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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE
EUROPEAN PARLIAMENT**

Recommendations for renewed European Union engagement with Iraq

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I. INTRODUCTION

Iraq faces formidable challenges: a lack of security resulting from terrorism, insurgency, organised crime and sectarian-based violence; serious shortages in basic services; widespread violations of human rights; and widespread institutional weaknesses within the national administration.

The Commission's Communication of 2004, "The European Union and Iraq: A Framework for Engagement"¹ and the letter signed by the Commissioner for External Relations and the High Representative, which accompanied it, set out a medium-term strategy for EU engagement with Iraq as a response to the new Iraqi Interim Government and the adoption of UN Security Council Resolution 1546.

Since 2004, against the backdrop of an acute and deteriorating security situation, the country has made important progress on the political and constitutional process, which has led to the formation of the first constitutionally elected Government. Two elections were held in 2005 and the drafting of a new constitution was concluded and subsequently adopted following a popular referendum in October 2005. Electoral turnout was high at each of the polls.

With the new government now in place, this is a timely opportunity to take stock of progress against the 2004 Communication and to take a fresh look at how the EU can engage with Iraq, starting with political dialogue with the new government.

The medium-term strategy set out in the 2004 Communication provided the following objectives:

- A secure, stable and democratic Iraq
- An open, sustainable and diversified Iraqi market economy
- An Iraq at peace with its neighbours and integrated into the international community.

These objectives are still valid today, notwithstanding the instability, political tensions and deteriorating security environment in the country.

Against this difficult background, the EU has pursued the implementation of the actions identified in the 2004 Communication. It has been at the forefront of international engagement with its support for the political and constitutional process, which has included significant expertise and resources for the electoral processes and the establishment of rule of

¹ COM(2004) 417, 9.6.2004.

law. It has provided substantial financial aid, notably through the International Reconstruction Fund Facility for Iraq (IRFFI). A European Commission delegation has been opened. The EU has stepped up its engagement with the Iraqi political leadership through, among other things, the establishment of a framework for a political dialogue based on the EU-Iraq Joint Declaration on Political Dialogue signed on 21 September 2005, Troika visits and the June 2005 EU-US sponsored international conference in Brussels. The EU has also been in contact with the new Government and an offer to start negotiations for a Trade and Cooperation Agreement is on the table. Throughout its engagement, the European Union has kept close contact and dialogue with other key international players committed to helping the Iraqis meet the challenges ahead.

Based on an analysis of the current situation and the challenges going forward, this communication puts forward a number of **recommendations for EU engagement** centred on a set of key objectives. The communication provides the basis for a framework for dialogue and cooperation between the EU and the new Iraqi government. While the government's mandate will cover a period of four years, the recommendations proposed in this communication are not tied to a specific timetable.

- Two **critical factors** for greater EU engagement are highlighted upfront. These are: firstly, inclusiveness of the political process and in the government, and secondly, the security situation in the country.

II. CHALLENGES FOR IRAQ

The main challenges for Iraq and for the new government will be to preserve national cohesion and address national reconciliation; to provide security with respect for human rights; to deliver basic services and provide for employment opportunities to enhance the capacity of the national administration; and to promote economic stability and sustainable growth benefiting the population at large.

A number of specific areas need to be examined in more detail when assessing the overall challenges facing Iraq. These areas, both political and economic in nature, are mutually dependent but fall essentially into two components: consolidating democracy and promoting the economy.

Consolidating democracy and strengthening civil society

Although the political process was successfully pursued in 2005, the **democratic foundations** would benefit from further consolidation. The planned organisation of local and governorate elections and the constitutional review process will provide important indicators demonstrating Iraq's commitment to democracy.

In the referendum on the Constitution in October 2005, the Iraqi people expressed their support to a federal union of regions and governorates. The Constitution is the framework under which the majority of Iraqis have accepted to live together. Yet some Iraqi communities feel that the current text does not fully recognise their concerns and aspirations. The Constitution therefore needs to be accepted as the legitimate basis for inclusiveness and modern governance, with a division of economic powers and responsibilities between the central, provincial and local governments. It also provides a basis for the distribution of national wealth and economic, energy and fiscal policies. The Constitution stipulates as one of

the principal tasks for the newly elected Council of Representatives a revision and development of the legislative and institutional measures contained in the text.

