Winning the Peace: Managing a Successful Transition in Iraq

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Foreword

The way in which the current crisis over Iraq is resolved will in all probability shape the course of international relations for many years to come. The prospect of a transition from the Saddam Hussein regime to a new political order in Iraq presents issues of great importance not only to the United States, but also to the other countries of the Middle East, to U.S. allies in Europe, and to many other members of the United Nations. The Center for Global Peace at American University and the Atlantic Council of the United States are pleased to offer this report as a contribution to the discussion of how this transition can best be managed in a way that takes account of the interests of all the parties concerned.

This report is the product of the deliberations of a working group over the last few months. The sponsors greatly appreciate the written contributions of many members of the working group, without which it would not have been possible to produce so wide-ranging a report. The report itself reflects the consensus of the discussions within the working group and not the views of American University or the Atlantic Council. No individual member of the group necessarily subscribes to every statement in the report, but all those whose names are given in Annex D accept the report as a good reflection of the consensus reached in those discussions.

The Center for Global Peace and the Atlantic Council hope that the ideas contained in this report will prove useful to others concerned directly and indirectly with the design and implementation of policy towards Iraq. The sponsors would particularly like to thank several individuals for their contributions to this project. First, Richard Murphy for bringing his enormous experience and good judgment to the project and for guiding the working group's discussions with a characteristically sure hand. Second, the project co-directors, Carole O'Leary and Dick Nelson, for their admirable and expeditious management of the working group and for Dick Nelson's skilled and concise rendering of the group's discussions into this report. Third, to Jason Purcell of the Council for the preparation and organization of the group's meetings.

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Key Judgments

Winning the peace in Iraq – assuming the current regime will be displaced by war or by other means – will require successful management of several challenges. Chief among these is building the necessary consensus on a common vision for the future of Iraq. In this connection, three interrelated issues merit the highest priority attention: power sharing arrangements, Iraq's economy and oil sector, and regional stability.

Vision. Creating a common vision for Iraq's future is critical for a successful transition. This vision must satisfy the key interests of not only the United States, but also of the Iraqi people, neighboring states and other states with important interests at stake. Important features of this collective vision include: *a federal, representative, pluralistic, non-threatening Iraq that is secure, recognized and united within its current borders, that renounces weapons of mass destruction (WMD) and terrorism, that respects the rule of law, and is moving towards democracy.*

The more widely this vision is shared both within Iraq and abroad, the greater the chances of success. An integrated and sustained public diplomacy effort should be organized around this vision. In addition to being based on shared interests, broad support will also require a U.S. commitment to remain engaged long enough to ensure a successful transition. Ultimately, however, the Iraqi people will determine Iraq's future.

*Power Sharing***.** An immediate, high priority task will be to establish an interim power sharing arrangement to rule Iraq as soon as practical after any military operations. Such an arrangement stands the best chance of success if it involves a representative group of Iraqi leaders operating under a United Nations (UN) Security Council-mandated oversight administrator. This would provide the basis for pluralistic self-rule with a nonpartisan outside administrator in position to resolve any differences that cannot be settled among the Iraqi leaders themselves and to override any decisions that would threaten regional or international security.

Placing oversight in UN hands would counter criticism of U.S. hegemony. The objective of this interim arrangement would be to turn over the complete administration of the country to Iraqi leadership as soon as the UN Security Council members are confident that a stable, just and peaceful administration has been established in Iraq. While U.S. and coalition forces would play an essential role in the maintenance of order after a military intervention, they should do so in cooperation with a UN-mandated administration. An international peacekeeping force should assume these responsibilities as quickly as is feasible.

To provide a stable and just power sharing arrangement, the UN administrator should appoint representatives to an interim ruling council. In making these appointments, the administrator should take into account geographic, ethnic, tribal, religious and gender factors. This would avoid partitioning the country along ethnic and religious lines, which would be fraught with danger. At least initially, some provision for representatives of Iraqi exile groups also seems reasonable. While the facts on the ground regarding Kurdish

autonomy should not be reversed, any interim arrangement must avoid setting a course that will lead to an independent Kurdistan and destabilize the region.

Iraqi Economy and Oil Sector. Iraq's oil wealth presents both opportunities and challenges. In the short- to mid-term, Iraq's oil revenues are not likely to be sufficient to meet its many needs, including foreign debt repayment and war reparations. Balancing these demands will be important to sustaining stability. This resource is best managed by the Iraqi National Oil Company, with full transparency, so that all parties may be assured that oil revenues are being fairly distributed.

Oil revenue is critical to the Iraqi economy and it can play a positive role in assisting political integration. It has virtually replaced taxation as the main source of funding for Iraq's large public sector and it accounts for the vast majority of Iraq's export earnings. However, oil production has been declining in recent years due to a lack of maintenance and recapitalization. To reverse these trends, substantial investment is critical. Thus it is most important for the interim government to develop ways to encourage foreign direct investment in the oil sector.

Among the many demands on Iraq's oil revenues will be rebuilding the nation's infrastructure and repaying foreign debts. Generous debt and reparations relief arrangements are necessary for stability because these obligations cannot be met under their current terms while at the same time leaving funds available for the badly needed rebuilding of the domestic infrastructure and other needs. For example, war reparations owed to regional neighbors might be suspended or forgiven in view of the fact that the United States and other major powers are willing to help guarantee regional security. Furthermore, the United States should set an example by not presenting Iraq with a bill for the costs of any military operations. Special attention is needed to ensure that Jordan is not destabilized by cutting off too quickly the heavily subsidized oil currently provided by Iraq.

If Iraq is to regain past oil production capacity, in addition to substantial foreign investment, it will need to assure multiple export routes. Currently, most Iraqi oil is exported through Turkey and the Gulf. Other pipelines through Syria and Saudi Arabia, along with Gulf ports, may be reopened, though each route poses unique challenges.

Regional Stability. The interim administration and subsequent arrangements must ensure that Iraq no longer poses a threat to its neighbors and to international interests in the region. Weapons of mass destruction and long-range missiles must be destroyed. This will require continued close monitoring by the United Nations for the indefinite future.

New mechanisms are needed to address regional security concerns. One possibility would be to establish an international military committee under the UN Security Council. This committee could include senior military officers from Iraq, the United States, Turkey, Iran, Saudi Arabia, the Gulf states and others.

A U.S.-led invasion and occupation is almost certain to trigger anti-U.S. protests outside Iraq and to raise the risk of terrorist attacks against U.S. forces and interests. Such protests are

likely to be contained. Nevertheless, to mitigate some adverse consequences, a robust U.S. public diplomacy campaign must be conducted, aimed at winning the critical "war of ideas" in the region.

U.S. Roles. These and the many other challenges to achieving a successful transition are daunting. U.S. leadership in forging the greatest possible international consensus on the goals of a successful transition period will be indispensable. To do this, the United States must be willing to work with others from the outset, both in coalitions and through international institutions, and to recognize that its own preferences may at times have to be modified to take account of the interests of other parties.

U.S. influence over the Iraqi economy and oil sector will be a particularly delicate matter. The United States, unfortunately, has been branded as responsible for the economic plight of Iraqis. It is therefore imperative that the U.S. government establish itself clearly in Iraqi minds as willing to encourage the development and well-being of the Iraqi population. This will require a willingness to contribute in full measure to the redevelopment of Iraq and to resist any temptation to argue that, having shouldered the cost of whatever military operations were involved in removing Saddam Hussein, it is for others to pay for the country's economic reconstruction. At the same time, it is essential that U.S. policy not go beyond insisting on a level and transparent playing field for its oil, construction and other companies in the process of reconstruction and that it support Iraqi control of the country's natural resources.

In terms of regional security, the United States is the only country that has the influence with many of the key players, including Turkey and Saudi Arabia, to forge the needed consensus among Iraq's neighbors on a stable future for the region. But the United States suffers from at least one major liability – the absence of recent relations or serious dialogue with Iran. This inhibits the ability of the U.S. government to ensure that the relationship between Iran and Iraq – perhaps the key relationship within the region – is reestablished on a sound and stable basis. Therefore, the U.S. administration should not only urgently look for ways of opening formal and recognized channels of dialogue with the Iranian authorities, without prejudice to its position on the issues which have divided the two countries in recent years, but also work with other friendly countries, including the European Union and Saudi Arabia, to engage Iran in planning for transition in Iraq and to dispel Iranian fears that they are next on a U.S. hit list in the region.

Finally, the United States should redouble its efforts to promote progress in the social and economic development of the Middle East region as a whole. As a priority, the U.S. administration must turn its attention actively to the Israeli-Palestinian problem as soon as a new Israeli government has taken office. The United States should then endorse the official promulgation of the so-called Quartet's road map to a settlement and undertake a serious diplomatic effort, with all the means at its disposal, to create the conditions on both sides that would enable progress to be made in implementing it.

Winning the Peace: Managing a Successful Transition in Iraq

I. Building Consensus on a Vision

The Vision

This report assumes that the current regime in Iraq will be displaced by war or other means in the coming months. A regime change, however, does not guarantee the emergence of a well-governed Iraq at peace with its neighbors. To achieve such a successful outcome, a series of challenges should be anticipated so that they can be managed as well as possible. Chief among these is building the necessary consensus around a common vision for the future of Iraq.

