# Guiding Principles for U.S. Post-Conflict Policy in Iraq

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*Report of an Independent Working Group*

*Cosponsored by the*

*Council on Foreign Relations*

*and the*

*James A. Baker III Institute*

*for Public Policy of Rice University*

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# FOREWORD

The United States and other nations are approaching a fateful decision on whether or not to go to war with Iraq. This report takes no position on that overarching question. However, it is difficult to imagine firing the first shots without the U.S. government having put two essential matters in order: preparing the nation for the increased likelihood of a terrorist response on American soil; and pulling together realistic plans for what America and others—above all, the Iraqis themselves—will do the day after the fighting ends. The Council has dealt with the issue of homeland security in its recently published Task Force report, "America—Still Unprepared, Still in Danger," chaired by Senators Gary Hart and Warren B. Rudman. It is to meet the second concern, the day after the battle subsides, that the Council on Foreign Relations and the James A. Baker III Institute for Public Policy at Rice University joined intellectual forces.

Ambassadors Frank G. Wisner and Edward P. Djerejian co-chaired this effort with their usual good sense, consummate skill, and high intelligence. They were complemented in their leadership and writing roles by Rachel Bronson, senior fellow and director of Middle East Studies at the Council on Foreign Relations, and Andrew S. Weiss, a currency strategist at AIG Trading Group Inc. What these working group leaders, working group participants, and experts who addressed them have done is to create the first intellectual road map for thinking our way through a post-war Iraq. The document is comprehensive, most thoughtful, and, above all, practical and useful. It should be used to engage the administration, Congress, the media, and the wider public on this critical and pressing foreign policy issue, namely thinking about the dangers and opportunities that lie ahead in the gulf, and the Arab and Islamic worlds.

Both the Council and the Baker Institute intend to do more on this subject. More must be done urgently in Washington and around the country. With this study, we now have the basis to do just that.

*Leslie H. Gelb*
President
Council on Foreign Relations

# WORKING GROUP REPORT

## OVERVIEW

> *We of today shall be judged in the future by the manner in which we meet the unprecedented responsibilities that rest upon us—not alone in winning the war but also in making certain that the opportunities for future peace and security shall not be lost.*
>
> —Secretary of State Cordell Hull[1]

Today's Iraq debate is understandably focused on the run-up to possible military action. However, the question of how the United States and the international community should manage post-conflict Iraq is even more consequential, as it will determine the long-term condition of Iraq and the entire Middle East. If Washington does not clearly define its goals for Iraq and build support for them domestically and with its allies and partners, future difficulties are bound to quickly overshadow any initial military success. Put simply, the United States may lose the peace, even if it wins the war.

Developing an integrated, coherent post-conflict strategy for Iraq is a daunting task that will test American political acumen. It is made more difficult by pre-conflict uncertainties and fast-moving events on the ground. Since the international community has only agreed to focus on the arms inspection question, serious engagement on post-conflict issues by the United Nations and governments outside the United States has been limited.

The Council on Foreign Relations and the James A. Baker III Institute for Public Policy at Rice University have prepared this memorandum. It identifies a series of guiding principles and priorities to help the Bush administration promote reconstruction and reconciliation in Iraq and build a more secure Middle East after military conflict.

The memorandum is based on the assumption that full-scale military operations will be necessary and of relatively short duration. It does not consider worst–case

[1] Remarks to joint session of Congress, November 18, 1943.

scenarios, such as the United States getting bogged down in Iraq and engaging in protracted urban warfare. If Saddam Hussein fully complies with UN Security Council Resolution (UNSCR) 1441 and disarms Iraq's weapons of mass destruction (WMD) program, military action would not be necessary. In addition, if an anti-Saddam coup occurs just before an invasion begins, it may be entirely justified to delay or cancel hostilities, especially if the new regime is amenable to accepting robust disarmament conditions. However, this memorandum is based on the contingency that Saddam will not comply with UNSCR 1441, triggering U.S.-led military action.

This memorandum recommends that the administration adopt a three-phased approach that distinguishes between short-term necessities and long-term goals and objectives. In the medium-term, the key challenge will be to devise a transitional strategy that takes Iraq from the current situation to a more secure and prosperous future. There should be no illusions that the reconstruction of Iraq will be anything but difficult, confusing, and dangerous for everyone involved. However, segmenting the strategy into distinct phases and ensuring that Iraqis play a major role in determining the fate of their country will reduce the chance that one brutal strongman will be substituted for another—reproducing historical patterns and necessitating future interventions—and will also help increase the likelihood that the United States is seen internationally, in the region, and in Iraq to be working to promote Iraqi interests as opposed to assumed U.S. ones. Finding the right Iraqi allies will be key to restoring Iraqi sovereignty and making possible an early American exit.

The memorandum also recommends that the White House establish a focal point inside the U.S government to oversee this strategy. A "Coordinator for Iraq" should have full White House backing, should be assigned a deputy to run the public diplomacy campaign, and have responsibility for a post-conflict Iraq task force that draws its membership from across the interagency process.

The three-phased approach should be accompanied by a vigorous public diplomacy campaign focused on the Middle East and the Muslim world. Serious attention must also be given to skeptical audiences at home, in Europe, and elsewhere. An effective campaign must prepare the Iraqi people and the citizens of the region for the potential violence and build support for the short- and long-term goals of intervention.

Such an approach will help deflate, although by no means mute, local criticism in the region and help deny terrorists and extremists the ability to use the military action to their own political advantage. An effective campaign will be made more difficult by the fact that the explicit international consensus on Iraq is built around the need to destroy that country's WMD, rather than regime change, let alone regime change effected by war. We advocate that the planning process for this coordinated three-phased approach begin as soon as possible.

A successful post-Saddam strategy will take time and resources. America must stand ready to invest in the transition.

