

**IRAQ STABILIZATION AND RECONSTRUCTION:
INTERNATIONAL CONTRIBUTIONS AND RESOURCES**

HEARING

BEFORE THE

COMMITTEE ON FOREIGN RELATIONS

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

—————
JUNE 4, 2003
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Printed for the use of the Committee on Foreign Relations



Available via the World Wide Web: <http://www.access.gpo.gov/congress/senate>

U.S. GOVERNMENT PRINTING OFFICE

89-517 PDF

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
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Wednesday, June 4, 2002

U.S. SENATE,
COMMITTEE ON FOREIGN RELATIONS,
WASHINGTON, D.C.

The committee met, pursuant to notice, at 9:36 a.m., in Room SD 419, Dirksen Senate Office Building, Hon. Richard Lugar, presiding.

Present: Senators Lugar, Hagel, Chafee, Alexander, Biden, Sarbanes, Feingold, Nelson, and Corzine.

OPENING STATEMENT OF HON. RICHARD LUGAR, U.S. SENATOR FROM INDIANA

The CHAIRMAN. This hearing of the Senate Foreign Relations Committee is called to order.

The committee is pleased this morning to welcome Under Secretary of State Alan Larson, Under Secretary of Defense Dov Zakheim, Under Secretary of the Treasury John Taylor, and Administrator of the Agency for International Development Andrew Natsios. Our panel represents a broad range of United States agencies responsible for American stabilization and reconstruction activities in Iraq. The bureaucratic diversity of this panel also underscores how important interagency coordination of the operation is in our success in Iraq.

The committee is looking forward to this testimony about the funding required for efforts in Iraq, the administration's plans for seeking international contributions, and efforts to ensure that resources are used effectively.

This is the second in our series of hearings on post-conflict Iraq. The committee greatly appreciated the comprehensive testimony delivered by Deputy Defense Secretary Paul Wolfowitz and General Peter Pace on May 22. They helped to clarify United States policy and plans for stabilization and reconstruction in Iraq and to put in perspective the difficulties that accompany these efforts. They assured us that the administration is making adjustments to its plan aimed at accelerating reconstruction and addressing stabilization problems. I was particularly pleased to hear Secretary Wolfowitz assure the committee that the administration is committed to the long term in Iraq and "will remain there as an essential security force for as long as we are needed."

Up until now, the support of the American public for the war in Iraq and the war on terrorism has been strong. As we move into

the expensive and complicated process of rebuilding Iraq, Americans will want to know that their money is being spent effectively and that other nations are contributing a fair share.

As part of the \$79 billion supplemental appropriations bill covering Operation Iraqi Freedom and the war on terrorism, Congress has already provided \$2.5 billion for relief and reconstruction in Iraq. Most experts anticipate that significant additional appropriations will be needed by year's end. As we examine what funding will be needed, we must ask what are the most critical priorities, how are existing funds being used to meet those priorities, and who is making the decisions about those expenditures.

We are also intensely interested in the administration's efforts to secure contributions from other nations that will reduce long-term United States financial burdens and broaden the interests of the international community in a successful outcome in Iraq. During the military conflict, many nations contributed to the success of the coalition, some by contributing troops, others by offering logistical support, material, or shared intelligence. We are grateful for the partnership and commitment of these nations.

With regard to the rebuilding effort, however, it is still unclear what international contributions have been offered and what goals the administration has set for securing both financial and human resources. Experts have identified the need for peacekeeping forces along with economic and technical experts, but it remains unclear who is being asked to provide these personnel. The main criteria for the involvement of allies and international organizations must be their ability to make contributions that will advance our goals in Iraq.

Another issue that we wish to explore in depth is the degree to which Iraq's own resources will be available for the rebuilding effort and how Iraqi funds will be administered. These resources include the \$1.7 billion in frozen Iraqi assets in the United States, at least \$600 million in Iraqi assets in other nations, plus the more than \$700 million dollars recovered by coalition forces that was hidden in Iraq by Saddam Hussein's family and associates. We would also like to examine funds remaining in the United Nations' Oil For Food account and revenues from future oil sales. Together, these assets represent a substantial down payment on Iraq's future, but the administration of Iraqi assets will require full transparency and a high degree of political sensitivity.

The passage of Resolution 1483 lifting the United Nations' sanctions on Iraq had added a new dimension to these resource issues. The winding down of the Oil For Food program over the next six months and the establishment of the Development Fund for Iraq with \$1 billion in unallocated UN escrow account funds can help meet immediate reconstruction needs.

The measure of success in Iraq that matters most is what kind of country and institutions we leave behind. Toward that end, we should acknowledge that we are engaged in nation-building in Iraq. The achievement of stability and democracy in Iraq presents an opportunity to catalyze change in the Middle East region that can greatly improve United States' national security and help win the war against terrorism. Achieving such ambitious goals will require

careful planning by the administration, full participation by the Congress, and support from the American people.

We look forward to exploring these issues with each of you today. I call now upon the distinguished ranking member of our committee, Senator Biden, for his opening statement.

**STATEMENT OF HON. JOSEPH BIDEN,
U.S. SENATOR FROM DELAWARE**

Senator BIDEN. Thank you very much, Mr. Chairman. I think we have a lot of important hearings but I think this is a truly important hearing. The reason I do is that to state the obvious, but you are assembled at the table the players who are going to make this work or not work in Iraq, and we have a lot of questions.

Let me begin, though, by saying that I think this is a moment of great opportunity both in the war on terrorism generally and specifically in terms of changing the face of, the climate, and the circumstances in the Middle East generally.

And I want to begin by complimenting the President. I have been an open critic of the President and a private critic to him personally for his failure from the time he became President to get deeply involved in the Palestinian-Israeli conflict, because I believe there is no possibility of resolution without U.S. leadership there. And I must say that I have been very positively impressed by his commitment which he made privately as well as publicly to me and to others that he is going to get involved with both feet.

I noted in today's *New York Times* one paragraph, and I quote: "In a remarkable turnaround for the President, who has resisted taking a personal role in peacemaking in this part of the world, Mr. Bush spent 90 minutes alone with Arab leaders, leaving Secretary of State Colin Powell and National Security Advisor Condoleezza Rice sitting in an ante room as he concluded and conducted talks with the help of only a translator." That to me is the most significant thing that I have seen or heard of the President's efforts in the Middle East thus far, and I want to publicly compliment him.

We all understand, we have been here a while, that a President who involves himself in this way is putting his political capital at risk. He has great capital right now and I want to publicly acknowledge that as long as he is working this way, he will get the support of this senator and I suspect many Democrats in his effort.

The second point I would like to make is that I hope we get by in this hearing today about, you know, how well you planned this before. You didn't plan this well before and this has not been planned well, it's understandable why it's not been planned well. The thing never got off the ground the right way in terms of the reconstruction of Iraq. You guys had your hands full. Let's just go from here. Please do not bore me with how much planning you did before you got involved and what this long lead-up was.

The fact of the matter is, it's understandable that we find ourselves in a situation where all the things that we were privately told that you and the administration planned on didn't come to fruition. We were told there was going to be an infrastructure left of the military, we would have them available to us. An infrastructure left of the various agencies, all we are going to do is decapitate the bad guys and the Ba'athists, and we would have agencies up

and running. Please, let's not do this, okay? Let's not go into that. Let's talk about what you are really going to do from this point on, because there is still a chance to make all of this work in a way that I think with the personal leadership of the President with regard to the Israeli-Palestinian issue, has an opportunity to have a ripple effect throughout the region, and there is a confluence of a number of streams here that are working.

And so the question is, how do we get this thing underway. The things I would like to hear about today, and maybe you won't have the answers, I don't expect all the answers today, is, how are the various agencies coordinating their efforts here in Washington? Is there a single office, a single individual in Washington who is in charge of managing the efforts minute-by-minute and day-to-day? I'm not suggesting there should be, but is there? What's the plan, Stan? You know, what's the deal here, okay? What is the balance of decision making in Washington versus the decision making made by Ambassador Bremer and his team in the field? How much unilateral or independent authority do they have? Does Bremer have the authority to disperse resources as he sees fit? If so, how many funds does he have control over?

And I would like to know, is the Pentagon's chief budget officer going to provide us with working estimates even if they are ranges, on the size, the length, the cost of maintaining a presence here? If you haven't thought that through, if you haven't thought through the possibilities, then you shouldn't be here at the table. And you owe it to us and to the American public to give us the ranges.

We're in the deal now. We're in the deal as to whether or not we go to war, the Congress, and we gave the President the authority. From the time he went to war to the time the shooting stopped, that was his business, he's the commander in chief. He made the judgments. Now the reconstruction rests upon us cooperating with you, and we have to know front end what the ranges are, what's the idea, what do you think we're in for. Because the American people, if you look at the polling data already, do not sign on to the idea of staying there for years and spending billions of dollars, when we know they're going to have to. It may be a year, it may be 10 years, but we know it's more than a day.

When we were kids we used to play that game, guess what I have in mind, bigger than a bread box, smaller than a Mack truck. Well yeah, give us some ranges. Give us some ammunition, because we have to go home and tell our folks what you're going to expect us to come up with, as you should, the resources needed to get your job done.

I would also like to know your estimates as to what extent you believe Iraqi oil will pay for Iraqi reconstruction. Again, there is this notion out there that this is it, now all we have to do is tap the well and boom, we don't have any problems. I believe that not be to accurate. Some in the administration say what they think it is. Again, if you have not thought that through, you shouldn't be at the table.

What is the Treasury estimate of the size of Iraqi debt? Will there be an effort to reschedule or write off that debt? If it's not written off, what will be the impact on Iraq's recovery?

AID published a vision statement in February that identified benchmarks on a range of sectors of Iraqi reconstruction. I would like to know from Mr. Natsios whether or not we're on target and if not, what do we have to do to get you on target, or have the targets changed?

And what is the plan across a number of areas? How are we going to get Iraqis back to work, including former military personnel? What's going to replace the Oil-For-Food program when it's phased out over the next six months? What efforts are being made to rebuild the justice system? How is education to Iraqi children being managed? Are there new textbooks that will be available to every Iraqi child the next school year, as AID planned?

These are practical things we'd like to know about. I don't expect you personally, I don't expect you to have all the answers to these things, but I do expect, and quite frankly respectfully demand that you let us know what your plans are, who's in charge, what your estimates are. We have an absolute right to know that.

And I would ask unanimous consent that my formal statement be placed in the record at this point, Mr. Chairman.

The CHAIRMAN. Placed in the record in full.

Senator BIDEN. I thank you all for being here, and we look forward to having a conversation with you.

[The prepared statement of Senator Biden follows:]

PREPARED STATEMENT OF SENATOR JOSEPH R. BIDEN, JR.

Mr. Chairman, our witnesses today come from a wide range of agencies within our government: the Pentagon, the State Department, the Treasury Department and AID. Even more agencies will have a role in Iraq in the coming months and years—from the Commerce, Justice, and Energy Departments, to the Office of Management and Budget.

Each has a critical part to play in helping to win the peace in Iraq.

The fact that so many parts of our government will be focusing their time and resources on Iraq shows just how extensive our effort must be.

But for all this effort, there appears to be no effective structure to coordinate the activities of these diverse agencies. We have been told that the Defense Department is in charge. But which office and who in Washington has the sole and exclusive responsibility minute-by-minute, day-to-day to ensure that decisions are made efficiently, agencies are coordinating their activities, and that Ambassador Bremer is getting all of the support he needs in the field.

Our superb planning for and execution of the war has not been matched by our planning for and execution of the peace. It appears there was a failure to comprehend that security would be the sine qua non for progress in all other areas. This should have come as no surprise after our experience in the Balkans.

This committee, going back to last summer, has been a virtual Groundhog Day on the question of security and post war planning, repeating over and over again the need to get our act together before we went into Iraq, not after the fact.