This vision should be clear, concise and it must satisfy at least the basic concerns of the key domestic and foreign parties. Thus, building a common vision will require careful consideration of the many different interests of these parties, their priorities and their expectations about the future of Iraq. In some cases, interests of important parties are in conflict. Ultimately, however, the Iraqis themselves will determine their future.

In many ways, the post-Saddam Hussein transition will be more difficult and more important than any military campaign itself. The issues are complicated by the competing interests of Iraq's domestic factions, those of its neighbors, and by differences over the roles that the United States and other external powers should play in reconstructing Iraq. It will be difficult to reconcile competing regional demands for a post-Saddam Hussein Iraq with those of Iraqis, who have their own visions of life after Saddam Hussein. The issues of concern to Iraq's neighbors include conflicting political systems, competing economies, the territorial integrity of Iraq, sectarian and tribal enmities, and the prospect of a prolonged U.S. military presence in the region. (See Annex A for an overview of the interests at stake.)

Despite the many important differences, there are sufficient complementary interests to construct a common vision for the future of Iraq. A clear, concise vision that reflects common interests to the maximum extent possible is critical. Important features of this

vision include: *a federal, representative, pluralistic, non-threatening Iraq that is secure, recognized and united within its current borders, that renounces weapons of mass destruction (WMD) and terrorism, that respects the rule of law, and is moving towards democracy.*

Public Diplomacy

Building consensus and support for this vision will be a challenge and it should play a useful role in winning the "war of ideas". To do this systematically, a robust public diplomacy campaign must be in place prior to the start of military operations. It then must remain in place and adapt as necessary throughout the duration of the military campaign, and endure well into the post-Saddam Hussein transition period.

Such a campaign must be multifaceted and directed towards key constituencies, both in Iraq and abroad, including the broader Arab and Organization of the Islamic Conference (OIC) communities, Russia, China and U.S. allies. It must involve more than leaflets and loudspeakers. It should rely mainly on face-to-face communications involving key opinion leaders. The campaign should be organized to influence behavior and not simply beliefs. The main immediate objective for both the Iraqi people and neighboring states is to support the interim administration that will follow the departure of Saddam Hussein.

The psychological operations and public affairs strategies directed at Iraqi audiences will be complex undertakings. Having been subjected to Saddam Hussein's propaganda machine for decades, the Iraqi population is likely skeptical, as well as fearful, about U.S. intentions toward their country. Many Iraqi citizens have not had access to global communications, such as the internet or satellite television, which would in turn allow them access to unbiased reporting, although the U.S. government sponsored Radio Sawa is said to be gaining a following inside the country. Nonetheless, the Iraqi government heavily controls information about the United States and its attitudes towards the Iraqi regime. As a result, many Iraqis may well view U.S.-led military intervention and U.S. support for a successor regime to be little more than U.S. imperialism and a modern-day effort to colonize their country. Based upon their perception of U.S. intervention in Somalia, other Iraqis, including some players currently outside of Iraq, may also be concerned that the United States may be unwilling to stay the course and invest in rebuilding their country once Saddam Hussein is ousted.

II. Power Sharing

Interim Arrangement

An immediate, high priority task will be to establish an interim power sharing arrangement to rule Iraq as soon as practical after any military operations. Such an arrangement stands the best chance of success if it involves a representative group of Iraqi leaders operating under a United Nations (UN) Security Council-mandated oversight administrator. This would provide the basis for pluralistic self-rule with a nonpartisan outside administrator in position to resolve any differences that cannot be worked out among the Iraqi leaders themselves.

The UN administrator would also be able to override any decisions that might threaten regional or international security. The objective of this interim arrangement would be to turn the complete administration over to Iraqi leadership as soon as the UN Security Council members are confident that a stable, just and peaceful administration has been established in Iraq. The Iraqi interim authority will need to establish a mechanism, such as a constituent assembly, that will lead to a permanent government. This process can benefit from the advice and experience of the United Nations and others.

To provide a stable and just power sharing arrangement, the UN administrator should appoint representatives to an interim ruling council. In making these appointments, the administrator should take into account geographic, ethnic, tribal, religious and gender factors. This would avoid partitioning the country along ethnic and religious lines, which would be fraught with danger. At least initially, some provision for representatives of Iraqi exile groups also seems reasonable. While the facts on the ground regarding Kurdish autonomy should not be reversed, any interim arrangement must avoid setting a course that will lead to an independent Kurdistan and destabilize the region.

Several working group members believe that provisions for self-determination in Kurdish areas should be guaranteed from the outset. They also believe that dividing Iraq into multiple federal units along the lines of existing provinces would not be supported by Kurds in the post-interim period because it would not address the aspirations of the Kurdish community and, therefore, would be doomed to failure. Other working group members believe that the issue of Kurdish self determination should be left to the judgment of a federal and independent Iraqi government.

The leadership of an interim Iraqi administration remains problematical. No single candidate stands out, but even Hamid Karzai was not well known outside of Afghanistan before September 11th, 2001. A person with connections to former Iraqi royalty would probably not be acceptable to most Iraqis. Such a person would also be linked to the experience of the British Mandate in the minds of many Iraqis. Similarly, a general or other senior military officer, Ba'ath Party official, or bureaucrat would not likely be acceptable. They would too closely resemble Saddam's regime in perpetuating his kind of Sunni Arab authoritarianism. Therefore, some sort of collective leadership seems appropriate as an initial arrangement, under a UN mandated administrator.

Federalism

As the interim government prepares for the transfer of power to a new constitutional government, a debate on the structure of the future government needs to take place within Iraq. Skeptics question the ability of democracy to survive in the Middle East; optimists see the departure of the Saddam Hussein regime as a great opportunity to spread democracy. The best chances for Iraq involve the progressive establishment of a federal, pluralistic, and democratic government that is accountable to the Iraqi people and that encourages a free market economy. Such a system, as opposed to authoritarian rule, would best satisfy the needs of all the Iraqi factions, maintain territorial integrity, manage a competitive economy and pursue domestic reform.

The Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK), reluctant to surrender the autonomy enjoyed for a decade, have prepared draft constitutions for a geographically defined Kurdistan federal political unit within Iraq. Kurdish parties envision a democratic and federal Iraq in which the region of Kurdistan forms one of the federal units. Such a provision would allow for the greatest amount of Kurdish self-rule, and is the primary reason that Turkey has attacked federalism as *de facto* independence.

Shi'a factions have advanced a federalist form of government based on different territorial divisions, a system that would take full advantage of their majority and underline their refusal to return to being politically powerless. Sunni groups, long the empowered minority, have leaned toward the Kurdish plan, if only out of fear of Shi'a oppression.

The advantages of a federal system have been clearly stated recently as follows:

> Federalism as an organizing structure can promote stability, especially in multi-ethnic or multi-religious states, through the establishment of political units whose relationship to the center is clearly defined in a governing document that includes principles concerning structures and rules for governance and appropriation of federal funds. As in the United States, federalism in Iraq could provide a system of checks and balances to moderate the power of any future central government, inhibiting the ability of an autocratic leadership – secularist or Islamist – to seize control of the center. And, as in Switzerland, federalism can guarantee the political and cultural rights of Iraq's ethno-linguistic and religious communities.[1]

The difficulty is that Iraqis have very different views of federalism. The Kurds want to maintain the level of self-government that they currently enjoy. They are moving to create a constitution for Iraqi Kurdistan that establishes a Kurdistan Regional Government (KRG) with its own assembly, president, and judiciary. The KRG would be fully sovereign (in the sense that U.S. states are sovereign) with control over taxes, spending, and resources (except oil revenues) in the region. The KRG would regulate education, health, and most other government services. Most important to the Kurds, the KRG would have exclusive police authority in Iraqi Kurdistan. While the current draft constitution does not address the matter, the Kurds intend to retain their military forces, reconstituted as a Kurdistan Self Defense Force responsible to the KRG president. In the Kurdish view, the central government in Baghdad should exercise relatively few powers (foreign affairs, oil, customs, currency) and only powers expressly delegated to it by the regions. All residual power would rest with the KRG, and the other regions.

Iraqi Arab political parties and personalities have varying views of federalism. Some propose that political power be structured around Iraq's existing 18 provinces and some suggest restructuring to five provinces. Arabs would most likely reject the idea of a three-province federation comprised of the Kurds in the north, Sunni in the center and Shi'a in the south. Indeed, Iraq's Sunni Arabs are probably the most concerned about the implications of any democratization, pluralism, or federalism. With perhaps only 17 percent of the population, they have ruled Iraq since Ottoman times, usually to the disadvantage of the Shi'a, Kurds,

[1] Carole O'Leary, "The Kurds of Iraq: Recent History, Future Prospects," *Middle East Review of International Affairs (MERIA) Journal,* Vol. 6, No. 4 (December 2002) Page 5.

and other non-Arab communities. More importantly, they feel threatened as a result of their close links to Saddam Hussein's regime. They fear the consequences of regime change – especially revenge attacks by individuals looking for former government agents, informers, or bureaucrats responsible for the acts of the old regime. Finally, after over 80 years of Sunni Arab political dominance in Iraq, they will resent a new government with proportional representation, fearing it would lead to Shi'a dominance.