## DEFINING A POST-CONFLICT VISION FOR IRAQ

President George W. Bush and his top advisers must be ready to elucidate a long-term vision for Iraq. This vision should include the following:

- uphold the territorial integrity of Iraq;
- underscore the importance of an Iraq free of WMD that does not threaten its neighbors;
- promote a post-Saddam Iraqi government that is based on democratic principles, representative of Iraq's diverse population, promotes true power- and revenue-sharing among these groups, and upholds fundamental human rights and free market economics. The Working Group endorses a federal Iraq, organized along territorial rather than ethnic or sectarian lines;
- emphasize the leading role that the Iraqi people must play in running Iraq and convey that the United States has no desire to become the de facto ruler of Iraq. To quote Defense Secretary Donald Rumsfeld, Iraq's future government "is not for the United States, indeed not even for the United Nations to prescribe. It will be something that's distinctively Iraqi"; and
- welcome the fullest possible involvement in peacekeeping, reconciliation, and reconstruction efforts by multilateral organizations, such as the United Nations,

neighboring states (especially from the Arab world), non-Arab Muslim countries, and other Western partners.

Vigorous diplomacy with Arab and regional states before, during, and after conflict is necessary in order to obtain even minimal support. The overall strategic approach toward the reconstruction and rehabilitation of Iraq would benefit from a UN Security Council resolution that endorses this vision and the three-phased approach for realizing it. At the end of phase III, a final resolution should acknowledge that the key goals and objectives have been met and welcome back Iraq as a full member of the international community.

## SHORT-TERM REALITIES

Immediately after the conclusion of hostilities, Iraqis will look to the United States and allied forces to ensure that anarchy, revenge, and score–settling do not overwhelm the opportunities for lasting political change.

The most urgent immediate tasks will be the following:

*1. Establishment of a "U.S. Coordinator for Iraq."* Ideally the person chosen to fill this role will have good standing on Capitol Hill, deep working knowledge of the U.S. political process, and a strong regional background. Because the coordinator will not have control over military planning, he or she should be well respected by the military as well. The coordinator should be assigned a deputy to oversee the public diplomacy campaign and oversee an Iraq task force that draws representation from key actors throughout the bureaucracy such as the Departments of State, Treasury, Defense, etc. The position should last two years, or until key objectives outlined in the three-phased approach are realized.

*2. Location and Destruction of Weapons of Mass Destruction and Delivery Systems.* Tracking and gaining control over Iraq's highly dispersed WMD and related materiel and

technology will be a tall order in the chaotic conditions likely to accompany the fall of Saddam's regime. Current U.S. efforts to solicit cooperation from knowledgeable Iraqis about the weapons programs provide a good foundation. Nonetheless, there is a significant danger that some in the weapons complex will simply "privatize" technology or systems under their control.

U.S. interest in Iraq's WMD will not stop with the physical destruction of these systems, but will continue into the future. Iraq's capabilities are in the minds of those who created them and in records that will be impossible to trace. UN resolutions authorizing longer-term monitoring of Iraq's capabilities should be part of the post-conflict package of UN mandates. Similarly, Iraq and the international community should enter into arrangements that provide for WMD monitoring and control and acknowledge existing borders. Creative incentives for cooperation must be devised for those Iraqi scientists not guilty of war crimes, in order to prevent rogue states and/or terrorist organization from benefiting from the remnants of Saddam's WMD programs.

*3. Establishment of Law and Order*. U.S./coalition military units will need to pivot quickly from combat to peacekeeping operations in order to prevent post-conflict Iraq from descending into anarchy. Strong U.S.-backing for an emergency government will be needed to fill the vacuum left by Saddam. Without an initial and broad-based commitment to law and order, the logic of score-settling and revenge-taking will reduce Iraq to chaos.

Initial efforts must also focus on eliminating the Republican Guard, Special Republican Guard, intelligence services, and other key institutions of Saddam's regime, while preserving the Iraqi Army (minus the uppermost leadership and any others guilty of serious crimes). The army remains one of the country's more respected institutions. How it is treated during the military campaign and after, including the removal of its top leadership, is one of the key pieces of a U.S. strategy. The army could serve as a guarantor of peace and stability if it is retrained in part for constabulary duty and internal security missions. Iraqi leaders whose crimes are so egregious that they can be tried as crimes against humanity must be detained and prosecuted.

Before reorganization and retraining of the military begins, it must be clear that the army will undertake the following tasks:

- organize for the defense of Iraq and support the maintenance of law and order;
- serve, rather than become, the principal instrument of governance;
- be free of officers with high-level Ba'athist ties;
- remove those officers guilty of major crimes or crimes against humanity; and
- determine advancement based on merit, not ethnic or sectarian differences.

From the beginning, the United States and its allies should begin laying the groundwork for a short-term, international- and UN-supervised Iraqi administration, which includes strong international participation (perhaps along the lines of the relationship between Lakhdar Brahimi and the Afghan Interim Authority), with an eye toward the earliest possible reintroduction of full indigenous Iraqi rule. The optimal strategy is for the United States to play a superintending role, one that maintains low visibility but is clearly committed to protecting law and order and creating a breathing space for a nascent Iraqi government to take shape. The U.S. role will be best played in the background guiding progress and making sure that any peacekeeping force is effective and robust enough to do its job. The United States should also encourage Iraqi-led efforts toward a new constitution, census-taking, local elections, and convocation of a new parliament. While moving the process along as quickly as possible, the United States must not be limited by self-imposed timelines, but should rather adopt an objectives-based approach.

4. *Eliminating the System of Repression*. The United States and its partners should quickly put in place a mechanism to purge those responsible for the crimes and excesses of Saddam's regime. By moving immediately to address this issue and by ensuring a prominent role for Iraqi and international jurists in the screening process, the United States can help reassure Iraqi citizens that justice will be swift and fair while sending a clear signal that self-styled acts of vengeance and retribution will not be tolerated. It will also help guarantee that the people involved in a future Iraqi government are acceptable

to Iraqi citizens. At a later stage, judicial arrangements must be established to deal with crimes against humanity.

5. *Preserving Iraq's Territorial Integrity and Internal Cohesion*. Fears of an Iraqi break-up are almost certainly overstated, but Iraq's major ethnic and religious groups are divided by mutual hostility and suspicion intensified by years of Saddam's repression. Deployment of U.S.–led forces in northern Iraq and other potential flashpoints such as Kirkuk, Mosul, and centers of Shi'a sensitivity like Karbala may be needed to increase the likelihood of a unified, federal Iraq. The United States also will want to take careful steps to head off any worst-case forays into Iraq, for example, into the northern Kurdish areas and southern Shi'a ones.

