

[REDACTED]

24 January 1994

Rt Hon Douglas Hurd CBE, MP
Secretary of State for
Foreign and Commonwealth Affairs

Sir,

KUWAIT: ANNUAL REVIEW OF 1993

1. Following two years spent refurbishing its infrastructure and institutions, 1993 was Kuwait's first year of near normality since the Gulf War, with the National Assembly functioning throughout, and, on the economic front, the watchword being business as usual. Kuwait reverted to a largely pre-war agenda: regional problems, notably the long-term relationship with Iraq, internal economic management, and domestic issues of citizenship and voting rights. On the first, thanks mainly to the P3, important steps were taken. Elsewhere, reliant on its own efforts, Kuwait marked time.

Internal Political

2. The domestic scene was dominated by the National Assembly. Its constitutional powers are substantial. In the past, the threat of dissolution acted as a check. Since Liberation, given US and UK pressure for democratic forms, this restraint is in abeyance. The trauma of 1990 left the Sabah and the Executive on the defensive, handing the political initiative to the new Legislature. Revelations of financial scandals from the 1980's, highlighted by the collapse of Kuwait's Spanish investments with an estimated loss of \$5 billion, gave the Assembly an opportunity to consolidate and raise its political profile.

3. It is early to judge the Assembly's effectiveness; its performance in 1993 was patchy. The initial Government/Assembly honeymoon ended early in the year as the scale of the Spanish losses sank home. The Assembly focused on financial accountability, producing draconian legislation on the protection of public funds; and gave close attention to the fine print of the Budget and the supplementary budget for defence procurement. It acted too often as an opposition rather than a Legislature, it was tempted to court short-term populist favour; it was hampered by lack of economic expertise. At times in 1993 all this brought the government machine close to seizing up, notably over the resettlement scheme for domestic debt, essential to revival of business confidence. Most Assembly members resented bailing out debtors, including members of the Sabah, whom they suspected of holding assets abroad. It is encouraging that Assembly and Government were eventually able to reach consensus on the scheme and (a month late) on the Budget, though at the price of a public deficit equal to nearly a quarter of GDP.

4. The Assembly showed awareness of Western expectations in the field of human rights, including the high-profile subject of the treatment of domestic servants. Disappointingly, it failed to grapple with Kuwait's long-term problems of citizenship for stateless residents and voting rights for naturalised citizens. The influential Islamist group in the Assembly increasingly made its presence felt, at first on largely trivial matters but later concentrating on a proposal to make sharia the main source of legislation.

Economic

5. The Islamists helped distract Assembly and public attention from long-term economic problems, notably lack of growth in the non-oil economy, a very difficult issue but a precondition for creating new jobs (60% of Kuwaitis are under 21; the Kuwaiti population is still growing at nearly 3% pa). The Spanish fiasco was a major setback to hopes of an active role in offshore direct investment. At the rate of deficit spending required to sustain its current lifestyle, Kuwait could exhaust its available reserves in as little as three years.

6. The prescription is straightforward, if unappetising: cuts in spending, increases in non-oil revenue (there is no income tax), privatisation (with concomitant increase in unemployment), and market incentives. By international standards Kuwait's task should not be hard. With the rehabilitation of its oil industry and the increase in 1993 of its OPEC quota to 2 million b/d Kuwait has cash in hand and is cushioned against shocks. But the barrage of state subsidies require a major outlay; the political will to face cuts is still lacking. The

[REDACTED]

Government, egged on by the Assembly, confined itself to short-term palliatives: major new projects in the oil sector were shelved; there was a virtual freeze on major construction projects; and consumption was financed partly from capital. Predictably, the National Assembly increasingly focused on defence procurement as a candidate for allegedly painless spending cuts.