Finding common ground between the competing ideas will be difficult, and the Kurds are moving to create precedents by adopting their own constitution. Further, since the Kurds already enjoy the *de facto* independence they seek, they may exercise an effective veto over any resumption of central government functions in the north.

Law and Order

In the immediate aftermath of the departure of Saddam Hussein, there is a high likelihood of civil unrest. A former Iraqi major general who, prior to defecting, headed psychological warfare efforts, noted, "…given Iraq's 40-year history of repression, it is highly likely that blood will fill the streets."[2] Retribution, score settling and bloodletting may be especially problematic in urban areas. There will be no alternatives to international military forces, preferably under UN mandate, acting swiftly and decisively to maintain order in key areas. In particular, special arrangements will be needed to prevent fighting to control key centers, like Baghdad and Kirkuk.

War Crimes

The interim government will also need to address the war crimes and crimes against humanity committed under the previous regime. Saddam Hussein's government, in its efforts to suppress domestic dissent and to dominate its neighbors, committed many violations of international law for which the leaders involved should be held accountable. A mechanism will need to be established, with the fullest possible participation of untainted Iraqi jurists and other leaders, to address war crimes and other violations in an appropriate manner that will also discourage individuals from seeking personal revenge.

Establishing war crimes tribunals in the early months of the transition period serves three major functions. First, they may well diminish social unrest and civil violence. Second, they would establish an important symbolic break between the new administration and the Ba'ath regime, helping to establish the legitimacy of the new government and providing confidence in the rule of law. Third, war crimes tribunals could form the beginning of a purge process in which the leaders of the Ba'ath regime are prosecuted and other high-ranking party members are permanently removed from government. Some lower level officials may be granted amnesty, thus contributing to the stability and legitimacy of the new regime.

Besides Saddam Hussein himself, leaders of repressive institutions could also be held responsible for crimes, including the Revolutionary Command Council, the Ba'ath Party

[2] Quoted in David Isenberg, "The Aftermath", *Asia Times*, 3 August 2002 (ICG, 1).

Regional Command, the Council of Ministers, the Armed Forces General Staff, the Republican Guard Corps General Staff, the National Security Council, the Emergency Forces General Staff, the Popular Army General Staff, the Intelligence Directorate, the Special Security Directorate, the General Security Directorate, the Special Republican Guard, and the Revolutionary Courts. For example, *Indict*, a U.K. based organization founded in 1997 to gather evidence of Iraqi war crimes, developed a list of individuals it considers the most culpable Iraqi officials. This and other similar information should be reviewed in an internationally constituted legal process that includes the participation of appropriate Iraqis.

The recently established International Criminal Court (ICC) would not have jurisdiction over crimes committed before its inception. Thus, a new and independent court may be needed to address Iraqi war crimes. The International Criminal Tribunal of Rwanda and the former Yugoslavia and the Nuremberg trials provide precedents for establishing a court to try Saddam Hussein and members of the Ba'ath Party.

An international court, however, would have certain disadvantages, particularly if it were convened outside Iraq and composed entirely of members of the international community. Such a structure would deny Iraqis the ability to participate in these courts and gain valuable experience in establishing the rule of law. Furthermore, similar courts have been criticized for delays, drawn-out procedures and complex logistical difficulties in addressing the hundreds of indictments. The United States, moreover, would likely be criticized for supporting an international court in this case, while opposing the ICC.

Another approach would be to establish one or more Iraqi courts with international training and supervision. Iraqi nationals could hold the trials in central and district courts throughout the country. This would contribute to a sense of reconciliation and help establish the rule of law. These courts could be overseen by the United Nations to add legitimacy and, if such courts do not appear to be administering justice properly, the United Nations could step in and correct mistakes.

An amnesty policy should be established early so that individual Iraqis can have a clear understanding of how far accountability and punishment for past deeds will be pursued. This may also help in the reconciliation process by establishing criteria for responsibility and limiting the chances of retribution. For this purpose, the best available international assessments of the experiences of various "Truth and Reconciliation Commissions" and other similar mechanisms should be drawn on by the United Nations administrator.

III. Iraqi Economy and the Oil Sector

The Economy and Foreign Debt

The Iraqi economy, from the 1950s to the present, has displayed two major trends: a narrowing of the resource base and an expanding state bureaucracy. The most recent figures, from the period just after the Gulf War, reveal more than 800,000 persons on the state civilian payroll, including some 200,000 working for the various state and party security services. In addition, approximately 400,000 Iraqis are in the active-duty armed forces; and

there are some 350,000 pensioners. Thus, the civilian state apparatus employs around 21 percent of the active work force and around 40 percent of Iraqi households are directly dependent on government payments. The cost of such a large public sector is immense and pay for the civil service has not kept pace with inflation.

Iraq's Gross Domestic Product (GDP) has fallen sharply since before the Iraqi invasion of Kuwait, with present per-capita earnings and living standards far below pre-1991 Gulf War levels. The increase of oil production in 1996, and the increase of the price of oil in 1998, resulted in an estimated Iraqi real GDP growth of 12 percent in 1999 and 11 percent in 2000, to about $25 to $30 billion.[3] This marginal GDP growth, however, is overshadowed by Iraq's immense international debt of $65 to $83 billion, which approaches $140 billion if war reparations are included.[4] Iraq is probably the most indebted country in the world. Its chief creditors are Russia, France, China, Italy and Japan.

Given a foreign debt of more than $65 billion, debt service on these obligations may be in the range of $5 to $12 billion per year depending on the repayment schedules. Such a debt burden is not sustainable for a country that recently posted a GDP of only $25 to $30 billion. One Iraqi opposition leader suggested that a new regime would need $14 billion annually to import food and medicine, $8 billion a year to maintain oil production at present levels, $38 billion to raise crude production, and several billions a year to provide for reconstruction. These requirements are in addition to debt servicing and reparations from previous Iraqi wars. Since 1997, 25 to 30 percent of Iraq's oil revenues have gone to war reparations.

The interim administration will need considerable help from the international community to address these foreign obligations. Since many neighboring countries stand to benefit from reconstruction and economic development in Iraq, they should be encouraged to forgive or suspend claims for war reparations, particularly in view of the fact that the United States and other major powers are willing to help guarantee regional security. Lending countries also will likely benefit from improved economic conditions in Iraq and should be open to rescheduling much of the debt. The key short term requirement is to encourage foreign direct investment in the oil sector.

The Oil Sector

Iraq will no doubt rely mainly on oil revenue to deal with foreign debt and other problems, though the oil sector alone will not be able to balance the books, at least for many years. Currently 50 to 60 percent of the Iraqi GDP comes from oil export revenue, in contrast to the years preceding 1989 when oil exports accounted for only 30 percent of the GDP. At the same time, most of Iraq's oil fields are underdeveloped, while others have been poorly maintained and, in some cases, permanently damaged.

A lack of infrastructure repair and development has stymied Iraqi oil production capacity. Iraqi officials had hoped to increase the country's oil production capacity to the July 1990

[3] "Iraq, Country Analysis Brief." U.S. Energy Information Administration, 18 October 2002.

[4] The UN Compensation Commission in Geneva has received claims totaling more than $300 billion for damages resulting from Iraq's invasion of Kuwait.

average of 3.5 million barrels per day (bbl/d). The country failed to reach this mark, however, given problems with Iraqi oil fields, pipelines, and other oil infrastructure. The 2000 average only reached 2.59 million bbl/d, and it dropped in 2001 to 2.45 million bbl/d. Iraq's historic OPEC (Organization of Petroleum Exporting Countries) quota is 3.4 million bbl/d.

The current marketing system is characterized by a lack of transparency. For example, Iraqi oil is commonly sold initially to Russian firms[5], along with other large purchasers including Italian (Italtech), Malaysian (Mastek), and French and Chinese companies. Oil is then resold to a variety of oil companies, including 778,000 bbl/d during 2001 to the United States through third parties, such as the Swiss company Glencore. Nearly 80 percent of Basrah Light liftings (through Mina al-Bakr), and over 30 percent of Kirkuk oil (through Ceyhan), went to the United States during 2001.

Iraq's oil wealth presents both challenges and opportunities. With 112 billion barrels of proven oil reserves, and roughly 220 billion barrels of probable and possible resources, Iraq contains one of the largest oil deposits in the world, second only to that of Saudi Arabia. Iraq's true resource potential may be far greater than this, however, as much of the country remains relatively unexplored after years of war and sanctions. Deep oil and gas-bearing formations, located mainly in the vast Western Desert region, for instance, could yield large additional oil resources, possibly another 100 billion barrels, but have not been explored. Moreover, due to the fields' locations and accessibility, Iraq's oil production costs are among the lowest in the world, making it a highly attractive oil prospect.