Consultative councils in Baghdad and Iraqi provinces should also be established as soon as possible. These councils would be comprised of Iraqi leaders at the national and regional levels and would include representatives from the external opposition. These councils would help military commanders understand conditions, settle disputes, and resolve problems at the local level.

6. *Distributing Humanitarian Assistance, Reestablishing Vital Services*. Post-conflict conditions inside Iraq will be desperate, and the management of humanitarian relief operations will be an urgent priority for the U.S. military, as will repairs to major transportation links and lines of communication. U.S. forces will need to move quickly to provide for basic necessities, such as food, potable water, and health facilities for the Iraqi people. As it stands now, 75 percent of the proceeds from oil-for-food sales are used to purchase humanitarian goods for Iraq. The Iraqi regime has manipulated the system to reward loyalists and punish opponents, particularly in the center and south of the country where the regime is in full control. One of the first tasks must be to quickly reconfigure the distribution system to assume a humanitarian, rather than political, function. American planners should begin preparatory discussions with nongovernmental organizations (NGOs) and the UN on the fastest and most reliable way to fix and possibly expand this valuable mechanism in the immediate post-conflict period.

Refugee flows toward Turkey and especially Iran of up to 1.5 million people are likely. This places a premium on engaging early with both Turkey and Iran on cooperative strategies for mitigating the consequences of this difficult problem. Those fleeing the fighting will add to the better than one million Iraqis who have already sought asylum outside the country's borders. Managing the refugee issue there must address issues of immediate relief and longer-term resettlement.

Advanced planning, both with the UN and the humanitarian community, is necessary to ensure the earliest possible hand-off of the relief effort to UN agencies and other relief organizations. The administration should give serious consideration to issuing the necessary licenses for American NGOs to undertake assessment missions in northern Iraq. We commend recent planning discussions between the administration and the NGO community on short- and long-term humanitarian assistance.

A major outstanding issue is that U.S. forces are ill-prepared for the possibility that Saddam will employ chemical weapons against Iraqi civilian targets as a way of slowing the U.S. advance on Baghdad and other major objectives. Even though the administration is engaging NGOs on topics such as WMD training, the United States must still review and expand its plans and capabilities to assist civilians harmed by a WMD attack. In the absence of urgent and determined action on this issue, there is grave potential for disruption of the overall U.S. military effort.

7. *Marshalling U.S. Public Diplomacy Tools.* Prospects for overall U.S. success will depend on a sustained public information effort to familiarize the Iraqi people, as well as the citizens and governments of neighboring states, with U.S. short- and long-term objectives and intentions. The United States will want to set a political context that reassures Iraqis and the international community about the limited nature of its intentions and offers a viable and credible strategy for Persian Gulf security. One of the most important issues to address is the widely held view that the campaign against Iraq is driven by an American wish to "steal" or at least control Iraqi oil. U.S. statements and behavior must refute this. If war comes, the United Sates will want to be able to provide sources of accurate information that help explain to all concerned, both inside and outside Iraq, the process that is unfolding and what comes next.

The administration should assign the "U.S. Coordinator for Iraq" a deputy to oversee the broadest possible public diplomacy efforts, including through radio, satellite, and local television stations, as well as region-wide and local newspapers. American actions, those of the international community, and a new Iraqi interim government will have to be explained after the war and during the entire period leading up to full reestablishment of Iraqi sovereignty.

## THE DANGER OF IMPOSED SOLUTIONS

The continued public discussion of a U.S. military government along the lines of post-war Japan or Germany is unhelpful. After conflict, Iraqis will be a liberated, not a defeated, people. While considerable U.S. involvement will be necessary in the post-conflict environment, such comparisons suggest a long-term U.S. occupation of Iraq that will neither advance U.S. interest nor garner outside support. Likewise, it will be important to resist the temptation, advanced in various quarters, to establish a provisional government in advance of hostilities or to impose a post-conflict government, especially one dominated by exiled Iraqi opposition leaders. Such a government would lack internal legitimacy and could further destabilize the situation inside the country. The external opposition has a significant role to play in determining Iraq's future, but it should be viewed as one important voice among many.

In approaching issues such as the status of the Kurds and Shi'a, it will be essential not to repeat Saddam's attempt to organize Iraq along ethnic or religious lines, but rather to encourage territorial/provincial lines within a unified, federal framework. The U.S. goal should be to urge cooperation downward to regional, secular provinces, rather than on to ethnic enclaves.

The United States and the international community can play a helpful role in supporting Iraqi efforts to hold key supporters of Saddam's regime responsible for their actions. Open legal proceedings, with international participation, will be necessary to deal with war crimes. Likewise, international advisers can help Iraqis develop criteria for the removal and/or prosecution of key members of Saddam's regime that will be key to the

reestablishment of core government services and the retention of the competent technocratic layers of government ministries.

It is possible that Saddam will be overthrown prior to the end of hostilities, with a new Iraqi strongman or a national salvation committee taking power in Baghdad. Assuming that such a government makes a clean break with Saddam's reign of terror and pursuit of WMD, the United States should be prepared to work with it and to help it establish the broadest, most favorable terms for post-conflict international involvement on disarmament and reconstruction.

## THE LURE OF IRAQI OIL: REALITIES AND CONSTRAINTS

There has been a great deal of wishful thinking about Iraqi oil, including a widespread belief that oil revenues will help defray war costs and the expense of rebuilding the Iraqi state and economy. Notwithstanding the value of Iraq's vast oil reserves, there are severe limits on them both as a source of funding for post-conflict reconstruction efforts and as the key driver of future economic development. Put simply, we do not anticipate a bonanza.

The U.S. approach should be guided by four principles:

- Iraqis maintain control of their own oil sector;
- a significant portion of early proceeds is spent on the rehabilitation of the oil industry;
- there should be a level playing field for all international players to participate in future repair, development, and exploration efforts; and
- any proceeds are fairly shared by all of Iraq's citizens. If de-politicized, the UN oil-for-food distribution mechanism is a useful starting point for distributing oil revenues throughout the country.