External

7. The year saw further steps in safeguarding Kuwait against the threat of Iraqi aggression and frictions caused by an ill-defined border and past Iraqi encroachment. Following its delimitation, the boundary was physically demarcated under UN auspices. The Kuwaitis constructed a trench, not to prevent armed attack but to emphasise the newly demarcated border and Kuwait's commitment to its sovereignty, and to guard against minor incursions. The trench should also make it harder for Westerners to cross inadvertently into Iraq. The Kuwaitis decided that farming south of the border by Iraqis should end, agreeing to compensate those concerned following valuation by the UN. Iraq's incursions over the border early in 1993 led to firm UN action, an expansion of UNIKOM and a stronger mandate for it. With the deployment of its new Bangladeshi battalion, UNIKOM will have the capability and authority to intervene militarily from early 1994.

8. Kuwaiti political efforts were mainly directed towards maintaining Coalition, and in particular P5, support for continued sanctions against Iraq pending full Iraqi compliance with all the relevant Security Council resolutions. The Kuwaitis emphasised the role of the P5 by concluding further defence agreements - following those with the US and UK - with France and Russia in 1993.

9. The return at the end of 1992 of Shaikh Sabah al Ahmad, Kuwait's Foreign Minister for nearly 30 years, who is known for pan-Arab leanings, resulted in attempts to restore closer links with other states in the region, including Iran and some of the Arab states hostile to Kuwait during the Gulf War. [REDACTED]

Many other senior people here do not share this line on Iran; [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

UK/Kuwait

10. A very good year, highlighted by the visit of HRH the Prince of Wales who achieved an excellent rapport with the (normally taciturn) Amir as well as with the Crown Prince and Prime Minister, Shaikh Saad, and other senior Sabah. The visit again demonstrated the unique advantage to British interests here from links between the Royal Family and the Sabah. Other visitors included the Minister for Defence Procurement Mr Jonathan Aitken (twice) and the Minister of Energy, Mr Eggar. It was a pity that Mr Hogg's planned visit (coincidentally to chair the Gulf Heads of Mission Conference in January) had to be cancelled. During 1993 our defence relationship, the main long-term bilateral gain from our role in Kuwait's liberation, was well enhanced. We signed a contract for Desert Warrior armoured vehicles for the Kuwait Land Forces, at over £700 million our largest land systems export sale in 14 years, against fierce US competition, which fought to enlist members of the Assembly in a campaign to buy cheaper outdated US equipment. Kuwaiti plans to buy Piranha APCs (over £250 million), and the Starburst air defence system have been held up by the Assembly, though the Kuwait Defence Minister is hopeful of getting its endorsement soon. [REDACTED]

[REDACTED] We are pursuing good prospects for fast patrol boats, a rocket artillery system (MLRS) and Land Forces logistics.

11. Our new high-level Military Mission nearly reached full strength of 25. Financed by the Kuwaitis, it gives advice and training principally to the Land Forces, while many of its members including the Commander give direct advice to the Chief of Staff as part of the staff of the Armed Forces HQ. The Kuwait Minister of Defence has told me the Mission has got off to an excellent start. With the other main elements of our defence relationship - training teams here, training for members of all three services in the UK, RN ship visits and naval exercises, joint deployments and manoeuvres - this enabled us to influence many aspects of Kuwait's military planning, not least defence procurement.

12. On the civil side we did well in exports of machinery (much of it for the oil industry) and consumer goods including durables. Local spending cut-backs meant that no major new projects were awarded in the oil sector; only a handful of construction projects went ahead. Our visible exports reached £220 million by end-October, above the corresponding £200 million for last year.

Outlook

13. Kuwait's external relations will remain overshadowed for a good time to come by the events of 1990-91. The Kuwaitis are nervous of any perceived weakening in P5 resolve to maintain pressure on the Iraqi regime and of course about the much longer term future of their country. French overtures to Iraq were a particular worry in 1993. Attitudes towards Iraq will remain the criterion by which other countries are judged. HMG's firm and unwavering support for all articles of all the relevant UNSC resolutions continue to stand us in good stead and, together with our defence and security co-operation, will remain the bedrock of our relationship. Despite Shaikh Sabah's residual hankering after a firmer Arab alignment for Kuwait, and some fundamentalist pressure, the Kuwaitis are unlikely to be deluded as to who their real protectors are and their interest will remain in the Western camp, though inevitably less obviously so as time passes.