In the short- to mid-term, however, Iraq's oil revenues are not likely to be sufficient to meet its many needs, including domestic requirements, foreign debts and war reparations. Balancing these demands will be important to sustaining stability. This resource will be best managed by the Iraqi National Oil Company with full transparency so that all parties may be assured that the oil revenues are being distributed fairly. Historically, Iraq's oil industry has been closely linked to politics, so there is intense interest in who controls, and how control is manifested over, the country's oil and gas resources.

To reverse the decline in oil production, substantial foreign direct investment is needed in the oil sector. Some experts conclude that it will require up to $20 billion and 10 years to deliver a sustainable production level of 4 million bbl/d. This includes provision for substantial renewal of existing dilapidated surface facilities and infrastructure. To reach 6 million bbl/d over the same time period would necessitate at least $30 billion in upstream investment, plus an extra $10 billion for gas handling and processing, infrastructure and export capability enhancement. However, in order to attract such investment, a reasonable rate of return along with a high level of confidence in the long-term, stable power sharing arrangements that will rule Iraq are necessary.

If Iraq is indeed to regain past oil production levels, it will need to do more than rebuild facilities and repair pipelines. It will also need to assure multiple export routes. As of early

[5] Incuding Emerkom, Kalymneftegas, Machinoimport, Rosnefteimpex, Sidanco, Slavneft, Soyuzneftegaz, Tatneft, and Zarubzhneft.

2000, Iraq's crude oil exports were split between the Turkish port of Ceyhan (910,000 bbl/d) and the Gulf terminal of Mina al-Bakr (1.1 million bbl/d), with small volumes of crude oil and petroleum products (70,000 to 80,000 bbl/d) being trucked overland to Jordan. For political reasons, half of this volume is provided to Jordan free, and the rest at a preferential price.

In July 1990, prior to the Gulf War, Iraq was shipping 1.5 million bbl/d through Ceyhan, 200,000 bbl/d through Mina al-Bakr, and 800,000 through Yanbu in Saudi Arabia. The Saudi IPSA pipeline has been closed since the Iraqi invasion of Kuwait in August 1990. A pipeline from Kirkuk to Banias in Syria has been officially shut off since April 1982, although Iraq is reportedly using it to ship crude to Syria, without UN oil-for-food approval. With repairs, shipments could run to about 180,000 bbl/d, although the pipeline's capacity once reached 1.4 million bbl/d. After upgrades and repairs, Iraq's current export outlets through Ceyhan and Mina al-Bakr could accommodate about 3 million bbl/d of exports.

The repair and use of Iraq's southern export routes has both economic and diplomatic ramifications. Iraq has ports along the Shatt al-Arab River, which is shared with Iran. Control of the Shatt al-Arab was ostensibly the cause of the Iran-Iraq War. Iraq's former ports in Um Qasr were ceded to Kuwait following the Gulf War. New facilities will have to be built in both areas, while regular exchanges will have to occur among these three countries to ensure that Iraqi access to the Gulf is guaranteed. Even if Iraq's port facilities are rebuilt, the new government will have to contend with the many ship wrecks in both the Shatt al-Arab and around Um Qasr.

There is a strong sense of "resource nationalism" in Iraq that argues for limiting foreign roles in the oil sector. These sentiments are heightened because Iraq has been forced to give up so much of its oil revenue to war reparations and because of the tight UN control over imports, including field equipment. This could lead to problems if future Iraqi oil officials are unwilling to offer foreign investors sufficiently attractive terms. The rate of return will be the key factor in Iraq's ability to attract the needed foreign investment.

The United Nations still has some control over the export of oil, even though officially the cap has been removed. Control is exerted by limiting the export of oil through only two different places: one terminal in the south, and a pipeline in the north. The Iraqis, however, have managed to circumvent UN supervision of some of their exports. Iraq "legally" exports about 100,000 bbl/d of oil to Jordan. It also illegally exports about 150,000 to 200,000 bbl/d of oil to Syria. It may be exporting as much as 100,000 to 200,000 bbl/d through the Gulf, overland to Turkey, and elsewhere. This extensive smuggling of oil and other goods raises problems for the interim administration. It will need to recognize and eliminate the massive corruption involved in the export of Iraq's oil.

The Agricultural Sector

The oil boom of the 1970s led directly to a shift from a diversely-based economy to one overly dependent on oil. This vulnerability was further accentuated during the Iran-Iraq War, when strained resources led to an even greater decline in agricultural development.

Currently less than half of Iraq's arable land is under cultivation. Iraq also has lagged in terms of mechanizing its agriculture. These developments were accompanied by a massive rural-to-urban migration. Yet the government saw little need to bolster the failing agricultural sector, as oil profits and the availability of imported agricultural products were attractive in the short-term.

Over the last decade, yields and output in food crops have been mostly in decline, while the population has grown about 2 to 2.5 percent per year. The UN oil-for-food program has helped ameliorate the humanitarian crisis and will be needed at least in the near-term. But it has not helped the Iraqi agricultural sector.[6] Both the Iraqi government and the United Nations have been providing cheap foreign grains at prices with which Iraqi farmers cannot compete.

Taxation

Iraq's dependence on oil has also been a disincentive to the establishment of an efficient system of taxation. Direct taxation has not been effective because of the difficulty of assessing and raising taxes during a twenty-year period of war and economic sanctions.

As the interim administration establishes laws and regulations for the longer term, consideration must be given to the process of creating an effective, equitable system of taxation.

IV. Regional Stability

A U.S.-led military intervention and occupation will probably trigger anti-U.S. protests in many countries in the region. Military action will also likely raise the risk of terrorist attacks against U.S. forces and interests at home and abroad. Protests are likely to be contained by regional governments and are unlikely to trigger broader regional instability, at least in the near-term. Perceptions of how the Iraqi people react to any intervention could be the main factor in determining how Arabs in the region respond.

This is not to suggest that popular protests in specific countries, such as Jordan and Egypt, will not exacerbate ongoing domestic political tensions. Many regimes are facing significant domestic pressures to institute political and economic reforms, to broaden popular participation in government and to create jobs and housing. Dissent in these countries has often taken the form of opposition to U.S. support for Israel and to misperceptions of hegemonic designs on the region's energy resources. Dissent has also been mobilized around support for Iraqis suffering under U.S.-instigated sanctions and opposition to Israel's policies towards the Palestinians. Military intervention in Iraq by a U.S.-led force will likely provide new opportunities for opposition movements to mobilize popular discontent, and offer another avenue for regime opponents to pressure current leaders.

[6] The Oil for Food program was established in 1995 by United Nations Security Council Resolution (UNSCR) 986 and revised in 2002 under UNSCR 1409. The program allows Iraq to sell oil while the United Nations holds the proceeds in an escrow account. These funds may be used to purchase food, medicine and most consumer goods that do not have military applications.

The reaction of the Iraqi people to military intervention is difficult to predict. Given Saddam Hussein's control over news and information in Iraq and the pervasive security and Ba'ath Party structures, the Iraqi people likely will not have a clear understanding of U.S. goals or intentions. Some Iraqis may not distinguish between U.S.-led military intervention and the military regimes and outside intervention that have marked most of Iraq's history. Yet, there is reason to believe that many Iraqis will welcome the end of Saddam Hussein's authoritarian rule, and at least initially view the outside military forces as liberators. However, if this intervention becomes a long-term military occupation, Iraqis might well come to resent the presence of outside forces, which would undermine security and stability within Iraq.

The interim administration and subsequent arrangements must ensure that Iraq no longer poses a threat to its neighbors and international interests in the region. Weapons of mass destruction and long-range missiles must be destroyed. This will require continued close monitoring by the United Nations for the indefinite future.

More broadly, given the potential for instability in the region, new mechanisms are needed to ensure that regional security concerns are addressed. One approach might be to establish an international military committee under the UN Security Council. This committee could include senior military officers from Iraq, the United States, Turkey, Iran, Saudi Arabia, the Gulf states and others. Such a committee could be tasked to recommend a new security structure, especially in view of the fact that Iraqi weapons of mass destruction will be eliminated while similar programs will continue in other regional states.

Peacekeeping Operations

The risks of civil unrest and outside intervention are sufficiently high to require a substantial international peacekeeping force to back up local authorities after the current regime has been replaced. In forming such a force, recent experiences with peacekeeping operations in Eastern Europe and Afghanistan will be useful. UN-mandated peacekeeping forces would be helpful in several major cities beyond Baghdad. Kirkuk and Mosul, for example, should be among the priorities for early deployment. The presence of these forces may reduce the risk of civil violence, while adding to the legitimacy of the interim government. These troops should be constituted separately from any coalition forces used to overthrow Saddam Hussein, although both forces would need to coordinate their operations.

International forces may also be used to help alleviate the humanitarian crisis, although this would not be their primary mission. This is more properly the job of specialized UN agencies and non-governmental organizations, established for humanitarian purposes, which have both the training and the special resources required. Yet, these groups may need to call on the UN forces for protection and for emergency services that are not otherwise available.

Threats to Territorial Integrity

The possible break up of Iraq is a key concern to the United States and others. Potential Kurdish moves for independence and the Turkish response are often cited in this regard.