It is also important to note that Iraqis have the capability to manage the future direction of their oil industry. A heavy American hand will only convince them, and the rest of the world, that the operation against Iraq was undertaken for imperialist, rather than

disarmament, reasons. It is in America's interest to discourage such misperceptions. While Iraqi technocrats are likely to be attracted to American technology and assistance, the United States should be prepared that negotiations with future Iraqi representatives on foreign participation will be prolonged and hard-fought. In addition, Iraq's highly experienced, nationalistic oil executives will be motivated by Iraqi national interests and are unlikely to agree to one-sided terms that transfer effective control of Iraq's oil reserves to foreigners.

How quickly Iraq's oil production capacity of 2.8 million barrels per day (bpd) can be increased depends on several variables, such as the political environment that develops after the war and the price of oil. U.S. policy should be informed by a realistic assessment of how Iraq will attract the estimated $30 billion to $40 billion in new investment it needs to rehabilitate active wells and to develop new fields.

Iraq's oil industry is unlikely to be able to immediately deliver recovery in oil production and, depending on damage sustained during hostilities, may find its ability to export oil reduced. It is in dire straits with existing production levels declining at a rate of 100,000 bpd annually. Significant technical challenges exist to staunching the decline and eventually increasing production. Returning to Iraq's pre-1990 levels of 3.5 million bpd will require massive repairs and reconstruction of major export facilities, costing several billions of dollars and taking months, if not years. Service contractors are likely to secure most initial oil sector contracts. The best-case projections of 6 million bpd will take several years to achieve and depend on a multitude of factors including ongoing international oil market conditions.

Any damage done to the industry during conflict will have to be addressed immediately in order to ensure that oil revenues continue to flow back to the Iraqi people. American military planners must be well-briefed on Iraq's oil infrastructure, in order to avoid inadvertently harming Iraq's recovery.

Finally, the legality of post-sanctions contracts awarded in recent years will have to be evaluated. Prolonged legal conflicts over contracts could delay the development of important fields in Iraq and hamper a new government's ability to expand production. It may be advisable to pre-establish a legitimate (preferably UN–mandated) legal framework for vetting pre-hostility exploration agreements.

## The Burden of Economic Recovery

Leaving aside immediate humanitarian needs, experts estimate that reconstruction will cost between $25 and $100 billion. Repairing existing oil export installations will require $5 billion, and rebuilding Iraq's electrical power infrastructure could cost $20 billion to restore its pre-1990 capacity. Given that Iraq's annual oil revenues are currently in the neighborhood of $10 billion, significant financial support will have to be generated by neighboring states, multilateral institutions, and other Western partners.

The scale of Iraq's problems makes it essential that the administration move to swiftly integrate development planning by the UN Development Programme and the World Bank with its plans for immediate humanitarian assistance. Mindful that the new Iraqi regime could be crippled by its foreign debt of upwards of $60 billion, the administration should seek to lighten that burden by convening the earliest possible meetings of Iraq's creditors in the London and Paris Clubs. Likewise, the United States should encourage delays in making reparations payments and repayment of other debts, including those owed to Russia and other major debt holders.

## The Broader Challenge: Building a More Stable Middle East

Iraq's neighbors will be critical to the success of the post-Saddam transition period. A U.S.-led attack on Iraq threatens to be a traumatic event throughout the Muslim world. In the Arab world especially, there is a serious risk that war in Iraq will stir up further trouble for the United States, including terrorist attacks against the United States and its partners. The single greatest perceived lacuna in U.S. policy is the great caution this country has shown in engaging on the Arab-Israeli dispute. Therefore, it is essential that the United States reengage actively and directly on the diplomatic track at the highest level and exercise its leadership with both Arabs and Israelis in support of the road map developed by the Quartet (United States/European Union/Russia/UN).

Iraq's strategic location further complicates matters. Problems in northern Iraq, especially the prospect of an independent Kurdish state, could induce Turkish military

intervention. The United States must stay committed to the territorial integrity of Iraq, even if that means thwarting Kurdish or Turkish ambitions in key cities such as Kirkuk.

Managing U.S. relations with Iran poses an even greater challenge and opportunity. As post-Taliban Afghanistan shows, there are elements of the Iranian government that will look for opportunities to frustrate U.S. objectives. In the case of Iraq, there is considerably more basis for quiet U.S.-Iranian cooperation, provided that the United States is able to assuage likely Iranian fears of U.S. encirclement and interference in its domestic affairs. At the appropriate time, the administration should consider establishing a mechanism for ad hoc consultations with Iraq's neighbors, in order to bring to the surface regional concerns, manage looming problems, and identify potential areas of cooperation. The United States should also regularly provide the neighbors with assurances that it remains committed to Iraq's territorial integrity.

For over two decades, Saddam Hussein's Iraq has undermined regional stability. The removal of Saddam Hussein, however, will not be the silver bullet that stabilizes the region, and the United States must avoid imposing Versailles-style conditions on Iraq. Even if enlightened politicians govern Iraq, the inevitable pressures to defend Iraq from its stronger neighbors like Iran could spur development of military plans and forces that are potentially threatening to Saudi Arabia and smaller Persian Gulf states.

To cease being a threat to itself and its neighbors, Iraq's military must be significantly reduced and its ethnic composition must be adjusted to reflect the country's diversity. It will be important to consider Iran's order of battle in order to anticipate the real threats faced by any new Iraqi government. But if this task is not done carefully, reconfiguring Iraq's military will only exacerbate regional fears.

## INTO THE FUTURE

The United States and the international community face a monumental challenge in Iraq. Once set free from a leadership determined to pursue weapons of mass destruction at the expense of its own people, will a liberated Iraq and the greater Middle East exist within a more stable and secure political environment? The answer depends in part upon how the

war is conducted, and the seriousness that American and international planners bring to the post-conflict environment.

Achieving security and stability in the Middle East will be made more difficult by the fact that short-term necessities will seem to contradict long-term goals. For example, the strong American presence that will be needed to establish and maintain law and order immediately after conflict will appear at odds with the long-term goal of a sovereign Iraq. Similarly, protecting Iraq's oil fields from sabotage will likely confirm the worst fears that America is pursuing war in order to steal local resources rather than convince skeptical audiences that such tactics directly benefit the Iraqi people.