[REDACTED]

14. [REDACTED]

[REDACTED] The trauma of 1990-91 has perhaps reinforced [REDACTED] Attempts by Government and Assembly to avoid unpopularity (reminiscent of Kuwait in the early 1970s) are likely to continue, [REDACTED]

[REDACTED] Without some (for Kuwait) major economic reforms Kuwait is likely, even assuming a stable oil income, to have to enlist the help of international financial institutions within five years with the conditionality that implies. The Islamists in the Assembly are likely to continue to assert themselves. There are a number of Kuwaitis who think they will not make much more headway; others are more concerned. Time will tell.

[REDACTED]

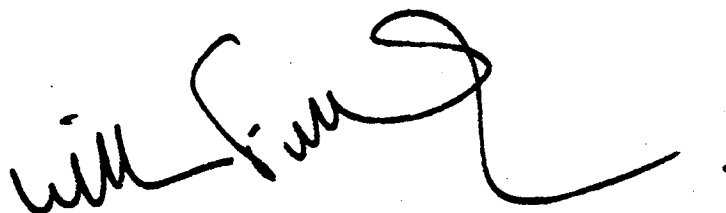
[REDACTED]

15. None of this will mean early change in the pattern of our activity here. Kuwait will remain a significant cash market. Our defence relationship will remain important. We shall need to keep a close eye on Kuwait's security vis a vis Iraq, the maintenance of its fledgling democracy, and be ready to help when the time comes with efforts to get its long-term finances onto a sounder footing. We should be well placed to offer advice in all these areas.

16. Defence and commercial work is central to our Post Objectives, and so far in FY 1993-94 we have done well on these, notable items being [REDACTED] the establishment of the Military Mission, the targeting of export promotion efforts on best performing sectors and a high level, both in quantity and quality, of UK visiting trade missions. We continue to stress to firms the importance of visits and personal contacts in this society: the message is increasingly getting through.

17. I am copying this to the Heads of Mission in other Gulf posts, Washington, Paris, Cairo, Damascus, Tehran and UKMIS New York.

I am, Sir,
Yours faithfully



W H Fullerton
HBM Ambassador

[REDACTED] [REDACTED]

The Rt Hon Douglas Hurd CBE MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office LONDON SW1

24 January 1995

Sir

KUWAIT: ANNUAL REVIEW 1994

1. 1994 will be remembered chiefly for Iraq/Kuwait crisis in October and the response by Kuwait's US and UK allies, which included visits here by you and your US colleague. The episode pointed up issues unresolved from the Gulf war, notably the continuing regional threat from Saddam Hussain [REDACTED]

The Crisis and its Lessons.

2. Following the Iraqi statement on 6 October that further delays in easing sanctions would cause Iraq to take a "new stand" from 10 October, surveillance reports revealed Iraqi military deployments towards Kuwait involving up to 80,000 troops with armour. The Iraqis also installed around 4,000 people, allegedly stateless Arabs expelled by Kuwait after the Gulf War, in tents along the border. The scene was set for incidents, a threat to the integrity of the border - and worse. Memories of the Iraqi invasion of 1990 were never far from Kuwaiti minds. The response of HMG and the US was rapid. The British Spearhead Battalion was in Kuwait from 12 October, following the deployment on 9 October of HMS Cornwall - the first allied deployment during the crisis - later joined by HMS Cardiff. RAF ground reconnaissance operations over Iraq were enhanced by a second Tornado squadron. The Americans deployed over 5000 troops and earmarked much larger numbers. Firm diplomatic action by the UK and US produced Security Council Resolution 949 prohibiting Iraqi deployments in the South. Faced with political resolve, backed by force, Saddam withdrew, later recognising Kuwait's sovereignty, and the border demarcated by the UN.