Some contend that Iraq can be easily divided between its Kurdish and Arab communities. Others, however, argue that it cannot be so easily divided, especially in view of issues such as the control of oil-rich Kirkuk. They believe that a federal state that simply divides Kurd from Arab may be difficult to sustain and that no government in Baghdad – democratic or authoritarian – could afford to cede its authority over Kirkuk or any other region because to do so would show weakness and risk further fragmentation.

Turkey has made clear its fundamental concern about Iraq's territorial and political integrity. Some Turkish military officers and civilians in government may believe that the United States has secretly promised Iraq's Kurds self-rule in exchange for Kurdish support against Saddam Hussein. They warn that in the event that the Kurds declare separation, take Kirkuk, or harass the local Turkomans, Turkey will have no choice but to occupy northern Iraq as they fear Kurdish independence will lead to the partition of Turkey.

Syria and Iran also are watching the interaction between Turkey and Iraq's Kurds. They note, for example, that Ankara is encouraging the Iraqi Turkomans to demand the same rights of autonomy that the Kurds demand, over much of the same territory, including Kirkuk and Irbil. Syria and Iran might consider intervention if it were to appear that Iraq was on the verge of breaking up. Iran and Turkey also closely coordinate military patrols near their borders with Iraq.

Iraq's Shi'a, who live, for the most part, in central and southern Iraq, probably do not favor a political division between Sunni and Shi'a areas. Iraq's Shi'a consider themselves Iraqi Arabs first and the majority probably do not favor political union with their counterparts in Iran.

Roles of Neighbors

Turkey, Jordan, and Syria have fragile economies that depend on cheap Iraqi oil, transit fees for oil export and customs duties for exports to Iraq. Linking them to the fate of the new government through trade and construction contracts, for example, could mute any tendencies to interfere across borders. Furthermore, it will be important for Iraq's neighbors to offer assistance and to become invested in the new Iraq, even if it has political institutions and democratic practices with which they are not in accord. They may also play important roles in dealing with terrorist groups that threaten the governments in the region.

At least two kinds of assistance will be necessary: assistance in establishing and maintaining security, and assistance in economic development and reconstruction. In both cases, external aid will be critical. It will be needed to handle refugee flows, to distribute food and humanitarian aid, to repair and rebuild housing, schools and clinics, and to rebuild and repair oil and gas industry infrastructure. Some sources of aid will be more welcome than others. The United Nations, Islamic non-governmental organizations, and European Union humanitarian organizations will probably be especially welcome, as may some U.S.-based charities, such as the various church groups that have been bringing humanitarian goods to Iraq since the end of the Gulf war.

V. The U.S. Role

Ensuring the appropriate U.S. role in each of the three priority areas discussed in this report will be essential to the success or failure of the overall vision. On one hand, U.S. leadership and participation will remain as crucial in the post-Saddam Hussein period as it has been in recent months. Yet that leadership and participation carries with it the risk that the United States could become the object of protest and opposition that could compromise the success of the transition. On the other hand, as the preceding analysis shows, the whole-hearted engagement and support of many other parties both within and outside Iraq will be essential. That engagement will only be achievable if the U.S. administration is willing to work with others from the outset, both in coalitions and through international institutions, and to recognize that its own preferences may at times have to be modified to take account of the interests of other parties.

The key area for U.S. leadership is in securing a broad international consensus on the vision for the future of Iraq as described in this report and in helping to stabilize the interim period while those goals are broadly accepted and reflected in appropriate international resolutions and policies. This will mean ensuring that U.S. military operations and actions are informed from the outset by clear guidance on these objectives and that short-term expedients that conflict with them are avoided to the extent possible. This will dictate a certain discipline and restraint in dealing both with various parties within Iraq and in the Iraqi expatriate community and also with allies and neighbors who will form part of the coalition for any military operations against Iraq.

In relation to the creation of a power-sharing arrangement within Iraq, the U.S. role should be as rapidly as possible subordinated to that of a UN-mandated apparatus, operating with guidelines that reflect the overall vision. The full achievement of a representative, pluralistic Iraqi political structure will take many years to achieve and will only be achieved at all if it is primarily the work of Iraqis themselves. The heavier the U.S. hand in its creation the more likely it is to prove ephemeral and to arouse resentment and opposition in the region that will tend to undermine longer-term U.S. interests in other countries. By contrast, the use of a process that enjoys broad international support for the development of a new constitution led by a new generation of Iraqi leaders committed to transforming and developing their country can serve as an example to others, as well as place the United States in a more comfortable role as a supporter of indigenous initiatives.

In relation to the economy and the oil sector, the U.S. role is even more delicate. After a decade in which Saddam Hussein's regime has branded the United States as responsible for the economic plight of Iraqis, it is imperative that the U.S. government establish itself once and for all in Iraqi minds as willing to encourage the development and well-being of the Iraqi population. This will require a willingness to contribute in full measure to the redevelopment of Iraq and to resist any temptation to argue that having shouldered the cost of any military operations involved in removing Saddam Hussein, it is for others to pay for the economic reconstruction. At the same time, it is essential that U.S. policy not go beyond insisting on a level and transparent playing field for its oil, construction and other companies in the process of reconstruction and that it support Iraqi control of the country's natural

resources. Iraq should be encouraged to only award contracts on the basis of economic and technical merit. In such a situation U.S. companies can expect that their competitiveness in key areas such as oilfield and infrastructure development will yield a good share of the reconstruction work. To ask for more will merely raise the question of U.S. motives for wishing to remove Saddam Hussein and risk creating unhelpful frictions with countries in the region and beyond.

In terms of regional security, the United States is the only country that has the influence with some of the key players, including Turkey and Saudi Arabia, to forge the needed consensus among Iraq's neighbors on a stable future for the region. But the United States suffers from at least one major liability – the absence of recent relations or serious dialogue with Iran – that inhibits its ability to ensure that the relationship between Iran and Iraq (perhaps the key relationship within the region) is reestablished on a sound and stable basis. For this reason, the U.S. administration should not only urgently look for ways of opening formal and recognized channels of dialogue with the Iranian authorities, without prejudice to its position on the issues which have divided the two countries in recent years, but also work with other friendly countries, including the European Union and Saudi Arabia, who have had better relations with Iran, to engage Iran in the transition planning and to dispel Iranian fears that they are next on a U.S. hit list in the region. The U.S. Congress, which has been the most active proponent of the current sanctions policy against Iran, should make plain its support of such dialogue.

The U.S. administration should also undertake two other initiatives related to regional security as a means of not only avoiding future problems such as those in Iraq, but also ensuring that U.S. policy towards Iraq is not seen in the region as motivated solely by a U.S. desire to control the region and to protect its access to Gulf oil.

First, it should redouble its efforts to promote progress in the social and economic development of the Middle East region as a whole, along the lines announced by Secretary of State Colin Powell on 12 December 2002.[7] This will require the development of a larger international coalition behind the approaches recommended by the administration and the appropriation of substantial U.S. assistance to supplement the minute amount originally dedicated to this initiative.

Second, the U.S. administration must turn its attention actively to the Israeli-Palestinian problem as soon as the Israeli elections are over and a new Israeli government has taken office. The United States should then endorse the official promulgation of the so-called Quartet's (the United States, Russia, the European Union and the United Nations) road map to a settlement and undertake a serious diplomatic effort by all the means at its disposal to create the conditions on both sides that would enable progress to be made in implementing it. This need not involve changing the broad policy goals laid out by President Bush in his 24 June 2002 speech. But it will require a more strenuous diplomatic effort, in conjunction with the Quartet members and others, to give effect to that policy.

[7] This speech was delivered at the Heritage Foundation in Washington, D.C.

If it adopts such an approach, the United States will facilitate the realization of the vision of the region that has driven its policies towards Iraq and, incidentally, reinforce the reestablishment of the credibility of international action and institutions that was the theme of President Bush's speech to the UN General Assembly on 12 September 2002. Such an outcome would indeed be a considerable achievement for a U.S. policy that, at an earlier stage, was criticized for being unilateralist and hegemonic.

Annex A: Complementary and Conflicting Interests

U.S. Interests

U.S. interests in the Middle East include containment of the spread of weapons of mass destruction, countering terrorism, supporting moderate Arab states that in turn support U.S. policy goals and military deployments, and the free flow of oil at reasonable prices. However, these concerns are widely judged in the region in the context of another key U.S. interest – support for Israel. Regional perceptions of U.S. policy toward the Israeli-Palestinian conflict and perceived U.S. support for the Likud government in Israel and opposition to Yasser Arafat breed skepticism toward U.S.-Iraq policy and the U.S. military presence in the region. Such perceptions impact the U.S. ability to achieve its interests vis-à-vis Iraq and the strategies it must adopt in order to do so. These views also undermine regional support for the war on terrorism.

Regional Interests

Iraq's neighbors have different perceptions of threats and priorities. Whereas the United States views Iraq – with Saddam Hussein, weapons of mass destruction and a penchant for sponsoring international terrorism – as a major threat, Iraq's neighbors view Iraq – without Saddam Hussein – as a country in danger of breeding civil war, political chaos, and a potentially dangerous spillover effect should its Kurds seek independence or its military not remain contained.