It is therefore important that the United States is clear in its intentions, committed to long-term rehabilitation, and credible in its strategy. This will require that American planners adopt an objectives-based approach, rather than one constrained by a pre-determined timeline. A well-crafted public diplomacy campaign and international buy-in will be crucial to improving the chances for success.

The road will be long and difficult. But without serious early planning for "Iraq the day after," a painful future awaits not only the Iraqi people, but American interests in the region as well. Military victory will be quickly overshadowed by political defeat if the United States does not get reconstruction right; and reconstruction may be the hardest part.

# ADDENDUM

## OIL AND IRAQ: OPPORTUNITIES AND CHALLENGES

Iraqi oil revenues will be central to financing humanitarian assistance and security activities in that country during and after any military campaign. If de-politicized, the existing UN oil-for-food program provides a ready-made structure to ensure that Iraqi oil funds are used to protect and rebuild the country. While considerable resources are available, they will not be enough to provide for the many tasks required to stabilize and rebuild Iraq. Worse, a number of factors could further limit available oil resources.

In 1989, the last full year prior to the Persian Gulf War, Iraqi oil revenues totaled $14.5 billion and already constituted 99 percent of Iraq's export earnings. Iraq's two lengthy wars, first against Iran (1980–1988) and then subsequently Operation Desert Storm and its aftermath, have taken a heavy toll on the diversity of the Iraqi economy, which prior to 1980 relied on oil for only 39 percent of gross domestic product.

The availability of oil revenues during conflict and immediately thereafter is not assured and will depend on effective policy. Oil production has been dropping since 1979, most precipitously over the last several years at 100,000 bpd annually. War and its aftermath could further limit Iraq's production. If not planned for in advance, the challenges faced by Iraq's oil industry could leave Iraq's population of 23 million largely dependent on international donor aid and could portend a humanitarian crisis of unprecedented proportions. This would further delay reconstruction and significantly add to its cost.

With high unemployment and a quickly growing population, Iraq's economic base is considerably worse off than it was before Saddam took office and during the first few years of his rule. The pre-Saddam Iraq that many hold in their memories is not the Iraq of today, nor will it be the Iraq of tomorrow, even under the best of circumstances.

The key challenges to Iraqi oil potential include:

*Preventing further damage to Iraqi facilities.* Oil experts acknowledge that Iraq's oil sector is being held together by "band-aids." War, sanctions, and political manipulation have all seriously challenged Iraq's highly skilled oil industrialists. Further damage could result either from Iraqi sabotage or a U.S. bombing campaign.

Saddam may try to undertake a "scorched earth strategy," as he did in Kuwait in 1991. While such orders may be given, it is unlikely that Iraqi troops or oil technocrats would carry them out. The consequences are of such magnitude, however, that it would be wise for planners to consider this low probability/high cost scenario in their contingency planning.

Damage could also result from a U.S. military campaign. Key processing facilities can take many months to repair or rebuild. Their destruction could delay the restoration of oil production in the immediate aftermath of hostilities, possibly leading to intermediate-term damage to the country's overall oil production capacity.

*Isolating the industry from domestic turmoil.* Iraqi oil facilities will be dangerously exposed to domestic hostilities during conflict and its immediate aftermath. Local parties may try to grab control of key oil production installations in order to gain leverage in deliberations over their future use or to create political opportunities in a post-Saddam Iraq. This will be especially true if the benefits of oil revenue are not shared equitably among Iraq's communities. Putting the industry at further risk, localized looting of valuable equipment needed to sustain oil operations is possible.

If a large-scale, prolonged U.S. occupation of Iraq becomes necessary, or if the United States appears to be taking over Iraq's oil sector, guerilla attacks against U.S. military personnel guarding oil installations are likely.

*Overcoming technical challenges.* Sustaining Iraq's oil production capacity will require proper maintenance of its fields during the period of hostilities and its immediate aftermath. Failure to keep oil fields operating can severely damage future production. Sudden shutdown without adequate mothballing or shutdown procedures could lead to long-term reservoir damage. Iraq has severely tested the resilience of its fields by sporadically shutting down oil exports for political reasons over the past two years.

Attention must be given to geological considerations of operations and maintenance of Iraq's fields during a military campaign. Otherwise Iraq is at risk of experiencing a significant loss of production capacity that will jeopardize its future oil revenue stream after hostilities cease.

Iraq will also face high technical hurdles to reaching production of 3.5 million bpd. Even without a war, Iraq's infrastructure is likely to be damaged and billions of dollars will be required to rehabilitate it.

*Crafting a viable and credible public diplomacy campaign.* Western anti-war activists, the Arab public, average Iraqis, and international media have all accused the United States of planning an attack on Iraq not to dismantle weapons of mass destruction but as a camouflaged plan to "steal" Iraq's oil for the sake of American oil interests. Therefore, any efforts to secure Iraq's oil installations and its future production must be clearly and credibly presented as actions taken to protect the country's wealth on behalf of all segments of the Iraqi population.

Information about oil production, repairs, future investment, oil exports, and sales must be made transparent and involve both international and Iraqi oversight. The United States should develop a strategy for demonstrating that any military or administrative involvement takes place in conjunction with Iraqi nationals and with international cover, and is designed only to protect the resources of the Iraqi nation. A mechanism should be developed to ensure that all proceeds and activities involving Iraq's oil industry are transparent, public, and remain in the ownership of Iraq's treasury. A model for this exists in the UN's current oil-for-food program and the availability of records on earnings, proceeds, and expenditures.

*Retaining Iraq's professional sector personnel.* Sitting atop Iraq's oil industry is a layer of political appointees from Saddam's inner circle and family who should be tried as war criminals. But this layer is thin. The vast majority of professionals and technicians can be vetted and relied upon to assist with the protection, maintenance and repair, and reconstruction of Iraq's oil and gas industry. Comprehensive involvement of Iraq's oil technocracy is extremely important for technical, moral, political, and social (as well as

public relations) reasons. Many senior members of Iraq's oil elite are nationalistic in their attitudes, and they will be sensitive to the nature of U.S. and coalition aims for nation–building in Iraq and to their treatment of its revenue streams.