[REDACTED]

[REDACTED]

3. The episode was a reminder to the Kuwaitis of the essential role of the US and UK as defenders of their independence. [REDACTED]

[REDACTED] and despite Kuwaiti disappointment at the performance of Russia and China, the importance of all the Permanent Members of the UNSC was also emphasised in Kuwait. A subsidiary lesson was the failure of the Gulf Cooperation Council (GCC) to provide a credible military response, though GCC Foreign Ministers acceded quickly to the emergency meeting in Kuwait, attended by you and Mr Christopher, and produced a joint statement. The Kuwaitis commented on the lack of progress towards regional security arrangements at the GCC Summit in December. [REDACTED]

[REDACTED] The Kuwaitis were struck by the lack of support, popular and official, for Saddam's action throughout the Arab world, in contrast to 1990-91. It was also encouraging that the events evoked a high degree of national unity within Kuwait; Government and National Assembly abandoned domestic squabbles to present a united front. Few Kuwaitis left the country; quite a number who were abroad returned in mid-crisis.

Internal Political

4. [REDACTED] There are signs that the Cabinet reshuffle in April was triggered by press speculation but the Crown Prince and Prime Minister, Shaikh Saad, took the opportunity to lessen the influence of the influential Islamist bloc, reducing their Cabinet posts from three to one. The Government also refused an Assembly move to make Sharia the main source of law, and resisted Islamist attempts in parliament to enforce segregation at Kuwait University. [REDACTED]

[REDACTED]

[REDACTED] The Assembly has some achievements to its credit, notably a small extension of the franchise to sons of naturalised Kuwaitis and the adoption, after protracted wrangling, of the KD 3.5 bn (£12bn) 10 year defence procurement budget.

5. Ostensibly the reshuffle was to clear the decks for economic reform, including structural adjustment. [REDACTED]

The budget deficit remained at 25% of GDP. It was not that the new Cabinet failed to win the national argument for wide ranging reform, but that there was no such argument. Economic debate was stymied by Government reluctance to publish full accounts notably on external assets. The surge in bond prices, a major factor in the calculation of reserves (following falls in world interest rates on a scale unlikely to be repeated soon) and optimism on future oil prices, unjustified according to the experts, [REDACTED]

[REDACTED]

[REDACTED]

UK/Kuwait

~~6. An exceptionally busy and successful year, the high point being~~
HMG's response to the Iraqi threat. 1994 was the first full year
of operation of the British Military Mission (BMM) [REDACTED]

[REDACTED] The Spearhead Battalion's role earned continuing praise. The Defence Secretary paid two visits, the first early in the year to review the defence relationship, the second to visit our troops in the field. He was able, after strenuous pressure from this Embassy, to sign the [REDACTED] air defence contract [REDACTED]

[REDACTED] Other defence-related visits included those by the Middle East Adviser and the Chief of the Naval Staff. Progress with GKN's contract for Warrior armoured vehicles, worth around £700 million, was made. Mr Heseltine came to promote privatisation plans; Mr Hogg paid a highly successful visit which got across our messages on good government and human rights. There were also visits by Olga Maitland, Emma Nicholson and David Mellor, all of whom have friends here, and the Lord Mayor of London.

7. Our visible exports ran ahead of 1993 (first half 1993 £148 million, first half 1994 £157 million) which in turn was 20% up on 1992. Invisibles represent a further £100 million. The First Ring Road was completed under the supervision of WS Atkins and Mouchels. British Petroleum's Technical Services Agreement with KOC progressed well and the company raised its profile significantly, at our suggestion, to pursue upstream investment opportunities. The new Kuwaiti Oil Minister was an official visitor to the UK. We received three trade missions most of whose members picked up business.

Outlook

8. The October episode, against Saddam Hussain's existing record, will long overshadow Kuwaiti perceptions. Iraq's recognition of Kuwait will not change matters: there were "recognitions" in 1932 and 1963. The Kuwaitis will share our scepticism, publicly expressed, over Saddam's ability to change and that there can be no real confidence while he remains. They have noted the Prime Minister's comment on 29 November that given any further Iraqi threat we shall act as in October. They will aim in 1995 to sign some form of defence agreement with China. They are apprehensive over Russian and French attempts to put the October events on one side and work towards relaxation of sanctions as early as Spring, especially the opening of an interests section by the French in Baghdad, and the beginnings of expressed GCC disharmony over Iraq.