Turkey

Before the Gulf War, Iraq was Turkey's leading trading partner. Now, Turkey's greatest fear regarding Iraq is the creation of an independent Kurdish state. There is concern that an independent Kurdistan bordering them to the south would inflame their own Kurdish population, fueling separatist movements and destabilizing the area. Ankara has been engaged in guerrilla warfare with the insurgent Kurdistan Workers' Party (PKK) since 1984 and has only in recent years begun to gain more direct control of the region.

Turkish leaders have warned that the creation of an independent Kurdistan would be a *casus belli*, leading to Turkish military intervention. Indeed, Turkey reportedly already maintains a substantial force in northern Iraq. Many of the Turkish troops are being used to guard the border, but some are stationed farther south.

A related concern for Turkey is the fate of Kirkuk, the capital of an oil-rich region in Iraq and the home of Turkomans, as well as Kurds and others. Turkey has expressed concern that Kurdish control of the region would disenfranchise and endanger the local Turkish-speaking population. Historically claimed by both Kurds and Turkomans, Kirkuk and the surrounding region have been subject to forced population movements. This strengthened Kurdish resolve to rectify the situation politically as well as demographically. However, Kurdish control of Kirkuk would be seen as an important step toward declaring independence. Turks recall that the Kurds captured the city during the failed 1991 uprising.

Both the Turkomans and Kurds support the right of return. This principle was affirmed at the Iraqi opposition conference held in London in December 2002.

Iran

Tehran would welcome strong Shi'a participation in a new Iraqi government and is interested in the possible economic benefits of renewed and expanded trade with Iraq. Iran would also be interested in cooperating to eliminate terrorist groups in Iraq that are opposed to the government in Tehran. However, Iran has some concerns about the nature and policies of a new government in Baghdad; particularly if it has close military relations with the United States and sets a successful secular example.

The clerics ruling Iran view the U.S. presence in the region with concern and are particularly anxious about any U.S. military action in Iraq. They fear that Iraq is only the first on a list of states that the United States views as candidates for regime change. These fears are fanned by past U.S. involvement with the Shah of Iran and U.S. support of Baghdad during the Iran-Iraq War of the 1980s.

As a result, Iran is taking precautions. For example, in early November 2002, Iran's military commanders began giving public warnings of the U.S. threat. The Iranian defense minister noted that "General preparedness must be raised, everyone must sense that they are in danger….We should base our assumptions on the idea that America will attack us."[8]

At the same time, Iran is undergoing pressure for change. The rise of a new generation demanding political reform has led to some unrest. The primary result so far has been political gridlock that underscores the weakness of the president and the determination of conservative clerics. Student demonstrations are easily suppressed. The statement of President Bush on 12 July 2002 denouncing the Iranian government's "uncompromising, destructive policies" at home and urging the Iranian people to rise up and overthrow their leaders has only served to confirm Iran's worst fears of U.S. intentions. [9]

Iranian regional and foreign policy is strongly influenced by fear of encirclement by the United States. The Arab states of the Persian Gulf host U.S. military forces and Pakistan has become a close U.S. ally. Also, the Central Asian republics, once pro-Soviet, are now a home for U.S. forces.

Saudi Arabia

For the most part, Saudi leaders would prefer a better governed Iraq, although this would lead to more competition in oil production. The Saudi government is also anxious about a U.S. military presence in Iraq. Some Saudis have argued that U.S. use of Saudi air bases should be made contingent on the promise of a gradual, but final, withdrawal of foreign troops from the region. These individuals are concerned with the effects military action against Iraq would have on their country, and are troubled with the general public and religious opposition to the presence of U.S. military forces near Muslim holy sites.

[8] *Financial Times*, 2 November 2002.
[9] *Guardian*, 31 July 2002.

Additionally, the Saudis are concerned that U.S.-led military action in Iraq would lead to a dangerous reaction by religious fundamentalists. "A U.S. occupation of Iraq would unify those opposed to U.S. policy in the region. It may even draw Arab and Muslim moderates to their side," claimed an editorial in *al-Watan*, a semi-official Saudi newspaper. "U.S. occupation of Iraq would not put an end to violence. It would rather increase it by creating a larger opposition."[10]

Jordan

Jordan has a complex relationship with Iraq. While rather critical of the current Iraqi regime, it also benefits greatly from Iraqi oil and trade. Jordanian interests also reflect broad public sympathy and support for the Iraqi people, and the economic dependence on Iraqi oil which, since sanctions were imposed on Iraq, has been made available to Jordan on highly beneficial terms. This makes Jordan extremely vulnerable to destabilization if its cheap oil supply is curtailed. Therefore, special attention will be necessary to ensure that Jordan receives the necessary support.

Public support in Jordan for a regime change in Iraq will depend mainly on the responses of the Iraqi people. Humanitarian efforts in Iraq to relieve suffering and to improve conditions will be important in shaping Jordanian views. Political leaders, however, are more concerned about the effects on the Jordanian economy from the loss of very cheap oil. Thus, the interim administration and future governments of Iraq will have to establish a trade policy with these concerns in mind.

Syria

Syria borders a largely under-developed area of Iraq, although there are extensive cultural and economic ties and an oil pipeline. They also both have Ba'ath parties, but the two are not linked. Given geographic factors, they share interests in the Turkish-controlled waters of the Euphrates River.

Syria is also an important route for illegal oil exports from Iraq. The development of a gas field on the Iraqi side of the border could provide a key economic linkage in the future, especially given the Levant's growing demand for gas.

Israel

The main concern for Israel is that new leadership in Iraq not aggravate the Israeli-Palestinian dispute. In addition, Israel shares U.S. concerns about Iraqi WMD and missile programs. Finally, Israel is concerned with maintaining regional stability, which, should it deteriorate, would further exacerbate its problems.

Saddam Hussein has used the Israeli-Palestinian crisis to galvanize the Arab world behind him. Israelis are thus concerned that a future Iraqi leader might be tempted to take similar steps in order to establish legitimacy and to distance the new regime from the West. On the other hand, a more moderate regime could play a useful role in helping to soothe Israeli relations with Arab countries.

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[10] AFP, 12 October 2002.

Russia

Russia's interests in a post-Saddam Hussein Iraq are largely economic. Moscow seeks repayment of large Soviet-era state debts by Baghdad, while Russian oil companies aspire to be a major, if not the leading, partner in the future development of Iraqi oil fields. Russia does not want a post-Saddam Hussein Iraq to flood world markets with oil, depressing the price of Moscow's main export. Thus, Moscow wants its own oil companies directly engaged in Iraq's petroleum industry, both as a lucrative investment and to inhibit large-scale cheating on OPEC quotas.

Moscow recognizes that these goals are not achievable so long as both Saddam Hussein and UN-imposed sanctions remain in place. In return for acquiescence with U.S. efforts to remove Saddam Hussein from power, Russia seeks *quid pro quo* assurances that a future Iraqi government will respect its interests. Moscow also hopes Iraq will again be a major purchaser of Russian weaponry to restore the country's aging and depleted arsenal.

Politically, Moscow has lost faith in Saddam Hussein as a potential partner. Russian analysts recognize that a future Baghdad government will respond more to Washington than to Moscow, but they believe the long ties between the Russian and Iraqi militaries and security services provide a good basis on which to restore Moscow's influence. In parallel, Moscow maintains partnership relations with Iran and Syria, which it does not see as contradictory to improved ties with a post-Saddam Hussein Iraq.

European Union

The European Union worries that it may be saddled with much of the "nation building" burden of a post-Saddam Hussein Iraq, but it is above all concerned at its inability to exercise diplomatic influence comparable to the United States or to its own economic power. The Iraqi issue accentuates Europe's dilemma as an institutional whole much inferior to the sum of its parts. With German and Spanish seats on the UN Security Council, four of the "Big Five" EU countries will have direct involvement in policy decisions about Iraq. However, the four capitals will reflect national rather than "European" perspectives, while the two EU Presidency countries during 2003 (Greece and Italy) cannot exercise effective leadership on this issue. London and Paris, as permanent UN Security Council members, never concede New York policy-making to Brussels, and decide how or whether to use their military forces in the Gulf on purely national criteria. Berlin is constrained by a domestic aversion to an Iraqi war so strong that it has been characterized as "national pacifism".

France has the largest economic ambitions among the EU countries vis-à-vis a post-Saddam Hussein Iraq, seeking a dominant role for TOTALFINAELF in rebuilding the Iraqi petroleum industry. France will also seek to market weaponry to Baghdad once UN sanctions are lifted. Both aspirations would place France in direct competition with Russia. Before Saddam Hussein's invasion of Kuwait, Iraq was a good customer for all manner of products from many European Union countries, ranging from turn-key industrial facilities to foodstuffs to luxury goods. European governments doubtless hope to restore some of this market in a post-Saddam Hussein environment, for which resumption of full Iraqi oil exports will be essential.