And many of the leading think tanks in town have made the same point, too.

Simply put, without security, people will not return to their jobs, parents will not send their children to school, doctors and nurses won't make it to their hospitals, women will not leave their homes and participate in rebuilding their country, and engineers cannot make vital repairs to the infrastructure.

So, I'd like to learn today what we are doing to secure international contributions—for police forces like the gendarmes, for more traditional troops, and for funds to stabilize and rebuild Iraq. I'm glad that President Bush has moved beyond the finger pointing and talk of retribution with our allies in Europe and is asking for their help. Marshalling the help of friends and allies in Iraq is the the best way to spread the risks and reduce the burden on U.S. troops and taxpayers.

I also hope to hear from our witnesses the answers to several fundamental questions today: What are the working estimates for the cost and duration of the occupation? What are the working estimates for the cost of reconstruction?

What I do not want to hear is a dodge we've heard all too often from the civilian leadership at the Pentagon that the future is unknowable, so we won't estimate anything.

I'd also like to explore whether the administration still believes that oil will cover the reconstruction costs? Leading energy experts, including Dr. Daniel Yergin of Cambridge Energy Research Associates, estimate that when Iraq achieves its pre-war level of oil production, that is expected to generate \$15 to \$20 billion per year.

Witnesses before this committee have calculated that maintaining a security force of 100,000—which is significantly less than the number of troops now in Iraq—will cost approximately \$25 billion a year.

And then there are the reconstruction costs, which are expected to be in the tens of billions of dollars.

What is the size of Iraqi debt and how will it be handled? The Center for Strategic and International Studies estimates that Iraq's obligations—be they debts, claims, or contracts—total some \$383 billion. What impact will this burden have on Iraq's economic recovery?

Mr. Chairman, we cannot afford to fail in Iraq. Our credibility in a region vital to our security is at stake.

We have gotten off to a rough start, but there is still time to turn things around. Doing so will require a lengthy and costly effort in troops and treasure from the United States. The American people will support that if they are informed of what is to be expected of them.

As I have said repeatedly, no foreign policy can be sustained without the informed consent of the American people.

They have not been informed to date.

I hope that today's hearing provides some of that information. More important, I hope that the President follows through on the pledge he made to me and tells the American people that we will be in Iraq for several years at least, with tens of thousands of troops, at a cost of tens of billions of dollars, but that this high price is worth paying.

At our last hearing, Deputy Secretary Wolfowitz said that he had heard the President say privately that winning the peace would be even tougher than winning the war. Well, it is high time he said that publicly to the American people.

If he does that, I am confident the American people will support the effort.

Again, I welcome our witnesses and I look forward to hearing their testimony.

The CHAIRMAN. Thank you very much, Senator Biden.

I will ask the four of you to testify in the order that I introduced you to begin with. I will commence with Secretary Larson and then move to Dr. Zakheim, Secretary Taylor, and Mr. Natsios. Let me just say at the outset, all of your statements will be published in the record in full. You need not ask for permission to do that; and please, if you can, reduce your statement or summarize it. We will not be restrictive in terms of time, but we have asked a lot of questions and we are hopeful that you will be full in your testimony. We will ask for questions following that.

Secretary Larson.

STATEMENT OF HON. ALAN P. LARSON, UNDER SECRETARY FOR ECONOMIC, BUSINESS AND AGRICULTURAL AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. LARSON. Mr. Chairman, Senator Biden, and distinguished members of the committee, I am pleased to be here today with Under Secretary Zakheim, Under Secretary Taylor, and Administrator Natsios to discuss Iraq reconstruction. The four of us and many others have worked long and hard together on this issue and our close teamwork is representative of the administration's efforts to plan and implement reconstruction policy on Iraq.

This is an important task and a challenging task. It's going to require concerted efforts of the administration, the Congress, our partners abroad, and most importantly, the Iraqi people. Even as

we confront those challenges, we should bear in mind what has been accomplished so far.

Contrary to fears and expectations of many, the coalition's military strategy and humanitarian planning did prevent large movements of refugees, significant food shortages, and health crises. Basic services such as water and electricity are being restored, with levels of performance now exceeding in many instances those Iraqis experienced before the war. The oil infrastructure has been protected and now oil production is being ramped up.

The challenges we now face are those of working with an Iraqi people who are eager for progress after 25 years of depression and economic decline. The oil and transportation sectors need significant rehabilitation. The telecommunications system, as detailed in my written testimony, has been neglected for decades and will need to be expanded and modernized. The food production and distribution systems will need to be overhauled, moving them from a system of price controls and rationing to one based on free markets and individual choice.

The commercial need, the commercial regime will need to be revamped in order to encourage trade, promote investment, and facilitate private enterprise.

A national budget is being prepared that will set out priorities both for recurrent expenditures but also for reconstruction projects. And all of this needs to be done as we facilitate the formation of a representative and legitimate Iraqi government. With so much to do, it's important that both Americans and Iraqis be somewhat patient, remembering that we cannot undo in a month or six months the legacy of 25 years of misrule.

The United Nations Security Council Resolution 1483 provides a crucial framework for reconstruction. Among other things, it recognizes the role of the United States and the United Kingdom as the responsible authority in Iraq. It ends economic sanctions. It provides a significant role for the United Nations, including through the creation of a special representative of the Secretary General. We welcome the appointment to this position of Sergio de Mello, who will among other things coordinate UN assistance, assist in the development of representative government institutions, and promote economic, legal and judicial reform.

The resolution also establishes a development fund for Iraq that will receive proceeds from export sales of oil and will disburse these funds in a transparent manner for the benefit of the Iraqi people.

And finally, the resolution signals through the unanimous voice of the Security Council that the international community needs now to rally behind the cause of reconstruction in Iraq.

We know that Congress is eager to have the clearest possible picture of the costs of reconstruction and of the resources that will be available to cover those costs. As for needs and costs, Peter McPherson, who is the financial coordinator for the Coalition Provisional Authority working under Ambassador Bremer, is working on such a budget. We hope that at least a rough estimate of this budget will be available for discussion later this month.

In addition, the United Nations Development Program and the World Bank have agreed to collaborate on a needs assessment that should be available at the end of the summer.

On the resource side, Iraq itself will rightly shoulder much of the responsibility. Among the sources of revenues available are \$1.7 billion in invested Iraqi assets; the found assets in Iraq, which currently total roughly \$600 million; and \$1 billion of unallocated Oil-For-Food money that will be deposited in the development fund for Iraq.

In my written testimony I have described in considerable detail the state of oil production and exports. The Iraqi CEO of the oil ministry, Mr. Ghadhban, is making very good progress. Mr. Ghadhban has produced production and export estimates which for obvious reasons are subject to considerable uncertainty.

Nevertheless, understanding the committee's interest in having even a rough frame of reference, my testimony uses Mr. Ghadhban's figures to suggest that Iraq's gross export revenues from oil could be in the range of \$5 billion for the second half of this year. It also suggests that based on similar rough estimates, that their gross export proceeds for 2004 could be on the order of \$15 billion. Looking further to the future, it must be left to a new representative Iraqi government to decide whether to expand productive capacity beyond past levels, which have been roughly 3.5 million barrels per day; that has been their past peak. Any significant expansion of baseline oil product capacity would need to be accommodated by increased demand in the international marketplace and in my view would most likely be privately financed.

The administration is actively seeking support from other countries. We began this process while the war was still going on. With strong encouragement from the administration, UNBP, the World Bank and the United States will be taking a leading role in pulling together an initial meeting on Iraq reconstruction issues in New York on June 24. While this meeting is not a pledging session, it will set in motion a process of collaboration in assessing needs and in mobilizing the resources to meet those needs. We expect it will lead to a major ministerial level donors conference, perhaps in September.

I was privileged to attend the G-8 meeting that President Bush attended over the last few days in France, and at that meeting the leaders welcomed this conference and agreed that it should be the starting point for pulling together an international response to the challenge of reconstruction in Iraq.

To date, other countries have already pledged an estimated \$1.7 billion, most of this for humanitarian assistance in response to a United Nations appeal. Creditors also will need to make a contribution. Official creditors have already acknowledged that it's unrealistic to expect Iraq to make payments on its external debt, at least through the end of 2004.

Mr. Chairman, we appreciate the strong interest and support of the Congress in the important task of reconstruction. We look forward to cooperating very closely with the committee in the future. Thank you.

[The prepared statement of Mr. Larson follows:]

PREPARED STATEMENT OF ALAN P. LARSON

INTRODUCTION

The liberation of Iraq was a triumph of American armed forces, working with coalition forces. The reconstruction of Iraq must be a triumph of the Iraqi people, working with the coalition and the international community. Our military victory was swift and decisive. The rebuilding of Iraq after decades of misgovernment will take longer. Most of this work will—and rightly should—fall to the citizens of Iraq. It is their country, and they must ultimately decide how it takes shape. The United States and other friends of the Iraqi people will be there to assist, and to advise. A free, democratic and prosperous Iraq will remove an island of hatred that long threatened its neighbors and the United States.

UPDATE

The situation on the ground in Iraq remains tense. Gunfire, looting and the remnants of Saddam's regime continue to disrupt life in Baghdad and elsewhere. To ensure stability, American troops continue to be deployed throughout the country. In addition, we will stand up an Iraqi national civilian police force within existing structures. In Baghdad, there are already over 7,000 Iraqi police patrolling with U.S. military forces. Until the security situation calms down, it will be difficult for a genuine redevelopment of the Iraqi economy to gather momentum.

Many of the problems that had been widely anticipated did not materialize. We did not see mass hunger, widespread medical emergencies or floods of internally displaced persons. The military plans protected the oil fields from sabotage by Saddam in his final moments.

Looking to the future, there are many things upon which to build. Iraq has a large cadre of talented, dedicated technocrats anxious to return to work. And we have offers from many, many countries ready to provide technical assistance and to do business in Iraq.

We are beginning to see some bright spots. For example:

- water in Baghdad is back at 75 percent of pre-war levels;
- power is being gradually restored;
- mail delivery has begun around parts of the country;
- the Ministry of Health has been re-established and there is currently no major health crisis;
- primary schools re-opened May 4;
- oil production is increasing;
- the agricultural sector is reviving; and
- shops are open and the retail sector is increasingly active.

My colleagues and I can all tell you of the fine work our people have done on the ground in dangerous and difficult circumstances. Ambassador Bremer, General Garner and their teams have worked hard to bring order out of a chaotic situation. Ambassador Bremer is moving quickly to establish coalition authority in the country. State, USAID, Defense, Treasury, Justice and others have experts in the field looking at key reconstruction issues. Ambassador Bremer has made real progress in establishing communications with Washington, and in organizing his own resources to meet the challenges ahead. We in Washington have also organized ourselves to be as helpful to Ambassador Bremer and his team as possible, as they progress from the current situation, where stability and provision of basic services are critical, to a time when we can address broader policy issues.

Some practical steps have already been achieved by the team in Baghdad. For example, an early goal of ours was to re-start economic activity by getting people back to work, and to employ the energy and talent of the Iraqi people in rebuilding the country. In order to get Iraqis untainted by strong links to the Ba'ath Party back to work, the Office of the Coalition Provisional Authority (OCPA), in consultation with Defense, Treasury, State and OMB, has begun making "emergency" salary payments to Iraqis in key sectors. These payments have brought port workers back to work at Umm Qasr, and key civil servants back to critical jobs at important ministries, for example the Ministry of Trade. And putting cash back into pockets means giving people money to spend on goods and services, which spurs economic activity.

UNSC RESOLUTION 1483: A FRAMEWORK FOR RECONSTRUCTION

President Bush has made clear his desire to work with the United Nations, other international organizations and other nations to rebuild Iraq. UN Security Council Resolution 1483 provides an important framework for economic development in Iraq.