They are braced for the possibility of decisive progress on weapons of mass destruction (WMD). They may come to have mixed feelings ~~over subsequent suspension of the oil embargo in 1995 if~~ resistance to it removes them too far from other Arab opinion. Provided an adequate cage can be built for Saddam, there may be attraction for Kuwait (and ourselves?) in cash becoming available for compensation. The issue of Kuwaiti POWs remains an emotive one. Our support is well received.

9. The Kuwaitis are exercised about Iraqi manipulation of the international media to create the impression that the UN sanctions are responsible for food shortages in Iraq. Our own public opinion needs to be convinced.

10. Domestically, a breakthrough on economic reform is unlikely though the Kuwaitis will tinker further. Finances may get tighter with the probable maintenance of Kuwait's existing OPEC quota (though much depends on prices), and with resources from external assets down. The present dedication of 87% of oil revenue to government sector salaries leaves little room for manoeuvre. Kuwait is required to make in June the first of seven monthly repayments of principal of a \$5.5 billion loan raised in 1991, and has undertaken to meet half the marginal costs of the US and UK deployments here in October/November. Our bill is a modest £5 million but the US demand is nearer \$500 million. Kuwait needs proactive government able to get across to public opinion the unsustainability of the payments position and to cajole it into accepting policies involving some reduction in high living standards.

The sale of Government shares in some public companies may create vested interests in efficient pricing and operation, but this leaves unsolved the many problems facing privatisation of public sector services and utilities.

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UK Objectives

12. Our main interests remain stability and exports. In the long run stability is linked with good government. High level visits have an important role and the success of the Assembly Speaker's visit to the UK in November created valuable, explicit links. We should enhance our links with the Islamists. There is sufficient goodwill in their ranks towards Britain for us not to despair of some influence on their thinking. The vigour of the defence relationship will continue important with the BMM a key asset. I hope we can resist an MOD tendency to circumscribe its role with the aim of withdrawal or run-down in 3-4 years. The Mission achieved invaluable access to the local defence establishment, enabling us to influence aspects of policy [REDACTED]

[REDACTED] The US and France would quickly make up any shortfall in BMM numbers.

13. With GKN Warrior arriving in 1995, Kuwait is poised to leapfrog Egypt again as our third biggest market in the Arab world. We should continue to make the oil sector our priority non-defence target. There are prospects for the supply of oilfield equipment. We should exploit the position provided by BP's technical services agreement, support the local efforts of the Oil and Gas Projects and Supplies Office, and the holding of a downstream oil exhibition. Our expertise in privatisation and offset gives us a potential role in Kuwaiti policy-making and provides business opportunities. We should set up inward visits for the Ministry of Finance (the Minister if possible) on privatisation and purchasing to follow up Mr Heseltine's initiative. We shall continue to support Taylor Woodrow's efforts to secure a major project management role. Other sectors could see cutbacks. But steady bread and butter exports should be nourished. The private sector will remain sluggish and the market as a whole fiercely competitive. We hope to move forward with plans for a double taxation agreement. A problem is the possible introduction, at EU behest, of UK visas for Kuwaitis after 1996. We must have the resources to manage this if invisible exports are not to suffer.

1994-5 Objectives

14. We have done well so far, particularly in providing political reassurance for the Kuwaitis vis a vis Iraq and on Ministerial visits both ways. The visit of the Kuwaiti Oil Minister to London was a long-standing aim. The Speaker's sponsored visit and the AUSPB visit by a senior official of the House of Commons were notable firsts. We signed Starburst and were successful with trade missions. The UK profile has been substantially raised on all fronts.

[REDACTED]

The State Visit, May 1995.

15. We shall set the seal this year on our relations with the State Visit by the Amir in May. This could not take place against a better background, and provides opportunity to promote a wide range of top level friendships and contacts which will stand us in good stead well into the future.