Annex B: The Kurdish Question[11]

Kurds, an Iranian ethno-linguistic group, like Persians, Lurs, Baluch and Bakhtiari, inhabit the mostly mountainous area where the borders of Turkey, Iran, Iraq, and Syria converge. Following World War I and the breakup of the Ottoman Empire, the Kurds were promised their own country under the terms of the 1920 Treaty of Sèvres, only to find the offer rescinded under the 1923 Treaty of Lausanne. Numbering at least 25 million people, the vast majority of Kurds are divided among Turkey, Iraq, Iran and Syria. In Iraq today, there are approximately 3.7 million Kurds in the predominantly Kurdish northern safe haven area, and 1 to 2 million more in the rest of Iraq, particularly Baghdad, Mosul and that part of Iraqi Kurdistan still under the control of Saddam Hussein's regime.

The 'Kurdish Question' refers to the fact that the Kurds are the largest ethnic group in the world without a state. The term 'Kurdish Question' is also used in a country-specific sense, with reference to, for example, the Kurdish question in Iraq or Turkey. The term 'Kurdistan' is widely used in Iraq to refer to the Kurdish area of northern Iraq. In Iran it refers to the Kurdish area in the counry's northwest. Turkey and Syria, however, avoid this term for political reasons, although under the Ottomans the term was widely used.

Iraqi Kurdistan is an area of northern Iraq that consists of about 83,000 square kilometers, roughly the size of Austria. Smaller ethno-linguistic communities of Assyro-Chaldeans, Turkomans, Arabs, and Armenians are also found in Iraqi Kurdistan. The majority of Kurds are Sunni Muslims. There are also Shi'a and Yezidi Kurds, as well as Christians who identify themselves as Kurds. Yezidis are Kurds who follow a religion that combines indigenous pre-Islamic and Islamic traditions. The once thriving Jewish Kurdish community in Iraq now consists of a few families in the Kurdish safe haven.

The history of Iraqi Kurdistan before 1991 is one of destruction and displacement. More than 4,000 communities were destroyed, including towns of more than 50,000 Iraqi citizens. Hundreds of thousands of citizens were detained and disappeared. Tens of thousands were forced to live in reservation-like "collective towns." Left behind were communities in total ruin, innumerable widows, orphans, physically and psychologically damaged individuals, and other severe problems directly related to the Anfal and chemical weapons attacks. These and many other violations of human rights are well documented in numerous reputable reports and international publications.

In April 1991, following the March uprising of Kurds in the north and of Shi'a Arabs in the south against the central government, Iraqi Kurdistan was divided into two parts. Relying on UN Security Council Resolution 688, military forces from eleven countries, including the United States and Turkey, implemented Operation Provide Comfort to supply security and humanitarian assistance to Iraqi Kurdistan refugees in camps along the Iraq-Turkey border.

[11] This appendix is based on Carole O'Leary's article, "The Kurds of Iraq: Recent History, Future Prospects," *Middle East Review of International Affairs (MERIA) Journal,* Vol. 6, No. 4 (December 2002).

This part of Iraqi Kurdistan is roughly 40,000 square kilometers, or about half of Iraqi Kurdistan. The other part continues to be directly governed by Baghdad.

In October 1991, the Government of Iraq (GOI) voluntarily withdrew its civil administration and the citizens of the Kurdish safe haven were left to govern themselves. Elections were held in May 1992 and the Kurdistan National Assembly (KNA) and the Kurdistan Regional Government (KRG) were created. The Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) entered into an equal power sharing arrangement, with 5 of the 105 KNA seats allocated to members of the Assyro-Chaldean Christian community. Turkomans boycotted the election, although deliberate efforts were made to include representatives from all ethnic and religious communities. Participatory processes were instituted to develop experience with the requirements, systems and procedures of democracy. Elections were deemed to have been free and fair by international observers.

Under considerable constraint and against strong external and internal opposition, the Kurdish safe haven has been successfully governed for a decade by the Kurds themselves. Today, the Kurdish safe haven is governed in two parts, each by one of the two main parties (KDP and PUK). Efforts are currently underway to determine and implement ways and means to integrate better the two administrations. Free and fair local elections, under international observation, were conducted in dozens of municipalities in 2000 and 2001 in the KDP and PUK areas. On 4 October 2002, for the first time since 1994, the KNA convened in its entirety in Irbil. The reconvening of the KNA is an indication of the growing cooperation between the KDP and PUK, particularly in their dealings with the Bush Administration and U.S. Congress, as well as with countries in the region and in Europe. In particular, the KDP and PUK are unified in asserting the Kurdish right to self-determination in a future democratic Iraq, in which Iraqi Kurdistan will enter into a geographically-based federal relationship with the central government under a new constitutional arrangement.

Although unintended, the creation of the Kurdish safe haven in 1991 produced a unique situation in which democratization and civil society building have begun to take root through the efforts of the citizens and regional government. Thus, some 3.7 million Iraqis have already experienced self-rule and are making the transition to democracy. Simultaneously, the Kurds are deeply concerned about the effects of regime change on a post-Saddam Hussein Iraq, particularly the prospect of losing their autonomous status and the threat of a regional power struggle over their governance.

Turkey and the Kurds

A key concern for the Kurds, as well as the United States, is Turkey's position on federalism and the Kurdish question in Iraq, including Kirkuk. Turkey has consistently opposed the creation of an independent Kurdish state in Iraqi Kurdistan for fear that it could lead to the dismemberment of Turkey. Turkey has also raised concerns about the establishment of a federal arrangement between Iraqi Kurdistan and a post-Saddam Hussein central government. Turkey's primary concern is that Mosul and the oil-rich city of Kirkuk are not ceded to a new Kurdistan federal unit. This reflects concerns about the disposition of the Iraqi Turkoman community. In this regard, Turkey and its proxy inside the Kurdish safe

haven – the Iraqi Turkoman Front – have called for the establishment of a Turkoman federal unit, to include Mosul and Kirkuk, if a permanent Kurdistan federal region is created. Furthermore, the Turks appear to have positioned themselves to intervene militarily in Iraqi Kurdistan in the event of a regime change.

Estimates of the number of Turkomans in Iraq are uncertain and politicized. They range from 350,000 to well over one million. Similarly, the exact number of Kurds and Turkomans living in Kirkuk today is unknown. Historically predominately Kurdish, successive governments of Iraq have pursued a policy of ethnic cleansing in Kirkuk, directed first against the Kurds and later against the Turkomans as well.

The proposed constitution for a Kurdistan political unit in a federal Iraq, drafted by the KDP and PUK and currently under review by the recently reunified Kurdistan National Assembly, does call for the inclusion of Kirkuk in a future Kurdistan federal political unit. However, the draft constitution is clear in ceding control of Kirkuk's oil to the new central government and in recognizing the fact that Kirkuk is a multi-ethnic city inhabited by Kurds, Arabs, Turkomans and Assyrians. The draft constitution calls for regularly scheduled mayoral elections in which members of all ethnic and religious communities can field eligible candidates.

Self Determination

Iraq's Kurds are concerned that Turkey's strategic relationship with the United States will negatively influence U.S. support for their right to self-determination through a federal arrangement with the central government. Kurdish leaders have repeatedly and publicly assured the United States and Turkey that they do not seek independence. Rather, they have clearly articulated their vision for a unified, federal and democratic Iraq within which Kurdistan represents a federal political unit. They have repeatedly and publicly indicated that they will work with a representative interim government to create a constitution for a federal Iraq that addresses their legitimate concerns as well as those of all the communities in Iraq. Nevertheless, popular hope for independence remains strong.

Since the establishment of the northern safe haven in 1991, a shared Kurdistani identity is taking root precisely because it accommodates pluralism or cultural diversity by not threatening deeply rooted ethno-linguistic identities. The Kurdish Democratic Party – established in 1946 and renamed the Kurdistan Democratic Party in 1953 – supported a broad-based political platform for all Kurdistanis, regardless of ethnic identity. The Patriotic Union of Kurdistan party has advocated the same since its creation in 1975. However, it is only in the post-1991 period that the people of Iraqi Kurdistan have experienced self-rule and democratization. This emerging Kurdistani identity allows Kurds, Assyro-Chaldeans and Turkomans to maintain their respective ethno-linguistic identities and, at the same time, establish a wider sense of collective identity based on three key factors: geography; the ongoing experiment in self-rule, democratization and cultural tolerance; and as non-Arab Iraqis, a shared experience of repression and marginalization that dates to the establishment of the modern state of Iraq.

The growing sense of Kurdistani-ness among Kurds, Assyro-Chaldeans and Turkomans in the Kurdish safe haven has implications for the debate on federalism as the best model for governance in a post-Saddam Hussein Iraq. The Kurds support a concept of federalism in which all of Iraqi Kurdistan forms one of the new federal political units.

A unified, democratic and federally organized Iraq could guarantee the rights of all communities within Iraq. While some non-Kurd Iraqis and others may be skeptical as to whether this is the Kurds' ultimate objective, the only realistic hope of achieving stability in the region is to proceed on this basis, while avoiding a federal arrangement based solely on ethnic or religious divisions and ensuring strong, internationally-backed, constitutional safeguards to protect the stability of the new arrangements.