## BACKGROUND

After two major wars and a decade of sanctions, Iraq's oil industry is in desperate need of repair and investment. Iraq's current sustainable oil production capacity is no higher than 2.6 to 2.8 million bpd and could slip further if hostilities result in a sudden or prolonged cessation of oil production. Prior to Operation Desert Storm, Iraq's capacity was about 3.5 million bpd.

There is little doubt that there is great potential to expand Iraq's oil production and export capacity, but it will require massive investment. Iraq has the second largest proven oil reserves in the world (behind Saudi Arabia) estimated at 112 billion barrels, with as many as 220 billion barrels of resources deemed probable. Of Iraq's 74 discovered and evaluated oil fields, only 15 have been developed. Iraq's western desert is considered to be highly prospective but has yet to be explored. There are 526 known structures that have been discovered, delineated, mapped, and classified as potential prospects in Iraq of which only 125 have been drilled.

Iraq's export infrastructure has been badly damaged in its two wars. A rapid increase in Iraqi oil exports will not be possible given the limitations of Iraq's production and export facilities. Even under the most favorable circumstances in which no additional damage was done to existing facilities during a U.S.-coalition military campaign, it would take Iraq at least six months and possibly longer to expand oil production and export rates from current capacity levels. The Working Group believes it will take Iraq between eighteen months and three years to return to its pre-1990 production level of 3.5 million bpd. It will cost an estimated $5 billion to repair and restore previously used facilities, in addition to an estimated $3 billion in annual operating expenses. An estimated $20 billion will be needed to restore Iraq's pre-1990 electricity capacity. Iraq has previously stated a desire to expand its oil production capacity to 6 million bpd. This

is geologically possible but would take a number of years and tens of billions of dollars in investment.

Iraqi oil production is concentrated in two geographic areas: in northern Iraq in and around Kirkuk, and in the south in and around Basrah. The Kirkuk oil field accounts for 700,000 bpd of northern oil production, the vast majority of what can be produced and exported from that region. Most northern production is exported via pipeline through Turkey, though no fewer than 180,000 bpd are shipped to Syria by pipeline outside UN supervision. The second largest northern field is Bai Hassan, which produces about 110,000 bpd. Other northern fields make considerably smaller contributions.

The second most important field after the Kirkuk field is the southern field of Rumaila. The north Rumaila field produces about 750,000 bpd, while south Rumaila adds another 500,000 bpd. Other large southern fields include Al-Zubair (240,000 bpd), Missan (160,000 bpd), and West Qurna (120,000 bpd). These fields depend on water injection systems and gas treatment facilities. Production from southern oil fields is exported via a pipeline that extends to northern Iraq and connects to the Turkish pipeline and via the gulf offshore terminal of Mina al-Bakr.

American military planners should give careful consideration to protecting the Kirkuk field in particular. Its proximity to the U.S./UK no-fly zone will make this field highly vulnerable. Beyond the benefits that the Kirkuk field will provide to humanitarian aid programs for all of Iraq, Turkey relies on pipeline tariff revenue from exports from this field.

Protecting this field will not be an easy nor an obvious priority, as its preservation could pose major security challenges. In 1991, during Desert Storm, Kurdish militants briefly occupied the headquarters of the Kirkuk oil industry during the generalized unrest around the area. Kurdish communities now earn 13 percent of Iraq's revenues from northern oil production and will want continued access to this important income stream. Although Kurdish communities benefit greatly from the UN oil-for-food program, the slow turnaround in the repatriation of humanitarian aid and the real stakes involved for Kurdish identity mean that Kurdish cooperation regarding Kirkuk is not a given. Nonetheless, the benefits of protecting the field far outweigh the alternative.

The southern Rumaila fields would also be an important installation to protect, although the task may be complicated by their location in Shi'a border areas.

Access to electrical power is also a critical input to operating and maintaining oil fields and powering export pipelines in Iraq. Severe damage to power stations in and around major oil installations will greatly reduce the level of Iraqi exports.

## POST-HOSTILITIES: STABILIZING THE SYSTEM

One of the first priorities in Iraq after the war will be to stabilize current oil production capacity. In June 2001, a UN report stated that "Iraq continues to face significant technical and infrastructural problems, which unless addressed will inevitably result in the reduction of crude oil production." In fact, Iraq's current production capacity is declining at the rate of 100,000 bpd annually.

Because of the extensive repair work required to stabilize the system and the vulnerability of Iraq's oil fields to damage under scenarios of sudden or prolonged shut–down, the country's oil production capacity could actually *decrease,* rather than easily be rehabilitated and expanded as the media has incorrectly suggested.

Although we believe the possibility to be low that such orders would be carried out, Saddam Hussein could order his troops to set alight certain or all Iraqi oil fields just as he did in Kuwait in 1991. Kuwaiti fires required eight months and approximately $2 billion to douse. Kuwait took over two years to restore oil production to full capacity from the time the fires were smothered. Saddam could also order missile attacks on certain oil installations occupied by coalition forces or localized groups during the early days of a campaign. Any such act would clearly set back oil facility reconstruction timelines, in addition to bringing grave economic hardship on the Iraqi people. These scenarios are not very likely, however, as Iraqi soldiers and oil technicians would be reluctant to destroy the country's future. But in a war setting, no such scenario can be completely ruled out, especially if the Iraqi leadership can arouse nationalistic sentiment regarding the country's oil wealth.

Damage, accidental or collateral, to key processing facilities could also affect Iraq's ability to restore production and exports rapidly in the aftermath of a military campaign. Some processing facilities, such as gas processing and gas oil separation plants, would take a few years to repair or reconstruct (in Kuwait, it takes about two years to build a 100,000 bpd gas/oil separation plant). Oil pipeline pumping stations could require many months if not years to repair and reconstruct. It could take several months of workover and new drilling activity to repair reservoirs from any damage sustained from sudden or prolonged shutdowns, leading to some loss of immediate productive capacity from pre-hostility levels.

## OBSTACLES TO INCREASING PRODUCTION

A massive expansion of infrastructure and investment, as well as a stable political environment, will be required for Iraq to increase its oil production capacity to the oft-quoted 6 million bpd mark.