UNSCR 1483:

- Recognizes the United States and United Kingdom as the “Authority” and charges us with carrying out the responsibilities and obligations of this role for the welfare of the Iraqi people.
- Ends the economic sanctions in place for more than a decade, allowing trade and financial transactions with the world.
- Provides for a significant role for the United Nations in:
 - humanitarian and reconstruction assistance;
 - return of refugees;
 - restoring and establishing national and local institutions for representative governance;
 - formation of an Iraqi interim administration; and
 - coordination of humanitarian and reconstruction assistance by a Special Representative of the Secretary General (Mr. Sergio Vieira de Mello has been named to this position).
- Establishes a Development Fund for Iraq to be used to meet humanitarian needs, for reconstruction and repair of Iraq’s infrastructure, and other purposes benefiting the Iraqi people. Specific requirements include:
 - receiving proceeds of all export sales of petroleum and natural gas from Iraq, along with remaining UN funds designated for Iraq, and frozen assets that had belonged to the Government of Iraq or designated senior officials, including Saddam Hussein;
 - disbursing money in a transparent manner, at the direction of the Coalition Authority, with expenditures to be audited by independent public accountants: the humanitarian needs of the Iraqi people; rebuilding the economy and infrastructure; continued disarmament; the costs of civilian administration; and for other purposes that benefit the people of Iraq; and
 - formation of an International Advisory and Monitoring Board, comprising representatives of the UN Secretary General, the IMF Managing Director, the Director General of the Arab Fund for Economic and Social Development and the World Bank President.
- Supports efforts by the Iraqi people to form a representative government based on equal rights and justice for all Iraqi citizens.
- Calls upon the international community and multilateral institutions to assist with the reconstruction and development of the Iraqi economy.
- Provides for a six-month winding-down of the Oil for Food Program (OFF), and removes restrictions on oil exports and sales.

THE JOB AHEAD: KEY CHALLENGES OF RECONSTRUCTION

We speak about the “reconstruction” of Iraq, but that word is misleading. We are looking not at reconstruction, but at construction, not at rebuilding, but at building. The Iraqi people must overcome the damage of 25 years of corrupt and vicious tyranny to build their society into a lively and historic center in the Middle East.

As a result of Saddam Hussein’s misrule, Iraq’s economy deteriorated significantly. GDP fell from almost \$180 billion in 1979 when Saddam took power to around \$50 billion in 2001. Twenty-five years ago per capita income was approximately \$17,000—on a par with Italy—based on purchasing power. Today, per capita income is around \$2,000, comparable to El Salvador. Moreover, the United Nations Development Programme’s Arab Development Report 2002 ranked Iraq in 110th place among 111 countries on its Alternative Human Development Index, which measures such things as life expectancy at birth, educational attainment and enjoyment of civil and political liberties.

Iraq’s economy today not only has shrunk, it is distorted in the way that the economies of Eastern Europe and the Soviet Union once were. Central control removed incentives for production. Overcoming the legacy of state planning and controlled prices will be arduous and time consuming. There are many tasks ahead, including solving problems in the most critical sectors, properly managing the newly

created Development Fund for Iraq, creating a healthy trade and investment climate and transitioning the country off the Oil for Food Program.

Tasks in Four Key Sectors

Oil

The oil sector did not do well in Saddam Hussein's Iraq. The infrastructure suffered from years of neglect, forcing Iraqi engineers to exercise ingenuity and find creative solutions to keep oil production levels as high as possible. The technologies applied to boosting production have in some cases damaged the oil fields. The lack of maintenance, equipment, and spare parts also affected the infrastructure throughout the production chain—from the wellhead to the gas-oil separation plants, to the power plants, to the pumping stations, to the refineries, and to the pipelines.

Since the liberation, Iraqi and U.S. engineers have been working around the clock to restore production so that Iraq will be able to meet domestic needs and begin earning revenues through exports. A lot of progress has been made already, but much more remains to be done. Because the oil sector is of such central importance and the issues it faces so complex, I will provide more details about it later in my testimony.

Food and Agriculture

The complexity of the task of reconstruction and reintroduction of market principles is well illustrated in the food and agriculture sector.

Under Saddam, agricultural productivity suffered from low investment, input shortages, poor agricultural and irrigation practices, droughts and soil salinity. Returning Iraqi agriculture to productivity and competitiveness is a major challenge we face.

Iraq has not been food-self sufficient, traditionally importing 60–70 percent of its caloric needs. Thus as we rebuild agricultural production to be competitive, we will also need to ensure that a vibrant trading environment exists.

The government rationing system provided a majority of Iraqis with food. Procurement and production of staples, like grains, were by the government. Neither production nor consumption reflected market prices.

Winding down the Oil for Food program does not mean the end of the need to feed Iraqis, most of whom have received virtually all their food through OFF. We are in the process of re-activating the food distribution system to do this. Operational responsibilities of buying, shipping, and distributing food and medicine will be transferred to us as the occupying power at the end of six months.

In the short run, we must continue food assistance for the Iraqi population dependent on it. In the longer term, we must move the Iraqi economy from the distortions of the Oil for Food program to a market-driven system with cash salaries so that people can begin to purchase their own food. When freed of government control, the agricultural sector is one of the most responsive to market forces.

Locally produced products, such as fruits and vegetables are now traded freely in open markets. Our challenge will be to extend this to grains, wheat and rice, which are the staples of the Iraqi diet.

USDA and AID have already begun to think through and implement steps needed to reintroduce competitiveness to Iraqi agriculture. For example, USAID and USDA have already designed and are putting in place a project to assist agricultural production and develop agricultural enterprise, credit availability and infrastructure. In the 1980's the United States was Iraq's largest supplier of agricultural products. We now look forward to rebuilding cooperation between Iraqi and U.S. agricultural sectors.

Transport

Critical to Iraq's reconstruction will be the transportation sector, which faces numerous challenges. On May 23, the port of Umm Qasr became the first reconstruction project transferred from military to civilian administration. The basic infrastructure is sound, but has not received proper maintenance for years. Rehabilitation priorities include the port administration buildings, new lighting, utilities, security fences, grain elevators, port dredging so that larger bulk grain vessels can off-load near the grain elevators. The adjoining railroad system is also under review for repair to help move the large amount of cargo projected to arrive through the port. Major roadways have also sustained conflict-related damage and will need work.

In civil aviation, the aircraft of Iraqi Airways, the former national carrier, are parked outside Iraq and are not airworthy. Moreover, Baghdad International Airport has taxi lane craters, broken runway lights, unexploded ordinance, plumbing

difficulties, and security access control problems. There is also no functioning civil aviation authority to oversee airport security, flight safety oversight, and the administration of civil services. Despite these obstacles, the Coalition Provisional Authority hopes to resume civil services before July to accelerate the flow of U.S. and foreign actors involved in reconstruction efforts. We foresee that with the improvement of Iraq's internal transport system, trade and investment relations with its neighbors will also improve.

USAID contractors Skylink, Bechtel and Global Securities are making preparations for the possible re-opening of Baghdad International Airport to limited commercial traffic by June 15. As part of an interim operation, Global Securities is to provide passenger and baggage screening security, Bechtel a temporary passenger terminal and Skylink airport management. Skylink has also been contracted to assess and make preparations for the re-opening of the Basra Airport. USAID contractor, Stevedoring Services of America, assumed operational responsibility for the deepwater port of Umm Qasr from the British military on May 23.

Telecommunications

Telecommunications remains a critical requirement for OCPA and the reconstruction effort. Prior to the conflict, Iraq had minimal telecommunications—some three phones per 100 citizens. Although among the lowest levels in the world, even this low figure overstates phone penetration experienced by the average Iraqi since the ruling institutions—Ba'ath Party, military and government offices—controlled many of the phones. In addition, there was no wireless system, little Internet and few computers.

In prosecuting the war, command and control systems, and telecommunications centers, were targeted. The war and subsequent looting and fires destroyed some 50 percent of the telephone switches in Baghdad and severed all intercity and international links. Thus, even though about two-thirds of the 800,000 lines in Iraq remain serviceable; they can connect only with phones in their local exchanges.

As part of its efforts to provide security and operations for OCPA, DoD contracted with MCI for a small emergency wireless system for Baghdad, initially involving some 2,000 phones. The United Kingdom Ministry of Defense contracted through Vodafone for similar wireless coverage in the south.

The Department of State has been active in developing a policy response to address the larger telecommunications requirements. State leads an interagency Telecommunications Support Team to coordinate with and support the operations of OCPA's Joint Communications Advisory Board. The interagency team has endorsed a three-phase approach for telecommunications that addresses (1) emergency requirements, (2) telecommunications needs assessments, and (3) development of a broad policy framework for the telecommunications sector reconstruction and development.

The interagency team has also taken the lead in responding to specific telecommunications requests from OCPA, including that from Ambassador Bremer for an emergency interim nationwide communications system for Iraq. With interagency agreement, State has recommended that USAID contract for the rapid restoration of critical emergency telecommunications facilities. This contract would provide a coherent, integrated management approach to emergency telecommunications that would link 21 cities and provide international connections. It would call for multiple technologies and not prejudge future decisions by service providers about technology. It would support supervisory control and data acquisition (SCADA) systems for other critical sectors—power, water, refinery, transportation/airport, as well as support medical, fire, police and other emergency response operations. And, most importantly, it would provide these services within 30 days.

In other areas, members of the interagency team are developing a spectrum management plan and a framework for the telecommunications regulatory structure in Iraq that has as its goal a market based, private sector-led telecommunications sector.

Looking forward, there remain several requirements for getting a modern telecommunications system in Iraq. These include repair and building the wireline system, as well as a registration system leading to competitive licensing of wireless service providers so the Iraqi people can benefit from this important technology. We are working, as noted above, to establish the policy infrastructure for this action. It is difficult to speak with precision as to when these actions can be completed, but we hope within a matter of months.

As you can see from a very brief overview of key sectors, Iraq will need assistance to get up and running. Not long-term aid, but shorter-term aid until its economy can function well, and its citizens prosper.

MANAGEMENT OF THE COUNTRY'S FINANCES—THE DEVELOPMENT FUND FOR IRAQ

Security Council Resolution 1483 directs that oil proceeds be deposited in a Development Fund for Iraq and be used for the humanitarian needs of the Iraqi people, for rebuilding the economy and infrastructure, for continued disarmament, and for the costs of civilian administration. Ambassador Bremer already has created a senior-level Project Review Board, to be chaired by former USAID Director Peter McPherson, that would approve projects and allocate funding sources. This process of reviewing and approving expenditures will provide the basis for a national budget for Iraq; Treasury already has budget experts on the ground in Baghdad working on these issues. We also expect OCPA to design a transparent procurement mechanism for Development Fund expenditures that is consistent with USG procurement guides.

We have worked with other agencies to open accounts for the Development Fund for Iraq in both the Central Bank of Iraq and at the New York Federal Reserve Bank. The Development Fund for Iraq is now open for deposits of oil sale proceeds and other revenues, including transfers from the UN. State is also working closely with the Department of the Treasury to support the work of the International Advisory and Monitoring Board, which will bring representatives of the UN and international financial institutions together to approve auditors for the Development Fund for Iraq.

CREATING A HEALTHY CLIMATE FOR TRADE AND INVESTMENT

Removing economic and financial sanctions alone will not open trade. We must reestablish Iraq's trade with its neighbors and the world, and establish a healthy business climate for Iraqis and for domestic and foreign investment. Our team in the field has already made a preliminary identification of several key issues. These include:

- establishment of a new tariff schedule;
- removal of non-tariff barriers;
- encouragement of foreign investment through drafting of a more open investment code and loosening of restrictions of foreign ownership of private property;
- creation of an effective banking system, and other financial services;
- privatization of substantial means of production and development;
- adoption of effective copyright protections; and
- eventual entry into the WTO.