16. I am copying this to Ambassadors in Gulf Posts, Cairo, UKMIS New York, Washington, Paris, Moscow and UKMIS Geneva.

I am, Sir,
Yours faithfully,

William Fullerton

W H Fullerton



British Embassy
Kuwait

20 January 1997

The Rt Hon Malcolm Rifkind QC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
London SW1

Sir

ANNUAL REVIEW 1996

1. Kuwaitis will look back on 1996 with some satisfaction. Oil prices rose giving a welcome boost to the economy. The Stock Market boomed as, for the first time since the liberation, money flowed back into the country from abroad. Saddam Hussein remained contained in his box and there were no other pressures from abroad to cause undue concern. [REDACTED]

External Affairs

2. Kuwaitis were surprisingly unalarmed by Saddam Hussein's excursion into Northern Iraq in early September. Rapid reinforcement by the Americans and strong political support from the UK and others sent a clear message that any attempt by Saddam to re-establish his power in the south of the country would be met with a stiff response. The extension of the no-fly zone northwards to the 33rd parallel has given the Kuwaitis an added feeling of security. The more thoughtful were concerned about the strains posed on the coalition by US attacks on military targets in Iraq because of Iraqi action against the Kurds, but at top levels the Kuwaitis seems to have convinced themselves that coalition solidarity would not be in doubt if any threat were posed by Iraq to Kuwait. For the first time since the liberation, Kuwaitis started to talk openly about living with Iraq in the longer term and possibly even learning to live with an Iraq with Saddam Hussein still at the helm. For those people, your speech in Abu Dhabi in November in which you spoke of our vision for Iraq in the longer term and outlined your proposals for an Organisation for Cooperation in the Middle East struck many responsive chords here. [REDACTED]

[REDACTED] but the Kuwaitis more than most can see the need in the longer term for mechanisms for building bridges and mending fences within the region.

3. Kuwait's other foreign policy preoccupation is Iran. Kuwait continued its policy of trying to keep doors open. [REDACTED]



[REDACTED] fearing that isolating Iran could drive the Iranians towards more extreme positions. [REDACTED]

Economy

4. The Minister of Planning told me in November that the rise in oil prices was the worst thing that could have happened to Kuwait. He has a point. Average prices for oil in Kuwait in 1996 were \$16.5 a barrel against the budgetary forecast of \$13 a barrel. In Financial Year 1995/6 the projected budget deficit was more than halved. The run down on reserves at last came to an end and by the end of 1996 Kuwait's external debts were paid off. That all sounds like good news, but Kuwait has a number of structural problems in the economy which need to be addressed. These include massive subsidies for utilities, housing etc which the state cannot afford to maintain indefinitely - especially with a young population growing at over 3% a year. In addition, the private sector remains hamstrung by Kuwait's restrictive commercial laws and an obsession with security which makes it difficult for the spur-of-the moment business visitor. This frustrates the merchant community who see Dubai and perhaps other centres in the Gulf moving ahead of Kuwait in seizing whatever economic opportunities there are in the region.

[REDACTED] With a strong oil price, the need to take these decisions can be deferred once again.

Internal

5. The elections in October saw the return of a National Assembly rather more to the Government's taste than its predecessor. The first 3 months of the new National Assembly have shown that attention will be focussed on parish pump issues and on seeking preferment for individual constituents rather than looking for the national good. This suits the Government quite well although individual ministers will have rough rides and the Government is bound to be faced with battles to outmanoeuvre those Islamist MPs who seek to give a stronger Islamist twist to laws in Kuwait - not always for religious reasons. The one issue which Kuwait hoped to have dealt with during 1996 - how to tackle the problem of 120,000 or so stateless Kuwaitis (the bidoon) has again proved too difficult. The Government has begun to look at 75,000 cases but none have been finally resolved.

UK/Kuwait

6. We cannot look back on 1996 with the same complacency. The year had a good start with the Memorial Service in St Paul's



Cathedral for the British Servicemen and women who died during the occupation and liberation of Kuwait. This was attended by Her Majesty The Queen, The Prince of Wales and The Princess Royal.