Essential to the democratic process is the role of **civil society**. There is considerable scope for Iraq and international efforts to strengthen civil society including in areas such as supporting a free media, encouraging advocacy and monitoring, promoting human rights and fundamental freedoms, including rights of women, children and religious and ethnic minorities.

National cohesion

The question of Iraq's **national cohesion** is related to the sense of belonging of the people and the trend of identifying oneself along sectarian or ethnic lines. This has been demonstrated at the polling stations, and in the referendum on the Constitution in 2005, as well as in sectarian violence. An immediate challenge for the new Iraqi leadership is to propose and defend a model of governance that overcomes the current deepening divisions.

This trend also has an adverse effect on the ethnic, religious and political balance of other countries in the region and the region as a whole. Several of Iraq's neighbours share ethnic and religious communities with Iraq. If Iraq slides towards disintegration, ethnic and religious separatism may be promoted elsewhere in the region. The safeguard of Iraq's territorial integrity is therefore also in the interest of its neighbours, as well as the international community as a whole.

For Iraq to steer away from sectarianism, areas such as the appointment of staff, the composition of the national Iraqi security forces and line ministries, access to public services and the sharing of resources, will need to be guided by the **principle of inclusiveness**. The formation of the national unity government is already an important step in this direction. Initiatives to address national reconciliation are also essential.

Security and establishment of rule of law

The violence that erupted following the Samarra mosque bombing on 22 February 2006 aggravated an already existing trend of **sectarian-based violence**. This violence increasingly involves organised sectarian-based militias and armed groups. The situation is exacerbated by the perceived inability of the national security forces to provide security as well as links of both militias and security forces to criminal activities. To add to this, organised crime and street violence continue to threaten ordinary Iraqis.

As a consequence, individuals have turned to their ethnic or religious groupings for protection and support, and internal migration and emigration have increased. Communities resident in mixed neighbourhoods where they are in minority are moving to areas where their ethnic or religious community is in the majority.

Security will, therefore, be one of the most important issues for the new government to tackle. A key aspect of this will be to confront the insurgency and the militias. Calls for **Disarmament, Demobilisation and Reintegration (DDR) initiatives** have already been made. It is also important, however, that action on security does not compromise the **system of rule of law** or **respect for human rights**. Addressing human rights abuses and displacement of communities should be major priorities. Following years of brutality under the previous regime, the security apparatus, judiciary and penitentiary will need to be demonstrably changed to restore trust in them. Though the establishment of a system of rule

of law takes time and cannot be managed overnight, the Iraqi leadership will need to show that it is advancing steadily to improve the situation.

Achieving the basis for sustainable economic development

Basic services and job creation

Equally important, and intimately linked to security, is the delivery of basic services and the generation of employment and income through renewed economic activity. These two objectives occupy an obvious place on any new government's agenda. But in the case of Iraq, where the management and the infrastructure in areas such as health, education and electricity deteriorated during the later years of Saddam Hussein's rule, and where there has been no significant improvement in quality or quantity recently, the government needs to focus on firm action to provide **basic services** to improve the quality of life of its population. The lack of electricity and water, and difficulties accessing education and health services create everyday worries, causing not only social tension, but also slowing down economic recovery. Failure to act on these issues will hamper the potential of future generations of Iraqis.

The **creation of employment** opportunities and income generation activities is equally pressing. Employment will remove the financial incentive for joining militias, insurgents or terrorists groups for some Iraqis. Iraqi human capital used to be one of the country's main assets. Iraqi educational levels were substantially higher than in other countries in the region 20-25 years ago but, over the years, Iraq's record has sunk to levels far below those of its neighbours. Today, younger generations are often less educated than their parents. This trend needs to be reversed for Iraq to be able to fully draw upon its human capital.

Establishing a functioning administrative framework

The **civil service** is the largest employer in the country but it has suffered from years of mismanagement, with little modernisation or upgrading of skills. Improvements to its effectiveness and efficiency are needed to enhance its capacity to develop, implement and deliver policy. These weaknesses have serious implications for management of the economy and the provision of essential public services. Iraqi led **reform** of the structure, regulations and procedures of the public administration should be supported by the international community.