MOBILIZING RESOURCES FOR IRAQ RECONSTRUCTION

UNSC Resolution 1483 lays a foundation for redevelopment of much of Iraq's economy and more work will need to be done over and above that. The American people and coalition allies paid the price in blood and treasure to liberate Iraq. The cost of redeveloping Iraq's economy should be shared by the Iraqi people, the international community and by the coalition.

I cannot give you a figure on how much it will cost to rebuild Iraq. This is a complicated question with a number of component parts. First, there is a need for funding of repairs and rehabilitation following this most recent conflict. Second, is the larger task of undoing the damage done by decades of Saddam Hussein's misrule—corruption, plunder and the distortions of central state planning. Third, the Iraqi people will need financing—public and private, domestic and foreign—to bring Iraq—isolated for decades—into the information-rich, technology-driven global economy.

As my comments on the oil, agriculture, transport and telecommunications sectors imply, it will be some time before we can even begin to estimate accurately all the forms of damage this country's economy has sustained. We are not talking about traditional long-term financial assistance. Iraq needs help to get its economy on a sound basis, develop a welcoming investment climate and integration into regional and international trade. The global community has asked the World Bank and UNDP to send a team of experts to Iraq soon to do a thorough assessment. The instability of the environment hampers our efforts currently, but to the extent we can, we stand ready to update you at any time on this important issue.

There are a number of resources that we plan on mobilizing to finance the rebuilding of Iraq.

Found and Vested Assets

First, existing Iraqi state assets and the ill-gotten gains of Saddam Hussein and his regime will be made available for the benefit of the Iraqi people.

After Saddam Hussein's invasion of Kuwait in 1990, the United States acted quickly and decisively to deprive the Iraqi regime of the means and materials to continue its regional aggression, further develop its weapons of mass destruction programs, and continue its repression of the Iraqi people. Consistent with UNSC Resolution 661, the United States blocked all Iraqi state assets legally within its control.

Today, the United States is using those assets for the benefit of the Iraqi people, as they build a new and better Iraq. The President vested \$1.7 billion in Iraqi government assets in the United States. The Secretary of the Treasury has already designated the Secretary of Defense with the authority to use over \$573.5 of these assets to meet the immediate humanitarian needs of the Iraqi people.

Since the President signed the March 20 Executive Order vesting Iraqi state assets in the United States, the State Department, in cooperation with our interagency partners, is confirming the status of assets declared frozen by foreign governments in 1991. We have reached out to more than 20 additional countries that also may have information regarding Iraqi state assets. With the unanimous passage of UNSCR 1483, we are also reminding countries of their obligation under the new resolution to make available any Iraqi state assets to the Development Fund for Iraq.

We have had, and continue to have, extensive bilateral and multilateral meetings with key jurisdictions. For example, the administration took advantage of the IMF/World Bank meetings held in Washington in April to hold several important bilateral meetings to discuss the matter. Treasury and State officials have contacted their counterparts in key jurisdictions. My colleagues and I have stressed the need for all countries to search their financial institutions for ill-gotten gains of Saddam Hussein and his regime.

The Department of State is working closely with the Departments of the Treasury, Justice, Defense, and Homeland Security, as well as law enforcement and intelligence colleagues across the government, to identify additional assets and front companies that may be connected to Saddam Hussein or his fallen regime. Our efforts are leading to the identification of funds that can be made available for the benefit of the Iraqi people. To date more than \$1 billion in previously unfrozen assets outside Iraq have been identified.

Revenue from Petroleum Production

Oil sales are the biggest potential source of revenue for the new Iraq, as they were for the old, but this time Iraq's oil revenues will benefit the Iraqi people. A top priority is to bring the industry on line and to repair and rehabilitate the existing infrastructure. A highly qualified team is ready to take on this work. Thamir Ghadhban is the CEO of the Oil Ministry and is actively directing the process. He has a team of experienced and well-qualified Iraqi managers and engineers in place at the Oil Ministry, the State Oil Marketing Organization (SOMO), and the South and North Oil Companies, and they have technical support from the Army Corps of Engineers. Steps are being taken every day by Iraqis working with the Army Corps to assess the condition of wells, pipelines, pumping stations, gas-oil separation plants, power grids, and refineries, and to make repairs. As the security situation improves, the work will proceed at a faster pace.

Iraq's entire oil infrastructure was shut down in the face of the American advance. The Iraqis and we have been working diligently since the international coalition liberated Iraq, to bring the sector back on line. Mr. Ghadhban announced on May 21 that Iraq was already producing 800,000 barrels of oil per day. While there are many variables that can affect success in meeting production goals, he also said that production could reach 1.4 or even 1.5 million barrels by June 15. On May 28, Mr. Ghadhban announced that the northern fields around Kirkuk have been producing 600,000 barrels per day since May 27 but are not expected to increase production above that level in the near term. In the south, the situation is not as far advanced, but again, progress is being made. He also said that, as of May 27, oil production in southern Iraq exceeded 200,000 barrels per day, so it seems that Iraq is well on its way to meeting Mr. Ghadhban's production goals.

As a point of comparison, Iraq produced between 2 and 3 million barrels per day in 2002. This is was down from 3.5 million barrels produced at Iraq's production peak in 1990. During 2002, Iraq exported an average of 1.7 million barrels per day.

Mr. Ghadhban also announced that the Basra refinery is—or soon will be—operating at full capacity—140,000 barrels per day. The plant is antiquated and the condition of the pipeline that runs to Baghdad is still being assessed. Iraq's two other

major refineries at Baiji and Daura are also operating, but at below capacity, because of damage from looting, the continued lack of stable electrical power, and a shortage of heavy fuel storage.

Mr. Ghadhban has determined the first task is to ensure that Iraq is able to meet its own domestic needs for motor fuel and liquefied petroleum gas, which is used for cooking. Iraq's domestic needs for refined products require a production level of some 250,000 barrels of oil per day. But in creating gasoline, Iraq also generates considerable heavy fuel, which is largely exported. As Iraqi oil production reaches 1.3–1.5 million bpd, this would translate into roughly 1 million barrels of crude oil available for export every day, plus lesser quantities of refined product/heavy fuel.

SOMO has placed the first crude up for sale and is in the process of collecting and evaluating bids in expectation of oil listings resuming in the next week, if not the next few days.

There is ample crude ready for export now through the port at Ceyhan in Turkey, with over nine million barrels of oil already in storage at the port, over eight million of which will be ready for export as soon as contracts can be drawn up and signed by SOMO.

The Mina al-Bakr oil terminal is operational. However, there are a number of problems that will need to be resolved in the south, not the least being the need to repair an industrial water plant needed for oil extraction, in order to raise production to pre-war levels of 1.2 million barrels per day.

In order to export these quantities, however, the legal framework of contracts, guarantees, payments, and credits will need to be finalized. SOMO has been working to draft a model contract. The head of SOMO, Mohammed al-Jibouri, has announced that the new contracts will be similar to those used under the Oil for Food program, but some important changes are envisioned: most importantly, contracts will be made transparently, unlike the past when Saddam Hussein sought kickbacks from purchasers.

Al-Jibouri plans to sign direct sales contracts with traders and refiners, cutting out the middlemen that facilitated the kickback schemes. SOMO will also drop the UN's retroactive pricing formula, moving instead to standard market pricing techniques.

The petroleum sector has seen virtually no new investment since 1991, and no new technology. Upgrades to protect the environment, to enhance efficiency, and to meet commercial and safety standards are badly needed, both upstream and downstream. There are a number of estimates that have been made regarding the probable costs associated with returning Iraq's oil production to previous levels. For example, Cambridge Energy Research Associates recently put a ballpark figure of \$3 billion over two years to reach 3.5 million bpd through an intensive program of rehabilitation and modernization. This would bring production back to pre-1990 levels.

In the meantime, Mr. Ghadhban has announced that in the short term Iraq would need not billions of dollars but "several hundred million dollars." Under a new Iraqi Government, Ghadhban has noted that, "We are going to open the doors for foreign investment but in accordance with a formula that safeguards the interest of the Iraqi people."

Oil Ministry officials hope to raise production to over 2 million barrels per day by the end of this year. This will require more rehabilitation of the Rumaila fields and production chains in southern Iraq. Since the security situation is only slowly improving, it is difficult to project the likelihood of success or the likely costs associated with this work.

There obviously is considerable uncertainty surrounding these production and export projections. But we can still use these numbers as a rough basis for estimating potential revenue earnings from oil exports. In the next few days, as Iraq begins to sell oil from Ceyhan and the Gulf, we will have a better idea of the price Iraqi oil can fetch, compared to other blends on the market. Recently, European oil traders were tentatively pegging Kirkuk crude at a price of \$3.65 to \$3.85 per barrel lower than Brent, which is the standard against which all European crude is measured. Because of long-term damage to the fields, Kirkuk crude is higher in sulfur than it used to be. Europe's strict air quality standards will make the oil a hard sell there, which is reflected in the lower price.

If, for purposes of estimate, we say that a barrel of Iraqi crude sells for \$20, and if Iraq is able to bring exports up at a stable rate from 1 million bpd in mid-June to 2 million bpd at the end of the year, Iraq's gross earnings—before costs are deducted—would be in the range of \$5 billion for the second half of 2003. If Iraq is able to maintain stable production and export rates at 2 million bpd throughout 2004, it could earn, again in gross revenues, about \$ 14–15 billion. But potential earnings are subject to a host of factors both inside and outside the country, including the volatile nature of global oil markets and whether there is sufficient demand

for Iraq's sour crude to keep the price at the projected range. The state of the global economy is also hard to predict, and this too will have an impact on potential earnings.

In looking toward the longer term, Iraq's oil ministry has begun to assess its rehabilitation requirements and evaluate existing service contracts against identified needs. Development contracts with Lukoil and China are being held in abeyance until a new Iraqi government is in place to determine their future. We would expect that the new government would also need new contracts to upgrade facilities—including refineries, gas-oil separation plants, power plants, pipelines and pumping stations, as well as to rehabilitate wells and open new fields to production.

Because Iraq has not had access to investments or new technology over the last decade, analysts say that the country may not be able to increase its production at existing fields even to pre-1990 levels, because standard operating procedures used over the past decade may have caused irreparable damage to the fields, especially in Kirkuk. The status of these fields will need to be assessed.

Over the long term, Iraq will want to acquire updated technology, and may want to open new fields (only 15 of the 73 known fields are in production now). It is possible that Iraq will also be looking into options for exploration in other regions.

Other parts of the oil sector infrastructure also need work. According to recent reports, the Mina al-Bakr export terminal in the Gulf has the potential to handle 1.6 million barrels per day, but we estimate that it cannot be safely run at levels much above 1.1 million. A second oil terminal, Khor al-Amaya, was destroyed in the first Gulf War and only partially repaired. It lies in a calmer area of the Gulf, however, and once rehabilitated will provide a useful alternative.

Many commentators are speculating about how much it would cost if Iraq should seek to raise production above historical levels. For example, experts at Deutsche Bank, PFC Energy Associates, and Energy Compass, have looked at not only sector rehabilitation, but also new field production. They have come up with large estimates of the financial cost of raising Iraqi oil production far above its historical peak.

But it will be up to the new Iraqi government to decide how far it wants to go and just where it wants to target Iraq's future production levels. Any large expansion of Iraqi production capacity would have to be accommodated by increased demand in the international oil market; such an increase in production capacity would, in all probability, need to be privately financed. The focus now is on rehabilitation and repair to help Iraq meet Mr. Ghadhban's more modest goal of 2 to 2.5 million barrels per day.

Finally, new laws and regulations will be needed to foster investment and facilitate foreign ventures in order to fund new development.

OPEC will hold its next meeting on June 11 in Doha. Mr. Ghadhban has indicated that Iraq has no plans to leave OPEC, which it helped establish, but he also has no plans to attend the June 11 meeting. Before the first Gulf War, Iraq was responsible for about 4 percent of world oil sales. Under UN sanctions, Iraq was exempt from OPEC quotas, and the other OPEC members, especially Saudi Arabia, adjusted production to compensate for Iraqi oil sales through the UN Oil for Food program and to maintain their target price of \$25 to \$28 per barrel.

