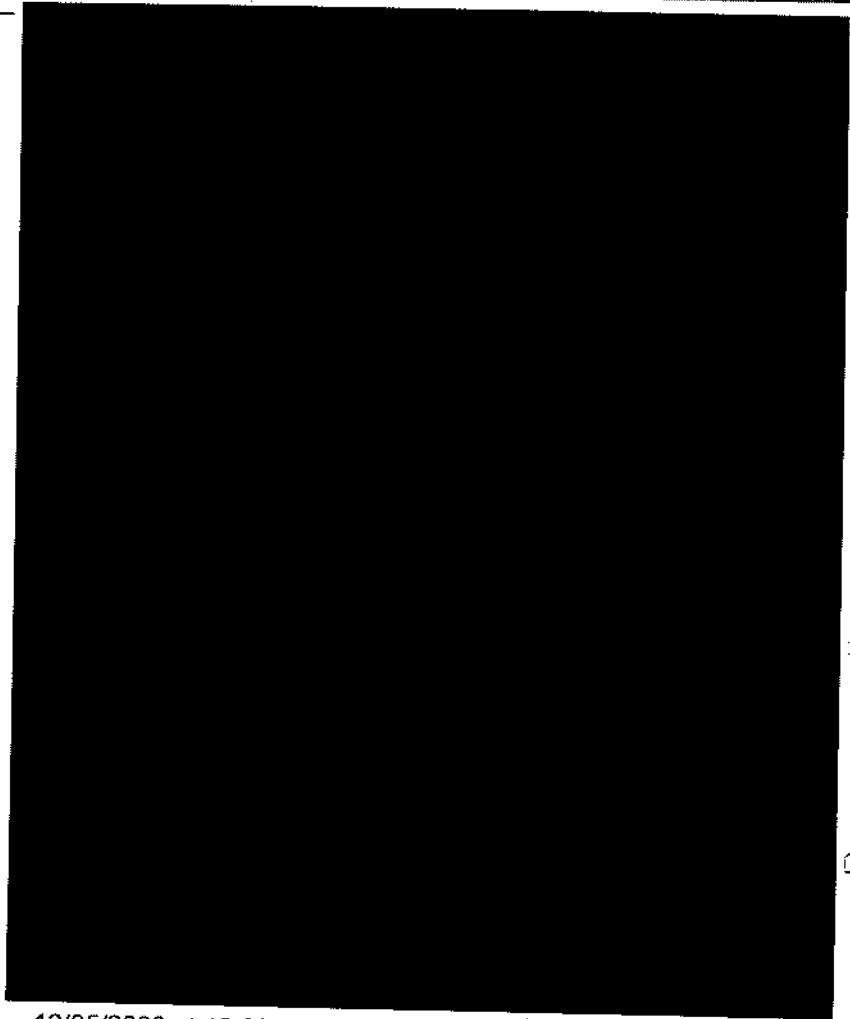


E-mail Message

From:
To:



Cc:

Sent: 12/05/2003 at 13:36
Received: 12/05/2003 at 13:38
Subject: RESTRICTED: Iraq oil paper

Attachments: iraqi oil and british interests - 2.doc

All

As discussed at the Friday OSLG, here is the revised note which Neil and I will be discussing (Tuesday a.m. rather than Monday).



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DRAFT

[FCO draft, 12 May 2003]

IRAQI OIL AND BRITISH INTERESTS

Our interest

1. Britain's interest is in a stable, democratic, prosperous Iraq, playing a responsible role in the world, free of weapons of mass destruction. This note deals with the Iraqi oil industry, which is central to achieving many of these objectives. It is also important to note that Iraq will (or should) make a significant contribution to Britain's energy security in the medium and longer term.
2. Major decisions on oil policy and structure will be taken by the Iraqis. In fact commercial and practical decisions are already being taken by ORHA, or elements of it, and the US Administration, or elements of it. Facts are being created. If we are not properly in the loop, exerting influence and taking appropriate opportunities as they arise, we will lose the chance to help shape developments in a way which enhances our energy security, and our political and economic goals for Iraq, the region and beyond, and we will run a real danger of losing out commercially. The future shape of the Iraqi industry will affect oil markets, and the functioning of OPEC, in both of which we have a vital interest.

Questions to which we need answers

3. In everything we do we need to ensure that our actions are legal, and that they do not impact negatively on our wider political and economic interests in Iraq, the region, and globally. (Even were we inclined – which we are not – to ignore these requirements, illegal actions, or ones which appear gratuitously exploitative, would backfire politically, undermining our commercial, energy security and regional political interests).
4. Against this background, key questions we need to address with some urgency are:
 - (i) **Iraq's future:** how do we ensure that the best outcomes are achieved for Iraq and its people, with decisions being taken appropriately on their behalf where necessary?
 - (ii) **Energy security:** what courses of action maximise Britain's long-term energy security?
 - (iii) **Commercial:** how do we maximise benefit to British industry, and thus British employment/economy?

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Required action

4. We now need to:



- **Establish where specific prospects for British industry exist, and ensure we are properly placed to take them:** Ministers have already identified rehabilitation of the oil industry as the first main target. We will also need to consider when and under what conditions a senior British oil industry person should go out to Iraq to survey the ground and, if appropriate, participate in e.g. the emerging Oil Advisory Board. We need to ensure that (British) companies which abided by sanctions are not disadvantaged commercially, compared with those (non-British companies) which did not.

- **Develop ideas, for deployment with the USA, Iraqis etc, on the future shape of Iraq's oil industry, and the best management and use of the oil revenues:** getting this right is central to our medium and longer term goals, both in respect of Britain's direct commercial and energy security interests, and in respect of our interest in the best future for Iraq. We will want to include in this work an analysis of the implications of future Iraqi oil production for the market and OPEC. We need to establish how we structure and staff / lead this complex piece of work in London.

- **Clarify and agree our legal advice:** even in the context of the less than ideal situation on the ground, we should be able to identify legally acceptable ways substantially to achieve our (entirely legitimate) key objectives, and move ahead quickly where necessary. Case by case, we need to put to our legal advisers precisely what we want to achieve and the arrangements we envisage. We need to know from our legal advisers whether those arrangements would be legal and, if not, how they would need to be modified to ensure legality. We need to be clear on which actions require a new UN resolution or lifting of sanctions, and which could, in some form, go ahead without that.

Next steps

5. The members of the Oil Sector Liaison Group will:

(a) agree upon the work set out in para 4 above, identifying a series of precise tasks, lead departments/ individuals to carry them out, and agreed timescales

(b) ensure, with the agreement of the Cabinet Office, that the approach in this note is presented to the ad-hoc Ministerial group [on....] for it to [note/ approve].

... May 2003