Energy and economic diversification

Iraq holds the world's **second largest oil reserves** and also significant untapped **natural gas resources**. The economy is driven by the energy sector but performance is well below capacity and revenue is far from optimum. Outdated techniques the absence of a transparent, efficient and modern administration, a lack of investment and frequent looting and sabotage of infrastructure are some hampering factors. Furthermore, due to technical shortcomings in the oil metering system, the administration does not have a clear overview of production and export levels which encourages smuggling and embezzlement of oil revenues.

The heavy dependency on oil revenue makes Iraq very vulnerable to external economic factors. The recent rise in oil prices on the international market has been to Iraq's advantage. However, a fall in prices will hit the economy hard. Reducing the dependency on oil, through **economic diversification**, would help mitigate the impact of oil price fluctuations and generate employment. This could be achieved through promoting different (non energy

sector) income generation activities, which draw on Iraq's other assets such as **water and agriculture**, in particular. Iraq is unique in the region in that it has two major waterways running through it. The heart-land of the ancient Fertile Crescent, almost 20% of Iraq's working population is employed in the agricultural sector. In a region, where many countries struggle with limited water supplies for their agricultural sector, Iraq is better off than others. Increased production and export of agricultural products are important potential sectors in supporting economic prosperity and diversification. Water could also be an asset in regional trade.

Iraq's **fiscal deficiencies** need to be addressed as a priority. Currently a massive amount of Iraq's GDP is consumed on the public distribution system (a legacy of the pre-2003 sanctions) and subsidies to domestic consumption of oil. Economic reforms (as stipulated by the IMF Stand-By Arrangement) will allow the government to pursue public investment and its development agenda as defined in the National Development Strategy. Urgent reforms are needed to strengthen the budget process, including the recording of revenues and expenditures, and promotion of accountability. The **budgeting process** should be used as a primary policy instrument. The government needs to prepare a unified budget for capital and recurrent expenditures, within a medium-term expenditure framework. All donor aid should be brought within the unified national budget.

Reforms in the **business and financial services regulatory environment** need to be introduced to ensure private investment, which in the medium term is needed to finance oil and electricity infrastructure. However, reforms would need to be calibrated in order to counter any negative social welfare impacts that may result.

III. RECOMMENDATIONS FOR EU SUPPORT

Iraq is a country rich in human, natural and cultural resources, with vast potential to become again an important regional and international partner, but the current situation is one of acute insecurity and instability. Whatever the future situation, Iraq will continue to have security, economic, energy and political implications for the European Union. It is therefore in the European Union's interest to encourage a secure, stable, democratic and economically prosperous Iraq, which is at peace with its neighbours and integrated into the international community.

With the formation of the first constitutionally elected Iraqi government, there is a renewed opportunity for the European Union to engage. It is well placed to do so. Geographical proximity; experience already gained in Iraq and in other post-conflict scenarios; well-established relations with key international players, including Iraq's neighbours; the EU's economic strength; and the potential contribution of Iraqi European migrant populations are all assets on which the European Union can build to help the Iraqis to counter the negative trends. The EU can also use the experience gained in Iraq through political dialogue, Community reconstruction funding (in 2003-2006 reaching around €720 million), cooperation in rule of law and relations established through EU presence in Iraq.

In the short term, the European Union should focus its engagement on a small number of key objectives, to which it can bring added value and provide early and tangible results. To maximise impact and efficiency, Community and EU Member States should concentrate their efforts around those key objectives in a complementary manner. The UN should continue playing a leading role both on the political and the economic reconstruction fronts.

Continued EU support to the UN efforts should remain at the core of EU engagement, together with increased dialogue and cooperation with other key stakeholders. Enhanced dialogue with Iraq's neighbours and support to initiatives to strengthen regional co-operation should further be pursued. The EU should also remain supportive of Iraqi calls for a renewed international political and economic engagement through an international conference.

However, external political support and assistance will not be sufficient to help Iraq. Change in Iraq must be Iraqi-owned and led. The EU needs a solid partner, committed to implementing policies and addressing the current problems. EU action will be dependent on a conducive policy and security environment in Iraq. A certain number of **enabling factors** have therefore been identified which will determine the impact of EU action. These factors will be fine-tuned through a process of dialogue with the newly formed Iraqi government. Two main critical factors are, however, common to all challenges: **Iraqi political will** and **improvement in the security** situation.

From the analysis of the challenges that Iraq faces and the position of the EU, it is suggested that efforts be focused on a number of concrete objectives.