CONTRIBUTIONS FROM OTHER COUNTRIES

Despite the billions Iraq has in existing assets and expected oil revenues, resources will remain far below what will be needed for the next year or so to help the Iraqis achieve a stable economic base. We expect that other countries—both individually and through international organizations such as the United Nations—will make major contributions to this effort. Many countries have come forward with offers of assistance—either monetary or in-kind contributions. To date these have been offers nearing \$2 billion from third countries—much of this pledged through the \$2.2 billion UN appeal. The EU alone has promised \$107 million. There have also been many pledges of in-kind contributions—from Albania's 70 peacekeeping troops to Jordan's field hospital to a medical team from Lithuania.

Even before the fighting stopped, the State Department, working closely with colleagues from DoD and Treasury, launched a series of quiet consultations with countries that share our interest in helping Iraq rebuild. These consultations confirmed that there is widespread recognition that repairing the damage of decades of misrule in Iraq is an international undertaking.

We now are working with the United Nations and the World Bank on a preparatory meeting on reconstruction that will involve a broad cross section of countries. The preparatory meeting will examine not only current needs, but also explore requirements in coming years. The preparatory meeting will be organized by the

UINDP, the World Bank and the United States on June 24. One outcome of the meeting is likely to be a major donors conference in the fall. The meeting should also underline the urgency of undertaking a World Bank/UNDP needs assessment.

DEBT RELIEF

In addition to the many costs Iraq faces to rebuild its economy, it will also have to deal with the weight of huge amounts of debt contracted by the previous regime. Treasury and State are working with other creditor countries on a long-run solution to Iraq's debt burden that is responsive to the full range of Iraq's creditors. Secretary Snow has urged the need for a comprehensive, multilateral debt treatment for Iraq. The issue was discussed at the spring World Bank/IMF meetings and in the G-7, where nations agreed on the need to engage the Paris Club, a group of creditor nations that meet regularly to provide debt relief to debtor countries.

At the April session of the Paris Club, State and Treasury and Paris Club colleagues discussed Iraq and began the process of debt data reconciliation. In their recent meeting at Deauville, G-8 Finance Ministers recognized that it would be unrealistic to expect Iraq to make payments on its debt at least through the end of 2004. Currently, Iraq is not making payments on its international debt. The G-8 also asked the IMF to assess Iraq's debt situation.

PRIVATE SECTOR INVESTMENT

In the end, the single largest contributor to Iraq's economic renewal will be the Iraqi people, their ingenuity and their determination to improve their lives, now that the burden of the Saddam regime has been lifted.

Ambassador Bremer has stressed that we must begin to create the conditions for a free market economy in Iraq now. Our biggest challenges will be creating a secure environment in which honest Iraqis can establish and run businesses, and the smooth transformation of a state-controlled economy into a free market. But the Iraqi people are talented and ambitious. And, despite decades of war, Iraq has a small private sector, which can be nurtured back to health.

We have been studying the legal and economic reforms needed to create a stable business environment in Iraq. Ambassador Bremer's team has been cataloging such reforms—which range from lifting tariffs to WTO accession to creation of a new legal framework. These and many other practical issues must be addressed before international trade activity with Iraq will resume and flourish.

In Washington, State's Assistant Secretary for Economic and Business Affairs has hosted a series of interagency meetings to look at key economic reconstruction issues for which Ambassador Bremer's team in Baghdad needs Washington guidance. Last week, the group conferred over necessary steps to revitalize business and commerce in Iraq following the lifting of economic sanctions. The group also examined action needed to successfully transition from the current centrally controlled food distribution system under the UN's Oil for Food program to a market-based food distribution system.

We have been drawing on the knowledge and expertise of our embassies in the region, and are also working to engage regional governments—the idea being to identify “best practices” and use regional reform models where appropriate.

One of the most important steps we can take is to help Iraq re-integrate with the broader regional economy. The upcoming June 21–23 special World Economic Forum event in Amman, Jordan, provides an excellent opportunity to begin this process, as Secretary Powell will undoubtedly underline during his discussions there. In addition, the international development institutions and the donor community will focus extensively on steps we can take to re-stimulate private economic activity in Iraq during June 24 donor's meeting at the United Nations.

CONCLUSION

The transformation that will take Iraqis from life under a ruler of unimaginable cruelty to a free and prosperous nation will take time. The American people have committed to help Iraqis make this transformation, but it will require much more work on our part. The long-term future of Iraq depends on the establishment of rule of law, representative government, and sustainable economic development. The United States, our coalition partners, the United Nations, and most importantly, the Iraqi people, must work together to finish the job, in order to guarantee peace and stability in the region, and safety for the American people.

The administration welcomes the strong interest of the Congress in this issue and its strong support for the important task at hand. We look forward to working closely with the Congress in the months ahead.

The CHAIRMAN. Thank you very much, Secretary Larson.
Secretary Zakheim.

**STATEMENT OF HON. DOV ZAKHEIM, UNDER SECRETARY OF
DEFENSE (COMPTROLLER), U.S. DEPARTMENT OF DEFENSE**

Dr. ZAKHEIM. Mr. Chairman, Senator Biden, and distinguished members of the committee, I am delighted to participate in this important discussion. Let me echo up front what my colleague Secretary Larson has said. We at the table and our agencies are working exceedingly closely together to speed Iraq's recovery. I can't underscore that too often.

As Deputy Secretary of Defense Paul Wolfowitz emphasized before this committee about two weeks ago, the Department of Defense is strongly committed to helping the Iraqi people establish an Iraq that is free and at peace with itself and its neighbors. We continue to work to stabilize the country and to accelerate its recovery. In particular, we are focusing on humanitarian assistance, reconstruction, and new governance.

DOD and other departments and agencies play a critical role in ensuring that the Iraqi people get what they need to rebuild their lives and their nation. Today, I will in brief address DOD support for recovery in Iraq, the resources available to achieve that recovery, and our efforts to enlist the support of the international community.

Let me begin with the various sources of funding for Iraq's speedy recovery. As has been mentioned, in the Emergency Wartime Supplemental Appropriations Act of 2003 the Congress appropriated \$2.475 billion for the President's Iraq relief and reconstruction fund, which is the primary source of appropriated funding for Iraqi relief and reconstruction activities. The Congress also made \$489 million of the Iraqi Freedom Fund appropriation available to be used if needed to repair damage to Iraqi oil facilities and to preserve their distribution capability.

Iraqi state assets are a second category. President Bush, as you heard, has directed that Iraqi state assets under our control, that is U.S. control, be used only for the benefit of the Iraqi people and their nation's recovery. These assets fall into two categories.

One we've termed vested assets, and that's about \$1.7 billion in formerly frozen Iraqi state assets in the United States, which the President has vested in the Treasury Department for apportionment to federal agencies' requirements that benefit the Iraqi people. We have shipped \$199 million of those vested assets already. We have another request in for \$358 million and almost all of those funds are for salaries for Iraqi civil servants, pensioners and so on, and there was about \$30 million for ministry start-up costs.

The second category that I mentioned earlier, seized assets. There are now, to update the estimate you heard, about \$798 million so far in Iraqi state assets that were brought under U.S. control in Iraq by U.S. troops pursuant to the laws and usages of war.

Now there are the international contributions, yet another category. The UN, other international institutions, and the United States and its coalition partners continue to urge all nations to contribute to the recovery in Iraq in any way they can. And the public pledges to date, again to give you an updated estimate, are now

about \$2 billion. We anticipate other contributions as well, including troop contributions to create multinational divisions of peace-keeping forces.

As you heard, the UN Security Council Resolution 1483 adopted on May 22 directs certain monies to be placed in the Development Fund for Iraq. These monies include the unencumbered funds from the UN's Oil-For-Food escrow account, including an initial transfer of a billion dollars that has already been deposited in the Development Fund. Proceeds from the sale of petroleum, petroleum products and natural gas, have returned Iraqi assets from UN member states. And this is significant. The Development Fund may be used only in a transparent manner for the purpose of benefiting the people of Iraq.

The funding is obviously not enough. We have to identify the most pressing and promising requirements for recovery. That is to say, programs, projects and other uses that will benefit the Iraqi people and help transform that country. We look to the Coalition Provisional Authority (CPA) to identify these requirements. The presidential envoy, Ambassador Paul Bremer, who is the administrator of the CPA, oversees and coordinates all executive, legislative and judicial functions necessary for temporary governments in Iraq, including humanitarian relief, reconstruction, and assisting in the formation of an Iraqi interim authority.

Now the CPA, this Coalition Provisional Authority, includes representatives from both coalition nations and U.S. government agencies, all of whom are involved in identifying and prioritizing recovery requirements in Iraq. Ambassador Bremer is also getting substantial input from the leaders of the Iraqi people. Agencies or entities outside the CPA can propose requirements, but these have to be submitted to Ambassador Bremer for his review.

For funding from vested or seized assets, and again, vested are the ones that were frozen, seized are the ones that were found out in Iraq, the CPA submits its proposed requirements to the Office of the Secretary of Defense and specifically to my office.

Requests for funds appropriated through the Defense Department from the \$2.47 billion appropriation are also submitted to my office, which as in all cases, evaluates them and then forwards them to the Office of Management and Budget.

For funding for non-DOD appropriated funds, the CPA submits its proposed requirements directly to OMB. OMB consults with the Secretary of Defense and other appropriate federal offices on policy and program issues.

Now my office has organized a liaison cell to help Ambassador Bremer and his people fulfill its responsibilities. This cell will be led by my office and includes representatives from outside the Defense Department, OMB, AID, and the General Accounting Office as well. Within DOD, the Inspector General, the Joint Staff, and several defense agencies such as our contract managers and our contract auditors will also have representatives.

This cell will help the CPA expedite coordination and approval of requirements for recovery in Iraq. It will provide on-site expertise in budgeting, financial plan development, costing, accounting, and other needs.

Now the President has directed that the DOD in consultation with OMB and my colleagues at State and Treasury, adopt procedures to ensure that Iraqi state or achieved owned assets are used only to assist the Iraqi people and support the reconstruction of Iraq, and are properly accounted for, and we at DOD have adopted strong measures to uphold the President's direction. We are using longstanding proven safeguards for handling and accounting for Iraqi state assets. We're emphasizing transparency, rigorous accounting and auditing procedures, and the process includes on-site audit testing, of course the use of signatures, and standard financial and management controls.

And toward that objective, on May 21, Deputy Secretary Wolfowitz designated the Secretary of the Army as the DOD executive agent for all support of the CPA. This includes contracting support of all DOD agencies. Notably the Defense Contract Auditing Agency, which is part of my organization, are presently supporting all known Iraqi contracting requirements, and will fully support the Army as it transitions to a permanent contracting presence in the Iraq theater of operations.

To the maximum extent practicable, vested and seized assets are being administered and accounted for under controls that are equivalent to those applicable to DOD appropriated funds. DOD procedures cover the full range of asset handling, from the initial seizure of assets all the way through final disbursement of those assets. Safeguarding foreign national assets is not new to the U.S. nor to the Department of Defense.

It's impossible to overestimate the importance of accountability for Iraqi state assets under U.S. control. The Iraqi people, the American people, and the international community must be satisfied that these assets are being used only to help Iraq recover and that funds go to the most pressing requirements, and that a proper accounting be done.

With the recent delegation by Deputy Secretary Wolfowitz naming the Army as executive agent, I am confident that the Army will stand up a highly confident and practicable organization to centrally integrate all current and future Iraq reconstruction contracting requirements. I believe that the Deputy Secretary's directive was the one key action needed to ensure that there is no duplication of Iraqi construction requirements and that appropriate financial controls will be established and deployed.