Initial investment requirements will have to compete with costs for Herculean humanitarian and other reconstruction needs that have to be met avoid a major health and economic crisis in Iraq after a war. This trade-off will limit how much money Iraq will have to invest in restoring and expanding its oil industry. If no facilities were damaged, Iraq's total oil revenues would still only likely average around $10 billion to $12 billion annually. Total oil revenues would be less than half of this amount if only northern oil production and export facilities were secured without damage.

*Iraq's infrastructure problems are severe.* Due to operating constraints and the regime's erratic policies, Iraqi oil managers have resorted to sub-optimal techniques to sustain production. It will be impossible to gauge the extent of Iraq's oil sector damage before completing overall assessments. Therefore the United States must support international and Iraqi efforts to devise a comprehensive plan for the redevelopment of Iraq's entire oil industry that determines:

- the optimum development of oil fields with regard to maximizing access to export facilities and processing plants;
- the optimum manner to develop and expand transportation infrastructure inside Iraq and for export;
- the optimum manner to develop infrastructure for the importation of needed oil field equipment and other supplies with regard to ports, roads, and railways; and
- the allocation of investment to these communications routes as well as the power generation needed to implement capacity expansion.

*Repair of export facilities will likely be the determining factor in the restoration and expansion of Iraqi oil production capacity.* Current export capacity via Turkey is limited to 900,000 bpd. Repair of two pumping stations and the Zakho metering station must be completed in order to increase Iraq's exports through Turkey to their pre-1990 capacity of 1.7 million bpd via the two parallel pipelines to Ceyhan.

Exports from southern oil fields will depend on the condition and capacity of Iraq's north-south pipeline and repair of its gulf export terminals. The smaller Mina al-Bakr terminal currently can handle 1.3 to 1.4 million bpd. Additional repairs will be needed to restore its operations to nameplate capacity of 1.6 million bpd.

Full repair of the Turkish parallel lines and Mina al-Bakr would bring Iraq's export capacity to 2.8 million bpd. Iraq's other gulf port of Khor al-Amaya could add an additional 1.2 million bpd of export potential if repaired and utilized.

Other export outlets include Syria, where a 1.4 million bpd pipeline connection currently exists. Syria uses most of the line's capacity for its own oil exports, but no fewer than 180,000 bpd of Iraqi oil have been smuggled through Syria in recent years. A small pipeline connection also exists to Iran. Saudi Arabia nationalized the 1.65 million bpd, IPSA-2 oil pipeline that can carry oil from Iraq to Saudi Arabia's Red Sea coast, claiming the facility as war reparations. The integrity of this pipeline has been maintained, and it is considered operational.

Massive repairs are also needed to Iraq's ten oil refineries.

Iraq has a large, well-trained professional corps of oil industry technocrats and technicians that is capable of controlling the oil industry, as it has for three decades. Failure to tap this national resource to repair, run, and expand Iraq's oil industry would result in serious political, security, and public relations backlash.

During conflict and in its aftermath (if damage is not severe), Iraqi professionals will be able to undertake normal Iraqi oil operations with continued oversight by the United Nations. The continuation of the UN's oil-for-food program structure will assist in building a resource distribution mechanism with minimal corruption and transparent prioritization in the allocation of oil revenues.

Due to massive infrastructure requirements, however, Iraq's oil experts may be amenable to establishing an international consortium, with Iraqi participation and leadership, to assist with planning, coordination, and implementation of a wide variety of projects. Paragraph 30 of UNSCR 1284 already authorizes the UN secretary-general to investigate ways that oil companies could be allowed to invest in Iraq. Thus, the legal basis for the UN to authorize and oversee foreign investment in the repair and expansion of Iraq's oil industry under the oil-for-food program already exists.

Competition for repair, restoration, expansion contracts, and tendering for exploration contracts in Iraqi oil and gas fields should be under the control of Iraq's professional cadre. In the short- and medium-term, the UN should continue its oversight in reviewing the contracting process. Tapping the UN mechanism will help to ensure that the bidding process is transparent and governed under principles of open access.

The legality of post-sanctions contracts awarded in recent years by the current Iraqi regime will have to be evaluated. Contract holders may resort to legal means to assert their rights even under circumstances of regime change. Prolonged legal conflicts over contracts could delay the development of important fields in Iraq and hamper a new government's ability to expand production. It may be advisable to pre-establish a legitimate (possibly UN mandated) legal framework for vetting pre-hostility exploration agreements.

It remains to be seen how eager a new Iraqi leadership will be to welcome back foreign direct investment. In the past, Iraqi oil technocrats have favored a return of such capital. However, the experience of Kuwait after 1991 should temper expectations of a windfall. After hiring Western firms to put out its oil field fires and repair surface facilities, Kuwait's parliament has routinely voted against contracting with foreign firms for oil field development despite a loss of production capacity that has been experienced over the last three years. Given Iraq's desperate economic situation, its leadership may not have the luxury Kuwait did to try to go it alone. But with a new government and greater plurality of views, Iraqi oil nationalists could pursue a variation on the Kuwaiti approach.

*Iraq and OPEC.* The Working Group is unconvinced that a new Iraqi government will quit the Organization of Petroleum Exporting Countries (OPEC) as some have speculated. As a founding member of OPEC, Iraq will experience a strong historical pull to remain within the organization. As important, if not more so, is the fact that producing outside of an OPEC quota will not necessarily bring increased resources. Every producer must balance between restraining output to create generally higher international oil prices and expanding individual production capacity to seek higher revenues through rising market share but potentially at lower overall international price levels. Operating outside of OPEC will not necessarily garner increased profits, as Iraqi oil decision–makers are also well aware of the fact that Saudi Arabia may punish Iraq by flooding the market with its own oil, if Iraq chooses to quit OPEC.

Saudi Arabia and other OPEC members will likely lobby Iraq hard to accept an oil production quota equal to Iran which is 3.18 million bpd and is in line with historical precedent. Also, because Iraq's success relies on good neighborly relations, there are reasons for Iraq to be part of OPEC that are not as compelling to countries outside the region, such as Russia.