EU objective: Endorse and support a model of democratic government that overcomes divisions

The European Union should continue its support to the political process by backing policies and initiatives that **counter sectarianism** and facilitate respect and dialogue between the various communities. To this end, the EU should actively work with the national government and regional administrations, with civil society as well as with the UN and other international partners. The EU could also support **national reconciliation** efforts and back policies to **mainstream inclusiveness** throughout the administration.

The EU should also make best use of its relations with **regional stakeholders** to encourage their advocacy of Iraq's territorial integrity and national unity, and to discourage interference in Iraqi domestic affairs.

The EU could continue to make a valuable contribution, in close co-operation with the UN, to the **constitutional review process**, and could share Member States' experiences in division of administrative responsibilities, economic equilibriums and solidarity schemes. This could be complemented with more ambitious measures to reach out to the Iraqi population and ensure a better understanding of the political and economic stakes.

Furthermore, EU action could **support parliamentary and democratic institutions**. Capacity building and technical assistance for the relevant Iraqi institutions, and exchanges or twinning-type programmes with EU Member States' administrations and the European Parliament are measures that could be considered. Additionally, continued assistance for the Independent Electoral Commission of Iraq and for civil society organisations are other possible areas of support.

The EU should not limit itself to working on human rights and democracy at central level, but should explore ways to reach out to regional, provincial and local levels to mainstream policies and monitoring implementation.

Enabling factors - EU assistance in these fields will already benefit from the inclusive nature of the government. The impact of EU support will be enhanced with the adoption of

transparent, meritocratic and sectarian-neutral recruitment in the national administration. Adherence to the timetable for the electoral process will enhance Iraqis' participation and confidence in the political process.

EU objective: Contribute to a consolidation of security by underpinning the system of rule of law and promoting a culture of respect for human rights

A number of EU Member States are already involved in work to improve security in the country. Security training for police and military personnel is being provided by some EU Member States. The Integrated Rule of Law Mission for Iraq, EUJUST LEX, in the context of ESDP, is working with the Iraqi police, judges and prison personnel to develop an integrated rule of law system/criminal justice system. The mission, which started in July 2005, has been extended.

The EU will continue to work towards **establishing security and rule of law**. The Commission will build on the lessons learned from the EUJUST LEX Mission in preparing a programme in the area of the rule of law, to strengthen the judiciary both in criminal and civil matters. A close coordination will be ensured between further efforts in the context of ESDP and Community action in this field. Future cooperation will work towards mainstreaming a culture of **respect for human rights**, including those concerning gender equality, children's rights and religious freedom; this will include capacity building to monitor compliance with human rights. The European Union could also consider supporting **Disarmament, Demobilisation and Reintegration initiatives** on the basis of experience gained in other post-conflict scenarios. The EU could also support capacity building efforts to help the Iraqi government and institutions monitor progress towards implementation of the relevant **international conventions under human rights law**.

Enabling factors – The impact of EU efforts will be enhanced if the government is committed to the necessary reforms in the judiciary, and to respect for human rights in the Iraq security apparatus. Strengthening a Human Rights Ministry, the establishment of a Human Rights Commission and other institutions to investigate human rights abuses would be a step in the right direction. The government also needs to curb the militias and non-government militarised groups. A supportive framework for Civil Society to operate would also be helpful.

EU Objective: Support national and regional authorities in improving the delivery of basic services and in promoting a conducive environment for job creation

The European Union, through the Community assistance and in close cooperation with the UN, is already a major contributor to targeted programmes aimed at improving access for the Iraqi population to basic services (water, education, health, sanitation and others) - with the general objective of improving the quality of life in Iraq and securing sustainable medium-term stability. For improvements to be long-lasting, the government needs to adopt **long-term social development policies**. Implementation of policies could be supported by the EU, drawing upon the Iraqi National Development Strategy adopted in October 2004, which will certainly be updated by the new Government. The EU could also assist in reforming the social security system in cooperation with other international players.

Job creation is a priority for the new government. Efforts must be focused on creating an environment conducive to employment creation and development of income generating

activities. This could be addressed by harmonising the various reconstruction programmes, job creation components and by promoting **private-sector job creation** activities for Small and Medium-Sized Enterprises. IRRFI efforts could be further pursued. This would also allow for a diversification of the economy and build a basis for increased trade potential.