I will be meeting with the Secretary of the Army and his staff to offer my support throughout the efforts. I'm personally and absolutely committed to an integrated well-managed contracting process in Iraq, a transparent process equal to the very best military acquisition centers in this country. All financial and audit issues serviced by DCAA, that's the Contract Audit Agency, and other DOD components will be brought to my immediate attention, and have been, for appropriate action.

I would like to give you some detail, because particularly Senator Biden asked for it, without going on at length, about the nature of the international contributions. These contributions, both cash and in kind, are obviously going to be critical to Iraq's recovery. I have been designated as the Department of Defense coordinator for international assistance in post-conflict Iraq. I work jointly in that

regard with my colleagues at this table, Under Secretaries Larson and Taylor, and Mr. Natsios, and their offices, as well as some offices outside the U.S. government.

We are working closely with multinational institutions, notably the UN, the World Bank, and the IMF, who will play critical roles in facilitating the assistance to Iraq recovery. As you already heard from Secretary Larson, these international institutions are developing needs assessments, which I think goes to some of Senator Biden's concerns about coming up with longer range estimates. It takes time and that is what they are undertaking. And finally, I should add that we have daily coordination with the Office of the Coalition Provisional Authority.

As I mentioned, the international community has publicly offered something over \$2 billion for reconstruction assistance for Iraq. About \$800 million of that has been meant in response to the UN flash appeal for urgent requirements, and the remaining \$1.2 billion has been offered outside the flash appeal.

Let me give you some examples. Japan has agreed to contribute more than \$150 million in emergency humanitarian aid. Australia has delivered more than \$26 million dollars, include 100,000 metric tons of wheat, shipping costs as well. Australia is also providing agricultural expertise. Canada has delivered more than 41 million U.S. dollars for critical water sanitation, food, shelter and health requirements. The United Kingdom has pledged \$338 million in humanitarian assistance. Spain has pledged \$56 million, primarily in humanitarian supplies, and Spain has also initiated its own needs assessment which is certainly kind of preliminary to what could be done from here on out, and the Spanish have just sent to the CPA proposals for six new projects that they want to undertake in Iraq. The Netherlands is contributing \$14 million in response to the flash appeal and that will be provided through Dutch non-governmental organizations. Norway is donating up to \$21.5 million for humanitarian assistance. The European Union has so far pledged \$107 million, of which \$14.5 million has been delivered, including 10 tons of medical supplies that has been airlifted to Baghdad.

Jordan has deployed a field hospital to Baghdad for emergency medical services. United Arab Emirates has set up water purification plants. It has an adoptive program we have worked on here as well as internationally, kind of like adopt a highway that you're aware of, adopt a hospital, adopt a school, adopt a day care center, and the United Arab Emirates has adopted 8 hospitals in that way.

So these are just some examples of what the international community is doing to respond to the humanitarian and reconstruction needs. We, my colleagues and I here will continue to engage the international community to come together to assist the Iraqi people to rebuild their lives and their country.

So, in closing, I want to emphasize that the Department of Defense is intensely focused on advancing stabilization and recovery in Iraq as rapidly and as smoothly as possible. We recognize, as you do, that the stakes cannot be higher. The emergence of an Iraq that protects the right of its citizens, that represents all of its diverse ethnic and religious groups, that prospers economically for the benefit of all its people, all of that would be a profoundly im-

portant model for the Middle East and the entire world. To help the Iraqi people meet this challenge, President Bush has pledged America's commitment to stay the course and there is no doubt, success will be very expensive and it will take years and not months.

This committee is helping the American people and the international community understand the criticality and difficulty of building a new Iraq, and I look forward to contributing to the important work and be of assistance as I can. Thank you.

[The prepared statement of Dr. Zakheim follows:]

PREPARED STATEMENT OF DOV S. ZAKHEIM

Iraq Stabilization and Reconstruction

Mr. Chairman, members of the committee, I am delighted to participate in this important discussion. As Deputy Secretary of Defense Paul Wolfowitz emphasized before this committee two weeks ago, the Department of Defense (DoD) is strongly committed to helping the Iraqi people establish an Iraq that is free and at peace with itself and its neighbors. We continue to work to stabilize the country and to accelerate its recovery. In particular, we are focusing on humanitarian assistance, reconstruction, and new governance.

The Department of Defense, working closely with other departments and agencies, plays a critical role in ensuring that the Iraqi people get what they need to rebuild their lives and their nation. Today I will address DoD's support for recovery in Iraq, the resources available to achieve that, and our efforts to enlist the support of the international community.

Funding Sources for Recovery

Let me begin with the various sources of funding for Iraq's speedy recovery and renewal.

Appropriations. In the Emergency Wartime Supplemental Appropriations Act, 2003, Congress appropriated \$2.475 billion for the President's Iraq Relief and Reconstruction Fund, which is the primary source of appropriated funding for Iraqi relief and reconstruction activities. Congress also made \$489 million of the Iraqi Freedom Fund appropriation available to be used if needed to repair damage to Iraq oil facilities and to preserve a petroleum distribution capability.

Iraqi state assets. President Bush has directed that Iraqi state assets under U.S. control will be used only for the benefit of the Iraqi people and their nation's recovery. These assets fall into two categories:

Vested assets: \$1.7 billion in formerly frozen Iraqi state assets in the U.S., which the President has vested in the Treasury Department for apportionment to federal agencies for requirements that benefit the Iraqi people;

Seized assets: About \$800 million so far in Iraqi state assets brought under U.S. control in Iraq by U.S. troops, pursuant to the laws and usages of war.

International contributions. The UN, other international institutions, and the U.S. and its coalition partners continue to urge all nations to contribute to recovery in Iraq in any way they can. Public pledges from the international community exceed \$2 billion. We anticipate other contributions as well—including troop contributions to create Multi-National divisions of peacekeeping forces.

Development Fund for Iraq. UN Security Council Resolution 1483, adopted on May 22, directs certain monies to be placed in the Development Fund for Iraq. These monies include unencumbered funds from the UN's "Oil for Food" escrow account including an initial transfer of \$1 billion that has already been deposited in the Development Fund; proceeds from the sale of petroleum, petroleum products and natural gas; and returned Iraqi assets from UN Member States. Significantly, the Development Fund may be used only in a transparent manner for purposes benefiting the people of Iraq.

Determining Requirements for Recovery

Funding is not enough. We must identify the most pressing and promising requirements for recovery: programs, projects, and other uses that will benefit the Iraqi people and help transform Iraq. We look to the Coalition Provisional Authority (CPA) to identify these requirements. Presidential envoy Ambassador L. Paul

Bremer—as Administrator of the CPA—oversees and coordinates all executive, legislative, and judicial functions necessary for temporary governance of Iraq including humanitarian relief, reconstruction, and assisting in the formation of an Iraqi interim authority.

The CPA includes representatives from both coalition nations and U.S. government agencies that are involved in identifying and prioritizing recovery requirements in Iraq. Ambassador Bremer also is getting substantial input from leaders of the Iraqi people. Agencies or entities outside the CPA can propose requirements, but these must be submitted to Ambassador Bremer for review.

For funding from vested or seized assets, the CPA submits its proposed requirements to the Office of the Secretary of Defense (OSD)—specifically to my office. Requests for funds appropriated to DoD are also submitted to my office which, as in all cases, evaluates them and forwards approved requests to the Office of Management and Budget (OMB). For funding from non-DoD appropriated funds, the CPA submits its proposed requirements directly to OMB. OMB consults with OSD and other appropriate federal offices on policy and program issues.

My office has organized a liaison cell to help the CPA fulfill its responsibilities. This cell will be led by my office and includes representatives from outside DoD: OMB, the U.S. Agency for International Development (USAID), and the General Accounting Office. Within DoD, the Inspector General, Joint Staff, and several defense agencies will have representatives. The cell will help the CPA expedite coordination and approval of requirements for recovery in Iraq. It will provide on-site expertise on budgeting, financial plan development, costing, accounting, and other needs.

Accountability for Iraqi State Assets Controlled by the U.S.

The President has directed that the Department of Defense—in consultation with OMB and the Departments of State and Treasury—adopt procedures to ensure that Iraqi state or regime-owned assets are used only to assist Iraqi people and support the reconstruction of Iraq, and are properly accounted for. DoD has adopted strong measures to fulfill the President's direction.

The Department is using long-standing, proven safeguards for handling and accounting for Iraqi state assets. We are emphasizing transparency and rigorous accounting and auditing procedures. The process includes on-site audit testing, and the use of signatures and other strong financial and management controls. Towards that objective, on May 21, 2003, Deputy Secretary Wolfowitz designated the Secretary of the Army as the DoD Executive Agent for all CPA support. This includes contracting support. All DoD agencies, notably the Defense Contract Audit Agency, are presently supporting all known Iraq contracting requirements, and will fully support the Army as it transitions to a permanent contracting presence in the Iraq theater of operations. To the maximum extent practicable, vested and seized assets are being administered and accounted for under controls that are equivalent to those applicable to DoD appropriated funds.

DoD procedures cover the full range of asset handling—from initial seizing of assets, all the way through final disbursement of those assets. Safeguards for foreign national assets is not new for the U.S. government and Department of Defense.

It is impossible to overestimate the importance of accountability for Iraqi state assets under U.S. control. The Iraqi people, the American people, and the international community must be satisfied that these assets are being used only to help Iraq recover, that funds go for the most pressing requirements, and that proper accounting is done.

Defense Contract Audit Agency (DCAA) Support of Iraq Reconstruction

The DCAA mission is to provide all contract audit and financial advisory services related to the Department of Defense acquisition of goods and services. DCAA provides similar services, on a reimbursable basis, to most civilian agencies including the State Department and USAID. In total, DCAA has 3500 contract auditors at 82 field audit offices, and a total of 350 resident DCAA locations. Thirty-six percent of DCAA auditors are licensed CPAs and 21 percent have advanced degrees.

DCAA is playing a major audit role in support of Iraq reconstruction and is responding with real time audit assistance for all known Iraq contracting requirements:

- A team of seven DCAA auditors is currently reviewing over 500 United Nations Oil-for-Food contracts for price reasonableness and value received. The review has identified numerous inconsistencies with the contracts and noted significant areas of potential contract overpricing. A total of \$11 billion is being evaluated, and a trip will be taken in early June to the United Nations to evaluate UN contract file documentation.

- A team of six DCAA auditors is currently evaluating audit documentation and contracting actions by Washington Headquarters Services in support of CPA contract requirements. DCAA is also providing related audit assistance to assure that contractor proposal estimates are properly prepared, and that ongoing contract awards are properly priced.
- A team of nine DCAA auditors has been deployed to Iraq/Kuwait to support current mission requirements of the U.S. Army and the Corps of Engineers.
- DCAA has selected ten additional auditors who will be embedded with Corps of Engineers, Army Material Command, USAID, and wherever future customer workload dictates. Three of these auditors are now in-theater, with the remainder going through required training.
- DCAA is the contract auditor for USAID in Iraq. There are currently eight USAID contracts valued at \$1.0 Billion. Bechtel National Industries has the largest contract, with a total value up to \$680 million for road, electricity, power, and bridge reconstruction.
- DCAA is a member of a financial oversight cell being deployed to Iraq. A DCAA senior manager will provide the cell with audit and financial counsel.
- Finally, DCAA is building an audit universe of all known Iraq/Kuwait related contract requirements, and will brief senior DoD and CPA representatives in mid June. DCAA will use this data for future Iraq planning and staffing requirements.

I have authorized the DCAA Director to stand-up a DCAA field audit office in Baghdad and Kuwait as soon as practicable. This office will not only service all in-theater reconstruction contracting, but will initiate any assist audit requests at U.S. contractor locations, where most contractors retain the accounting records.