[REDACTED]

The summer was dominated by the introduction by the new visa regime with much grumbling from the Kuwaitis about the cost and inconvenience this involved. We issued some 44,000 visas in 1996. But there are indications that the existence of the visa regime deterred a number of Kuwaitis from visiting the UK this summer at a possible cost in lost spending in the UK of around £20 million. Surprisingly few Kuwaitis took up the opportunity of taking 5-year visas and so demand for visas is likely to remain nearly as high in the future.

7. Exports did reasonably well, up some 10% on 1995 and likely to hit £600 million for the first time, but there were no major commercial successes. The one big project we were pursuing, a Taylor Woodrow plan to win a large stake in running the infrastructure for Kuwait's new housing requirements, remained elusive throughout the year.

8. Defence sales had a frustrating year too, despite two visits each from the Secretary of State for Defence, the Minister (Defence Procurement) and the Head of Defence Export Services. The contract for Sea Skua missiles seemed almost in the bag at the beginning of the year, but National Assembly and press scrutiny of the deal [REDACTED] postponed the taking of a final decision. This will now run into 1997. The most significant event of the year, however, was the loss of the contract for armoured fighting vehicles for the National Guard. We had the best vehicle and seemed set to win the contract even though the price of the British Piranha was slightly higher. However, the decision was made to buy an American/Austrian vehicle.

[REDACTED]

9. We had more success in the rest of the military cooperation field with the British-run staff course completing a highly successful first year. We achieved a key objective in dissuading the Kuwaitis from turning the course into an Arabic language course in the short term, although this remains their long term objective. 7th Armoured Brigade took part in a key coalition exercise in April and won the UK much praise for the effectiveness of our systems and our ability to work with a wide range of coalition partners. Our training remains much prized and sought after.

[REDACTED]



Objectives

10. We are making good progress on most of our objectives. Our profile is high here, and access good. Trade figures are encouraging and there are good opportunities which we are pushing hard in both the civil and defence sectors. The questions of the Bidoon and Kuwaiti POWs remains unresolved. But on other political issues we have an effective dialogue. I hope we can do something in 1997 to palliate the adverse impact of the new visa regime.

Outlook

11. Next year could prove a more testing one for Kuwait in the area of foreign policy. The coalition against Iraq is likely to be placed under further strains as an increasing number of Arab States seek to find ways to bring Iraq back into the Arab fold. It is reasonable to assume that Saddam Hussein senses this mood and will be looking for opportunities to drive further wedges between coalition partners. Iran too, could pose problems, particularly if relations between Iran and the US deteriorate. A clear breakdown in the Middle East Peace Process would also cause problems for Kuwait. There could be direct problems if the breakdown led to a spiral of terrorist violence. Indirectly the danger is that if the US is seen as backing an intransigent Israel, the position of the US in the region will come under more attack.

Kuwait will also have to tackle the question of how far it can go in improving relations with Jordan and Yemen (seen here as pro-Iraq during the invasion). Many Ministers want to improve relations, to keep Jordan in particular from tilting back towards Iraq, but there is still popular and National Assembly resistance to full rapprochement.

12. Internally, there will be growing concern about the continued failure to make progress on the 600 or so Kuwaitis missing since the Iraqi invasion, an issue on which we work closely with the Kuwaitis. The Iraqis however, hold all the cards, and it is unlikely that they will release any useful information until they see it in their wider interests to do so, which means in the context of a final lifting of sanctions.

13. If high oil prices persist it is unlikely that any tough decisions on the economy will be taken but the debate there should intensify and the new Minister of Planning is determined to try to force the pace on this. The focus should also turn more onto employment. 95% of Kuwaitis work for (or are at least paid by) the Government. But the Ministries are saturated, and employment has to be found for some 14,000 additional Kuwaitis each year.

14. Our own prospects for the year look encouraging. We have a visit by the Prince of Wales in February as the high point around which we will be focussing on the help we can give to Kuwait in



liberalising the economy. [REDACTED]

[REDACTED] We are setting ourselves new targets in the commercial field in a number of specialised areas which we hope will give rise to continued growth in our exports to Kuwait. Our greatest challenge, though, is to convince UK exporters that Kuwait is a worthwhile market.

I am Sir
Yours faithfully,

Graham Boyce

G H Boyce