Enabling factors – The impact of EU support will be enhanced by an updated national development strategy setting out clear priorities. The government needs to find a policy compromise between implementing key structural reforms (which may require short-term pain for long-term gain) and preventing social unrest. At the same time functioning donor coordination mechanisms will help match needs to resources. Enhanced visibility of support would be welcomed by donors once the security conditions so permit.

EU Objective: Support mechanisms to pave the way for Iraq’s economic recovery and prosperity

The European Union is already involved in promoting economic reforms and fostering development in the area, and will use its experience to work with the Iraqi government to promote economic development and prosperity. The EU will maintain an open dialogue with the government to encourage economic development through funding, debt reduction efforts and greater cooperation schemes.

The initial focus for EU action will be to address the current deficiencies in Iraq’s energy sector. The EU should **support the regulatory, legal and financial framework**, both to encourage investment and to deter corruption, organised crime and criminality. In parallel, it will encourage **regional energy cooperation** through EU regional networks. There is also potential for commencing a **technical dialogue** with Iraq on the development of Iraqi oil resources and exploitation of natural gas reserves, and particularly in export to the Mashreq and EU markets, could supplement ongoing regional efforts.

Furthermore, the European Community will encourage economic diversification by lending support to the development **of a trade and investment regime** which offers a minimum of predictability, transparency and legal certainty. The establishment of such a regime is a pre-condition for private domestic and international operators to invest and create further job opportunities in the country.

The **negotiation process for the Trade and Cooperation Agreement** should also in itself act as a factor of support for internal reforms. The negotiations of the Trade and Cooperation Agreement may also serve as a precursor to the WTO accession process and will bring the Iraqi trade regime closer to multilateral system rules and disciplines, facilitating **accession to the WTO**. The possibility for Iraq to take advantage of the generalised system of preferences, which would give improved access to the EU market, remains open. Engagement of the **European Investment Bank** in Iraq could enhance confidence in Iraq on the global financial stage. To complement these processes, the EU could provide support to strengthen the Central Bank and the Ministry of Finance, in coordination with other international financial institutions.

Enabling factors: - A strong political will to tackle embezzlement and corruption and address fiscal deficiencies is a pre-condition for economic well-being. Iraq needs to commit itself to optimising the use of its vast natural resources to generate additional income. The government needs to adopt appropriate policies and initiatives in this sector.

EU Objective: Promote the development of an effective and transparent administrative framework

Reforms of the public administration are required: an overhaul of the legal structures, strengthening of human resource capacity and introducing principles of transparency, accountability and sound financial management. The European Union has a whole range of administrative systems and cultures across individual Member States and at EU level. Experience from the enlargement process and support for **building capacity and institutions** in other parts of the world can be brought to bear to help the Iraqi administration implement reforms.

The process of **negotiating the EU-Iraq Trade and Cooperation Agreement (TCA)** will complement EU support for public administration reform. Targeted EU support could focus on a broad number of issues, touching upon the areas of responsibility of various ministries and government bodies.

The TCA negotiations, and their successful conclusion, would benefit from the establishment of a functioning administration. In key areas of common interest, setting up **technical working groups to support** the exchange of know-how and expertise will be an additional asset where EU resources can be drawn upon.

Enabling factors - Iraq has already committed itself to reforms, as part of its obligations to international funding institutions and other international stakeholders. Reform of the Iraqi administration will need strong political commitment and a “roadmap” based on realistic goals and benchmarks.

IV. CONCLUDING REMARKS

The challenges facing Iraq are many, complex and pressing. The EU has a strong interest in helping Iraq stabilise and supporting its political and economic regeneration. The EU's geographical proximity and its distinctive role in Iraq put it in a unique position to further its engagement with the new government. This is a strategic opportunity to help Iraq regain its position as an important regional and international partner. EU engagement along the lines proposed in this document should take account of Iraqi ownership, capacities and values and use the new government's programme and priorities as a point of departure.

However, the EU is not alone. The UN remains a key partner. To ensure full effectiveness, it is also essential that the EU works alongside other players and stakeholders, both regional and international, in supporting Iraq's path towards stability and prosperity. This will continue to be a priority for the EU. Iraq needs to position itself politically and economically in the region. Iraq's neighbours have an important role to play in this.