With the recent delegation by Deputy Secretary Wolfowitz naming the U.S. Army as the Executive Agent for all Iraq Reconstruction effort, I am confident that the Army will stand-up a highly competent contracting organization to centrally integrate all current and future Iraq Reconstruction contracting requirements. I believe that the Deputy Secretary's directive was the one key action needed to assure that there is no duplication of Iraq Reconstruction requirements; and that appropriate financial controls will be established and employed. I will be meeting with the Secretary of the Army and his staff to offer my support and assistance throughout this effort.

I am absolutely committed to an integrated, well managed contracting process in Iraq—a process that is transparent and the equal of the very best military acquisition centers in this country. All financial and audit issues surfaced by DCAA or other DoD components will be brought to my immediate attention for appropriate action.

International Contributions to Recovery in Iraq

Contributions from the international community—both cash and in kind—will be critical to recovery in Iraq. I have been designated as DoD coordinator for international assistance to post-conflict Iraq. I work jointly in that regard with my colleagues at this table, Under Secretaries Larson and Taylor, and with their offices as well as with USAID. We also are working closely with multilateral institutions—notably the UN, World Bank, and IMF—who will play critical roles in facilitating the international assistance to Iraq recovery efforts. Finally, we have daily coordination with the Office of the Coalition Provisional Authority.

To date, the international community has publicly offered over \$2 billion for humanitarian and reconstruction assistance for Iraq. About \$800 million of this has been in response to the UN Flash Appeal to meet urgent requirements in Iraq. The remaining \$1.2 billion has been offered outside the flash appeal.

Examples of these international contributions include:

- Japan intends to contribute more than \$150 million in emergency humanitarian aid.
- Australia has delivered more than \$26 million—100 thousand metric tons of wheat, including shipping costs. Australia is also providing expertise in agriculture.
- Canada has delivered more than \$41 million (US\$), for critical water, sanitation, food, shelter, and health requirements.
- The United Kingdom has pledged \$338 million in humanitarian assistance.
- Spain has pledged \$56 million, primarily in humanitarian supplies.
- The Netherlands is contributing \$14 million in response to the UN Flash appeal. Assistance will be provided to Iraq through Dutch NGOs.

- Norway is donating up to \$21.6 million for humanitarian assistance.
- The European Union (EU) has pledged \$107 million, of which \$14.5 million has been delivered, including 10 tons of medical supplies that have been airlifted to Baghdad.
- Jordan deployed a field hospital to Baghdad to provide emergency medical services.

These are just several examples of the international community and its response to the humanitarian and reconstruction needs of Iraq. My colleagues here and I will continue to engage the international community in coming together to assist the Iraqi people to rebuild their lives and their country.

Closing

In closing, I want to emphasize that the Department of Defense is focused intensely on advancing stabilization and recovery in Iraq as rapidly and smoothly as possible. The stakes could not be higher. The emergence of an Iraq that protects the rights of its citizens, that represents all of its diverse ethnic and religious groups, that prospers economically for the benefit of all its people—this would be a profoundly important model for the Middle East and for the entire world.

To help the Iraqi people meet this historic challenge, President Bush has pledged America's commitment to stay the course. Clearly, success will be very expensive and take years, not months. This committee is helping the American people and international community understand the criticality and difficulty of building a new Iraq, and I look forward to contributing to your important work. Thank you.

The CHAIRMAN. Thank you very much, sir. That was very helpful testimony. Secretary Taylor.

STATEMENT OF HON. JOHN B. TAYLOR, UNDER SECRETARY FOR INTERNATIONAL AFFAIRS, U.S. DEPARTMENT OF THE TREASURY

Mr. TAYLOR. Thank you, Mr. Chairman, Senator Biden, and members of the committee. My testimony is about the economic and financial issues related to reconstruction and I want to focus on some of the accomplishments and some of the plans for the future.

The international community and the people of Iraq face an enormous task in this reconstruction effort. A quarter century of repression and economic mismanagement under Saddam Hussein has cut the size of the Iraq economy to a small fraction of what it was before his regime took over. In 1979, ADP in Iraq was \$128 billion. In 2001 it had declined to about \$40 billion, and income per capita has plummeted, people have been impoverished, and this is during a period where the world economy has expanded. The economy of Iraq has shrunk drastically.

So the reconstruction task is challenging, but for the same reason the challenges are great, simply restoring the economy to what it was before Saddam will be a tremendous improvement for the Iraqi people. But establishing a large economy based on clear property rights, upon a sound rule of law, upon economic freedom, I think will unleash a long tradition of entrepreneurship and build on an abundant human potential and natural resources of the country.

There is still much to do, to be sure, but I believe we should mention some of the successes that we have achieved since the end of the military operations. Over 1.5 million workers and pensioners have received salaries and emergency payments. Our financial experts in Baghdad report that Iraqis and other observers consider this act alone to be a turning point in the mood of many in the city. These payments have enabled Iraqis to return to work to run the

railroads, to teach school children, and to help in the payment of other Iraqis.

There are other successes, some of which my colleagues have already mentioned. Just since March 20th, \$1.7 billion of Saddam's assets have been vested in New York and made available to the Iraqi people. Another \$1.2 billion have been newly frozen around the world. We have approximately \$1 billion in cash found in Iraq, excluding funds in the Central Bank.

Working intensely with the international community, we have achieved the removing of the sanctions on selling Iraqi oil and we have agreement with the international financial institutions to provide needs assessments and provide technical assistance.

Later this month, as Under Secretaries Larson and Zakheim indicated, there will be a donors conference. It's already scheduled for June 24th, to make plans for international support of the country.

I think it's also important to emphasize that we have achieved successes by avoiding catastrophic events that could have occurred, and in fact these were events we were concerned about, events which we took actions to try to prevent. For example, instead of collapsing, as many had feared, the Iraqi currency has recovered from low levels at the beginning of the war. Hyper inflation has been avoided, another concern we had going into this. As has already been mentioned, oil fields have been saved from destruction and there has been no humanitarian crisis.

And I should add from the Treasury perspective, that the crippling burden of debt service payments has been lifted at least through the end of 2004, so that Iraq can focus on reconstruction needs.

I believe these successes are due to the work of experienced and dedicated people and to contingency plans laid out months in advance of the war. We began selecting people for our financial teams back in January. The first wave was deployed to Kuwait in March. These were some of the first people who went into Baghdad in April. We have since sent additional financial experts with expertise ranging from budgets to payment systems to monitoring policy.

And Peter McPherson has been designated the financial coordinator. Peter McPherson is a former U.S. AID Administrator and former Deputy U.S. Treasury Secretary. He is giving advice to Ambassador Bremer on the ground. He and his team have responsibility for working with the Iraqis to get the Central Bank running again, the finance ministry running again, the commercial banks and other institutions up and running. Their very first task on the ground, which has largely been accomplished, was to assess the conditions and evaluate the basic economic infrastructure, including the payment systems. I am in nearly constant contact with them through telephone, e-mail, providing support and advice with the help of a financial task force set up in Treasury by our Office of Technical Assistance, and of many others stationed here in Washington.

I would like to spend just a minute in my opening remarks with a description of the mechanism we put in place to restart payments, because I think it indicates the kind of plans that have been underway and which will continue to be underway. This is the top reconstruction priority, that is, to make emergency payments and

salary payments to government workers and pensioners. Starting late last year, we developed a contingency plan for such payments. The plan called for paying workers and pensioners in U.S. dollars on an interim basis. Making payments in dollars, we thought on an interim basis was a good way to get things started. It is not dollarizing the economy. On the contrary, the plan calls for the continued use of the local currency, the dinar.

But to make this plan operational, we had to have some funds, some resources, so the first step in making this plan operational was to invest the Iraqi regime assets that were frozen back in 1990.

That plan also required an assessment of the payroll system, how are you actually going to make payments to workers in Iraq. Our priority was for our first wave of people to assess what the payment system was like, how could you actually get payments of dollars to people. I'm pleased to say that this plan is basically on track and has been successful so far. On March 20th, President Bush did vest \$1.7 billion in assets, placed them in an account in New York. Treasury representatives in close cooperation with the New York Fed and the Department of Defense have arranged for delivery of already \$199 million U.S. dollars, currencies from these vested assets, and to make shipments from the storage facility in New Jersey, shipped down the turnpike to Andrews Air Force Base, and off on an airplane into the region.

A mechanism for making these emergency payments also had to be set up, and was quickly established on the ground so the payments could commence for dock workers, for rail workers, for power workers and others. While this system will have to be upgraded over time, it provides a basic infrastructure for making salary and pension payments. So despite tremendous logistical challenge, this system of payments has been a success. Pensioners, civil servants, workers crucial to the function of essential public services have received payments, an initial financial lifeline for these people.

I will end with this example, Mr. Chairman, and will be very happy to take your questions.

[The prepared statement of Mr. Taylor follows:]

PREPARED STATEMENT OF JOHN B. TAYLOR

RECONSTRUCTION IN IRAQ: ECONOMIC AND FINANCIAL ISSUES

Chairman Lugar, Ranking Member Biden, and other members of the committee, thank you for inviting me to testify on the reconstruction of Iraq. I will discuss economic and financial issues, focusing on accomplishments since the end of major military operations and on our plans for the future.

The international community and the Iraqi people face an enormous task in the reconstruction of the Iraqi economy. A quarter century of repression and economic mismanagement under Saddam Hussein cut the size of the economy to only a small fraction of what it was before his regime took over. In 1979, GDP in Iraq was \$128 billion in Purchasing Power Parity (PPP) terms; by 2001, it had declined to about \$40 billion. And income per capita has plummeted, impoverishing the Iraqi people. While the world economy expanded, the Iraqi economy shrunk. As a consequence, the Iraqi people fell way behind, from a rank of 76 in 1990 to a rank of 127 in 2001 on the UN Human Development Index.

While the reconstruction task is significant, the opportunities are great. Simply restoring the economy to what it was before Saddam will be a tremendous improvement in the well being of the Iraqi people. Establishing a market economy based on clear property rights, a sound rule of law, and economic freedom will unleash a long tradition of entrepreneurship and build on the abundant human potential and nat-

ural resources of Iraq. I am confident that if these resources are used effectively, economic growth will soon be above, rather than well below, the world average.

Though there is much to do, I believe that we have already achieved important successes since the end of the major military operations, especially in the economic and financial areas. Over 1.5 million workers and pensioners have received salaries and emergency payments. Our financial experts in Baghdad report that Iraqis and other observers consider this act alone as a turning point in the mood of the city for many. These payments have enabled Iraqis to return to work to run the railroads, teach school children, or help in the payment of other Iraqis.

There are other successes. Since March 20, \$1.7 billion of Saddam's assets have been vested; \$1.2 billion have been frozen; and \$0.9 billion in cash has been found in Iraq. Working with the international community, we have removed sanctions on the selling of Iraqi oil and we have agreed that the international financial institutions should provide needs assessments and technical assistance. Later this month in New York we will convene the first meeting of donors. I will provide more details on these and other accomplishments later in my testimony.

We have also achieved successes in avoiding catastrophic events that could have occurred; we were concerned about such events and took actions to prevent them. Instead of collapsing as many had feared, the Iraqi currency has recovered from its low levels at the start of the war. Hyperinflation has been avoided. Oil fields have been saved from destruction. There has been no humanitarian crisis. And the crippling burden of debt service payments has been lifted through the end of 2004 so that Iraq can focus on reconstruction needs.

These successes are due to the work of experienced and dedicated people and to the contingency plans laid out months in advance of the war. We began selecting members for our team of Treasury advisors back in January; the first wave was deployed to Kuwait in March and arrived in Baghdad in April. We have since sent over a dozen additional advisors with expertise in areas ranging from budgets, to payments systems, to monetary policy. Peter McPherson—former USAID Administrator and former Deputy Treasury Secretary—now serves as financial coordinator and adviser to Ambassador Bremer on economic and financial issues. He and his team have responsibility for working with Iraqis to get the Central Bank, the Finance Ministry, commercial banks and other financial institutions up and running. Their very first task on the ground was to assess conditions and evaluate the basic economic infrastructure, including the payments system. The work they are doing is similar to some of the tasks that we undertook in Afghanistan; indeed, while Treasury's work continues in Afghanistan, some of the same people who worked there have brought their experience to Iraq. I am in nearly constant contact with them through telephone and email, providing support and advice with the help of our Iraq Financial Task Force, Office of Technical Assistance, and others stationed here in Washington.