Annex C: Oil Export Routes

Through Turkey

The Turkish system that carries Iraqi oil exports is a twin pipeline system (40 inches and 46 inches) and has a design capacity of 1.6 million bbl/d. It can be fed by both Kirkuk crude from the north (presently its major source) or Basrah Light and Basrah Medium from the Rumailah field in the south. But moving Basrah Light and Basrah Medium from the south to the north via the 800,000 bbl/d strategic pipeline connecting the two areas would require significant repairs to both the pipeline and pumping facilities. Other repairs are also required along the route of the Turkish pipeline. The Turkish port of Ceyhan is presently limited to a capacity of 1.5-1.6 million bbl/d, and would require substantial expansion should it eventually receive larger volumes of Iraqi, Central Asian, and Caucasian oil.

Iraqi Ports on the Gulf

Despite Iraq's size, its access to the Gulf is limited to fifteen kilometers of coastline; it controls two shallow, natural harbors bordering neighboring countries and two damaged and neglected roadsteads stretching out into the Gulf. For exports via the main Iraqi port on the Gulf, Mina al-Bakr, the condition of the transportation system that leads to the roadstead is so poor that it was often temporarily closed for repairs throughout 2000 and 2001. Closure would neutralize the export gains from the Ceyhan pipeline. The loading terminal and other facilities at the port, as well as the pipelines leading to the port, pumping stations and storage facilities all require overhaul. The United Nations has warned of environmental catastrophes if this system is not overhauled.

Iraq has another terminal (Khawr al-Amayah) on the Gulf that could serve as a loading facility, but this has been shut down by UN sanctions and is badly in need of repairs. The two terminals – Mina al-Bakr and Khawr al-Amayah – accommodated 3.2 to 3.4 million bbl/d prior to the Iran-Iraq War.

Annex D: Working Group on Iraq

The members of the working group believe that the recommendations stated in this paper promote overall U.S. and international interests. While there may be some parts of the report with which some participants are not in full agreement, each participant believes that the report, as a whole, provides a sound basis for future actions by the government of the United States and the international community in managing a successful transition in Iraq. The views of the working group members do not represent the official position of any institution.

Although the working group is confident in its judgments, it is not confident in many of the statistics cited in the report, particularly the information reported by the government of Iraq. Nevertheless, it was deemed useful to include data where appropriate.

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The joint American University-Atlantic Council working group on Iraq also benefited from contributions by representatives of several European embassies as well as various branches and departments of the U.S. government.

Annex E: Comments by Working Group Members

Rend Rahim Francke

The notion of Iraq "moving towards democracy" seems weak and unconvincing. Several Arab countries, including Egypt, Saudi Arabia, Syria and others, similarly claim that they are moving towards democracy. The resultant lack of conviction in the possibility of democracy in the Arab/Muslim world risks becoming a self-fulfilling prophesy. Indeed, if the United States fails to make democratization a key goal for the future of Iraq, it cannot be said to have truly "won the peace".

The section on power-sharing provides a good base for necessary and detailed discussion of a specific mechanism to determine the exact nature and composition of a future representative ruling council. Likewise, important further consideration is due the question of building the institutions of the state and of how to make the government's structure rely on institutions rather than representatives of groups and individual statesmen.

On the question of militias, whether Kurdish or otherwise, there is a legitimate argument that in a federal Iraq, each federated unit should have its own local police force. However, the KDP and PUK militias are more heavily armed than is necessary for a local police force. This suggests that the Kurdish militias will need to be partially disarmed and retrained as a constabulary. This further suggests that other militias (say in southern Iraq) should be likewise retained and retrained to act as local police forces, such that whatever is granted the Kurdish militias is also granted others.

With regard to regional security, Iraq is a fragile state with willful neighbors, and a real and significant danger lies in regional meddling in Iraqi affairs. Iran, Turkey, Syria and Saudi Arabia will not readily pass on opportunities to exert influence. The United States and the international community need to provide assurances of Iraq's political independence and territorial integrity. The establishment of an international military committee under the UNSC is not likely to be a sufficient guarantor of Iraqi security. Such a military committee might rather be both impractical and ineffective. A regional security pact backed and guaranteed by the United States would be a more concrete option and one that has muscle. However, such a pact will take time, and Iraq's independence will have to be protected in the interim.

Finally, the notion that "the U.S. role should be as rapidly as possible subordinated to that of a UN-mandated apparatus" is highly desirable in the abstract, but it is questionable as to how realistic it is, given that Iraq is neither East Timor nor Kosovo. In civilian matters, the concept of a UN-mandated apparatus is possible. It is far less likely to succeed in security matters, which will continue to be important for a considerable period after a transition takes place.

Peter Galbraith

This report rightly emphasizes that the "…facts on the ground with regard to Kurdish autonomy should not be reversed…" Right now, the two Kurdistan Regional Governments perform all administrative and governmental functions in the north. This includes providing police, education, health, and security for nearly four million people. In spite of all the problems facing the Kurdistan Region (including being divided between a KDP Regional Government in Irbil and its PUK counterpart in Sulaymaniyah), these governments have been remarkably effective in providing services as well as in maintaining a political environment that is pluralistic and tolerant, albeit not yet fully democratic.

In the interim period, the United States and the United Nations should continue to work with the two Kurdistan Regional Governments, enabling them to continue to carry out their current functions. Any transfer of authority to a UN-appointed interim ruling council should only be done with the consent of the Kurdistan Regional Governments and in a manner that ensures no interruption in effective administration.

Najmaldin Karim

There is much talk of federalism as an innovation in Iraq – one, perhaps, that will not take root. The implication is that federalism is a potential problem, just as those who are seen to benefit from it, the Kurds, are a "problem". The Middle East is full of unitary states, which is to a large extent why they are so resented by their own populations, and why there is simmering discontent. A centralized, unitary state in Iraq has ruled with violence and from a very small support base, that of the Sunni Arab minority. Rule from Baghdad alone has meant the systematic marginalization and brutalization of the Kurds and the disenfranchisement of the Shi'a Arabs, Iraq's majority community. These two groups make up around 80 percent of the population (Kurds 25 percent, Shi'a Arabs 55 percent) and all the indications are that Baghdad is now a Shi'a Arab majority city. While neither group is uniform in its views, and the true views of the Shi'a Arabs will remain a mystery until after liberation, the mere fact of giving them a genuine stake in the government of their country starts to address the root cause of the "Iraqi" question.

Federalism does not, therefore, simply mean autonomy, it also means power sharing at the center – one foot in Baghdad and one in Iraqi Kurdistan. The reintegrative aspect of federalism is important. In Kosovo, defeating genocide involved separation without independence, about which most Kosovars are unhappy. Something similar has happened in Iraqi Kurdistan. The difference is that the Iraqi Kurds, who suffered worse depredations than the Kosovars, are willing to renew their attachment to a state that has brought them little.

David L. Mack

The President and other senior U.S. leaders can make a major contribution to the task of ensuring Iraq's stability and international responsibility by declaring publicly a very generous vision for Iraq's post-Saddam Hussein future. This must go beyond statements about

democracy or human rights. The U.S. public vision must also make clear that the United States supports relief from reparations and debts to help guarantee that the revenues from Iraq's resources benefit the Iraqi people.

Paul Sullivan

A peaceful and stabilizing solution to the problems surrounding Iraq would naturally constitute the best solution to these problems. Within this framework, one should consider how best to redevelop and stabilize Iraq. It is to the benefit of the national security of the United States, and to the stability of the Middle East, North Africa and beyond that Iraq become a peaceful, yet defendable, productive, civil, and democratic state.

The Iraqi people deserve much better than their lot of the past few decades – their lives have been particularly difficult since the end of the Gulf War. The United States can certainly gain from the betterment of the lives of the Iraqi people. At the moment, "anti-Americanism" in the region is the highest it has been in recent memory. One of the reasons for this is the widespread Arab and Muslim perspective that the Iraqi people have been starved and killed because of the post-Gulf War sanctions, imposed by the United Nations under U.S. pressure. Violent extremists in the Middle East often use the Iraqi situation as a recruitment tool, and as an argument to support their activities. Such arguments can be dissipated with the appropriate and fair redevelopment of Iraq with the help of the United States and others.

It is time to reach beyond the policies of the past and begin looking to a better future for Iraq, and for U.S.-Iraqi relations. This document presents some important guidelines and ideas to help reach that goal.

Judith Yaphe

As part of this report's treatment of regional views, it is particularly important to note the strong Iranian concern over the implications of a possible long-term U.S. occupation of Iraq. Iran worries that it will find itself surrounded by pro-U.S. governments in Kabul, Baghdad, the Gulf and Central Asia with construction of permanent U.S. military facilities in Iraq.

In regard to the future of Iraqi Kurdistan, it is important to ask how democratically the two Kurdish regional governments are currently run. Perhaps as democratically as possible, but much can and should still be done to foster democracy in the Kurdish-administered parts of Iraq. Moreover, the indicators of unity between the Barzani and Talabani factions appear largely superficial. Much of the current cooperation reflects strong U.S. pressure and a growing appreciation of the dangers the two Kurdish factions would face if they were to consider openly pushing for independence. In this connection, one might recall that the bitter fighting of 1996 (when the Barzani faction invited Saddam Hussein's forces into Iraqi Kurdistan to attack elements of the Talabani faction) took place in the very recent past.