## IRAQI GAS: GOOD POTENTIAL BUT NOT A PRIORITY

Iraq holds 110 trillion cubic feet (tcf) of proven natural gas reserves, as well as approximately 160 tcf in probable reserves. Much of the gas has remained untapped. Gas development will probably take a backseat to oil development, where markets and profits are more immediately tangible. Iraq has already discussed gas exports to Turkey in competition with Russia, Iran, and other key gas producers. In 1997, Baghdad reached an agreement with Ankara to build a $2.5 billion 1,380-km gas pipeline from northern Iraq to southwestern Turkey, which could possibly be linked to the Trans-Magreb line that runs from Turkey to Europe. The proposal would involve the transport of 10 billion cubic meters (bcm) of Iraqi gas annually to Turkey from five fields in the north—Al-Anfal, Al-Mansuriya, Jaryat Baka, Al-Khasham Ahmar, and Al-Jamjal.

Turkey, however, has greatly overestimated its gas requirements, mainly for power generation, is in default on a take-or-pay gas contract with Iran, and is slowing movement on a projected major new source of gas from Azerbaijan. Turkey, therefore, is unlikely to present a market for Iraqi gas exports during this decade. Eventually, Iraqi gas might feed into a pipeline system carrying gas from several potential suppliers across Turkey to Europe, if such a system is built.

## KEY RECOMMENDATIONS

Given the above analyses, the Working Group recommends:

- issuing official U.S. statements guaranteeing Iraqi sovereignty and territorial integrity and the preservation of Iraq's full national ownership and control over its resources;
- crafting a public diplomacy campaign that explains the need to secure oil facilities and assures skeptical publics that the United States has no aims to "take over" Iraqi oil assets;

- ensuring that the U.S. military has the requisite information to identify the assets that could, if severely damaged or destroyed during military hostilities, substantially delay resumption of the Iraqi oil export program;
- de-politicizing and preserving the UN oil-for-food distribution mechanism in order to handle oil export programs during hostilities and immediately thereafter;
- drawing on UNSCR 1284 to help Iraqis rationalize their oil sector and develop strategies to access foreign oil company assistance and investment;
- leveling the playing field for awarding energy sector contracts by supporting a transparent and competitive tendering process;
- supporting the creation of an international consortium to work with Iraqi industrialists and create a road map for the reconstruction and expansion of Iraq's oil sector; and
- establishing a legal framework within the UN, as early as possible, to handle claims by oil firms holding oil field contracts in Iraq to prevent lawsuits from delaying future development.

# TIMELINE

## THE THREE-PHASED APPROACH

| | Short-Term | Medium-Term | Long-Term |
|---|---|---|---|
| | **Emergency Transitional Government with Iraqi Advisers** | **Internationally and UN- Supervised Iraqi Government** | **Sovereign Iraqi Government** |
| **Duration*** | Up to 2 months following cessation of hostilities | 3–24 months | 2 years |
| **Led by** | Commander U.S./coalition forces | Iraqi leadership working closely with UN secretary-general representative and senior U.S. deputy | Fully sovereign Iraqi leadership |
| **Key Security Objectives** | ▪ WMD disarmament<br>▪ Implementation of cessation of hostilities agreement<br>▪ Establishment/maintenance of law and order<br>▪ Defense of Iraq's territorial integrity: protection of borders/key energy production centers<br>▪ Deploy coalition forces to key population centers | ▪ Finalization of arrangements for long-term monitoring and dismantling of WMD capabilities<br>▪ Internationally supervised re-training of Iraqi military<br>▪ Internationally supervised re-training of Iraqi police force | ▪ Iraq free of WMD<br>▪ No longer threatening neighbors<br>▪ Routinization of WMD disarmament monitoring programs<br>▪ Consolation of Iraqi security arrangements<br>▪ Integration into international community |
| **Key Economic Objectives** | ▪ Open/protect key lines of communication and transportation<br>▪ Staunch decreasing oil production, led by Iraqi experts<br>▪ Clarify existing oil production agreements | ▪ Support the establishment of an Iraqi-led international consortium to address Iraq's oil industry needs<br>▪ Support Iraqi efforts to reach pre-1990 oil production level<br>▪ Identification and prioritization of reconstruction and rehabilitation projects<br>▪ Reschedule foreign debt<br>▪ Redesign formula for reparations | ▪ An economy based on free market principles<br>▪ A rehabilitated oil sector |
| **Key Governance Objectives** | ▪ Obtain UNSCR outlining post-Saddam broad objectives<br>▪ Continue close consultations with Iraqi leaders inside and outside the country<br>▪ Identification and detention of senior-most supporters of regime<br>▪ Develop criteria for de-Saddamization | ▪ Support removal of senior Ba'ath leaders (led by Iraqis and international community)<br>▪ Support resumption of government operations<br>▪ Conduct census<br>▪ Preparations of legal proceedings, with Iraqi and international participation, for those accused of crimes against humanity<br>▪ Appointment of Iraqi Consultative Assembly<br>▪ Preservation of internal cohesion/territorial integrity | ▪ A government based on democratic principles<br>▪ A government representative of Iraq's diverse population<br>▪ True power- and revenue-sharing<br>▪ Upholding fundamental individual and group human rights<br>▪ An all Iraqi-led government<br>▪ A more binding Iraqi constitution |

| | | | |
|---|---|---|---|
| | **Short Term** | **Medium Term** | **Long Term** |
| | **Emergency Transition Government with Iraqi Advisers** | **Internationally and UN- Supervised Iraqi Government** | **Sovereign Iraqi Government** |
| **Key Governance Objectives (cont.)** | ▪ Lay groundwork for the assembly of UN-supervised Iraqi interim administration<br>▪ Establish Iraqi advisory committees throughout Baghdad and provinces, to include members of the external opposition<br>▪ Distribution of humanitarian assistance<br>▪ Reconfigure oil-for-food distributive mechanism<br>▪ Resumption of basic services<br>▪ Protection of refugees and control of refugee flows | ▪ Local and parliamentary elections | ▪ Security Council resolution acknowledging completion of the process and allowing for full re-entry into the international community |

* The Working Group advocates pursuing an objectives-driven approach to Iraq. Achieving key objectives is more important than the estimated duration.

Note: All activity must be accompanied by an active U.S. public diplomacy campaign to explain to the Iraqi people and the international community what is happening in Iraq along with U.S. objectives and intentions.

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While not necessarily agreeing with all the particulars, the signatories endorse the overall conclusions of the report.

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