A Plan to Pay Workers and Pensioners

A top reconstruction priority from the start was to make emergency and salary payments to government workers and pensioners. Starting late last year we developed a contingency plan for such payments. The plan called for paying workers and pensioners in U.S. dollars on an interim basis. Making payments in dollars on an interim basis was not an attempt to dollarize the economy. On the contrary, the plan called for the continued use of dinars as an acceptable means of payment. Using dollars on an interim basis would create stability immediately after the war, as the dollar is a stable medium of exchange and a good store of value. By making sure that the spending on salaries was matched by the revenues available, the dollar payment plan also was a way to prevent inflationary financing.

To make this payment plan operational, financial resources were required. Hence, the first step in the plan was to vest the Iraqi regime assets that were frozen in the United States over a decade ago. The plan also required some functioning payroll system, so a high priority of our first wave of people on the ground was to assess the state of this system.

This plan is basically on track and has been successful thus far.

On March 20, President Bush vested \$1.7 billion of assets and placed them in an account at the New York Fed to be used to support reconstruction. Treasury representatives, in close cooperation with the New York Fed and the Department of Defense, arranged the delivery of \$199 million of these vested assets in three shipments from a storage facility in New Jersey to Andrews Air Force Base, where the currency was loaded on a transport and flown to the region. A fourth shipment of \$358 million will be made shortly.

A mechanism for making emergency payments was quickly established on the ground, so that payments could commence for dock workers, rail workers, power

plant workers, and others. At the same time, upon arriving in Iraq, our advisors conducted an assessment of the existing payroll system for salaries and pensions and found that adequate, functional procedures already existed. While this system will have to be updated over time, it provides the basic infrastructure for making salary and pension payments.

Despite tremendous logistical challenges, the system of payments has been a success. To date, over 1.5 million pensioners, civil servants, and workers crucial to the functioning of essential public services have received payments. Our advisors have played a key role, working closely with counterparts from the Defense Department and other agencies, in extending this initial financial life-line to the Iraqi people.

Establishing a Stable Currency

One of the most important objectives in the near-term is to promote the establishment of a stable, unified national currency. A currency that has the full faith and confidence of the Iraqi people, and which can be used as a store of value, is a prerequisite for establishing a vibrant economy.

The pre-existing currency situation in Iraq makes this a complex and difficult task. Iraq has not had a stable currency for some time; several currencies circulate widely in Iraq, including the Iraqi (or "Saddam") dinar in central and southern Iraq, the Old Iraqi (or "Swiss") dinar in the northern part of the country, and the U.S. dollar. The Saddam dinar has fallen dramatically in value over the past dozen years due to the policies of the Saddam Hussein regime. One dollar used to purchase only a third of a Saddam dinar under the official exchange rate; now, it will purchase about 1,200 dinars in the market.

One of our primary concerns was that the conflict and its aftermath would result in a massive depreciation of the Saddam dinar and hyperinflation. There were concerns about losing control over large warehouses of Saddam dinar notes and currency printing facilities. And with the fall of the regime, there was the risk that the currency would cease to serve as an accepted means of exchange.

For these reasons, early action was taken to secure currency stocks and currency-printing facilities and stop the printing of the Saddam dinar. The military made public announcements that existing currencies in Iraq would continue to be accepted as means of payment. These measures helped stabilize the Saddam dinar and avert a monetary crisis. In fact, the Saddam dinar has actually strengthened in recent weeks—from a low of about 5,000 dinars per U.S. dollar during the conflict to approximately 1,200 per dollar today.

This achievement notwithstanding, a stable, unified currency system is essential for Iraq's long-run economic prospects. Several options exist for currency reform, including the introduction of a new currency or the replacement of Saddam dinars with Old Iraqi dinars. We stand ready to assist in the implementation of whichever option the people of Iraq choose through a representative, elected Iraqi government.

Development of an Iraqi Budget

Prior to the war, no Iraqi government budget was published. The lack of transparency and accountability in fiscal operations made it difficult to determine how resources were allocated or how revenues were raised.

Development of an integrated and transparent Iraqi government budget is necessary for ensuring that essential government services and reconstruction needs can be financed without resorting to printing money. Our advisors are working with personnel within the Ministry of Finance to develop an interim budget and to implement a centralized treasury mechanism for government spending. In addition, several Treasury advisors with expertise in tax systems will be working with Iraqi officials to revise the tax code and build the capacity of revenue agencies.

Initially, budgetary resources will derive primarily from returned Iraqi assets, oil sales, and donor contributions.

With the initiation of military action, the United States and its coalition partners acted to secure the Saddam Hussein regime's assets for the benefit of the Iraqi people. In addition to the rapid vesting of \$1.7 billion of assets in the United States, we have spearheaded bilateral efforts that have led to the identification and freezing of about \$1.2 billion of Iraqi assets outside of the United States since the beginning of the war. We are working with these countries to return them to the Iraqi people, as required by UNSCR 1483. The United States has deployed financial investigation teams to Iraq and other foreign jurisdictions to identify and recover additional Iraqi assets.

Efforts have also been made to secure assets inside of Iraq. Since the end of the conflict, approximately \$900 million in currency has been found in various locations, in addition to \$350 million of currency and gold discovered in vaults at the Central Bank of Iraq. All of the vested assets in the United States, as well as the assets

found in Iraq, will be used to assist the Iraqi people and support the reconstruction of Iraq.

Proceeds from the sale of Iraqi oil will be another critical source of funds. The Security Council resolution introduced by the U.S., Spain and the UK and approved unanimously last month provides immunity from attachment for Iraq's oil and proceeds from its sale through 2007. Oil revenues will be deposited in the Development Fund for Iraq, an account of the Central Bank of Iraq. The Coalition Provisional Authority now is working on the development of regulations to ensure transparency and accountability in the use and administration of oil proceeds and other revenues that will be deposited in the Development Fund for Iraq.

An important part of this effort will be the establishment of the International Advisory and Monitoring Board, which will be responsible for approving the auditors of the Development Fund for Iraq and reviewing their findings. Representatives from four international organizations—the IMF, the World Bank, the United Nations, and the Arab Fund for Social and Economic Development—will participate on this board. On May 24, Ambassador Bremer sent letters to the four organizations to initiate the process of constituting the board; I will chair a meeting later this month to finalize the terms of reference.

Role of the International Financial Institutions

Donor contributions will also play an important role in the reconstruction of Iraq. Active participation by the international financial institutions is important to mobilizing this international support.

I am pleased to report that the international financial institutions are intensifying their support for the process of reconstruction and recovery in Iraq. IMF and World Bank officials are traveling with the delegation of Sergio Vieira de Mello, the U.N. special representative for Iraq, on his trip to Iraq this week. In addition, IMF Managing Director Horst Kohler announced last week that he was prepared to send out a team to Baghdad for a fact-finding mission as early as this weekend. This team will work with the Coalition Provisional Authority and Iraqi officials to identify priority needs related to budget planning and execution, central bank functions, payments systems and banking sector reform, as well as the social safety net.

Later this month, the United Nations Development Program and the World Bank will cohost a donor meeting in New York to launch a coordinated, international effort to support Iraq's reconstruction needs and lay the groundwork for a donor conference in late summer after the World Bank has completed its needs assessment of Iraq.

Reforming the Banking Sector

Strengthening and modernizing the banking sector is central to achieving overall economic progress in Iraq. We are still in the early stages of assessing the banking system. We know, however, that Iraqi banks were oriented much more toward the fulfillment of Ba'athist political objectives than toward financial intermediation and other economic services that one normally associates with banks. Essentially, Iraqi banks were vehicles for storing and moving cash around the country, and in some cases outside the country.

Our overarching objective in this area is to help Iraq restore its banking sector and ensure that it begins to function in a commercially viable way. We want Iraq's banking sector to be a vehicle for sound economic growth, to meet the needs of the Iraqi people, and to reflect regional as well as international best practices. For example, we endorse the objective of Iraqis having access to financial products and services that are based on Islamic principles.

Creating a sound supervisory and regulatory regime is a critical step to establishing a sound financial system. We are working with the Iraqis to help them bring this about. To this end, we will be working with governments in the region that have strong systems and have offered technical assistance for the banking sector.

Iraq's Foreign Debt

An issue that has garnered much attention and will clearly have to be addressed is Iraq's capacity to address the potentially enormous burden of its existing financial obligations. Estimates of Iraqi external debt range from \$60 billion to \$130 billion. Whatever the precise level, Iraq's external obligations are significant and must be addressed in a comprehensive manner.

In the near-term, we have taken two important steps put to address this situation. First and foremost, we have worked with our G-8 partners to provide Iraq with some breathing room. We achieved agreement that given Iraq's precarious financial situation, creditors should not expect Iraq to make any payments on its debt for at least the next eighteen months. Secondly, we have put a lot of people to work on what could be described as data forensics. On the creditor side of the ledger, we

proposed at the last meeting of the Paris Club, and creditor governments agreed, to report the amount of debt they are currently owed. We have also approached the IMF for its assistance in determining the amount of debt owed to non-Paris Club governments. To address the other side of the ledger, we have placed Treasury advisors in Baghdad to go through Iraqi government debt records.

In the medium-term, once we have a better estimate of the true level of Iraq's debt, we can move forward to develop a comprehensive strategy to deal with Iraq's official debt. To supplement these efforts, we are providing a Treasury advisor to work with Iraqi officials to develop a notional strategy for external debt treatment.

Conclusion

Achieving our economic objectives in Iraq is central to achieving our ultimate goal of a stable, unified, and prosperous Iraq—one which provides opportunities for all Iraqis to forge a better future for themselves and their children. The challenges are formidable. We have a tough job ahead. Our achievements to date can be attributed to careful planning, vigilance to potential problems, and early action by dedicated and talented professionals to prepare for them. We will bring the same spirit to our work in the coming months.

The CHAIRMAN. Thank you very much, Secretary Taylor.
Mr. Natsios.

**STATEMENT OF ANDREW S. NATSIOS, ADMINISTRATOR, U.S.
AGENCY FOR INTERNATIONAL DEVELOPMENT**

Mr. NATSIOS. Thank you very much, Mr. Chairman, for the opportunity for us to testify before the committee. I have longer testimony that I will submit for the record.

AID sent its team of AID mission staff and disaster response team members, almost a hundred people, to the region the week the conflict began, and into southern Iraq almost as soon as combat operations moved north. We did not experience a major humanitarian crisis, we avoided it. Part of that was, Saddam was so shocked by the combat operations that he couldn't carry out any of the plans that we understood he was considering, like blowing up the dams, which he had done during the Iraq-Iran War, the atrocities he committed against the Kurds, and we felt might happen again against the Shiites in the south and the Kurds in the north. That did not happen.

We did not have mass population movements and so we avoided major catastrophe on the humanitarian side. We did have pockets of need and so the disaster assistance response team focused on those pockets to respond quickly.

What is it that the mission in AID is directed to do? First is to conduct assessments of need, infrastructure building, working with our partners in the NGO community, the UN agencies, and private businesses. Secondly, design programs. We have planners to plan out the requirements of each contract in terms of time line and budgeting. We have our sector specialists, agricultural scientists, economists, health experts, education experts. We have people who oversee the contract management and each subcontract granted in cooperative agreement. We have contract officers who negotiate these contracts.

Donor coordinators. The donor coordination AID does is not at the macro level that Defense and State does. We work with my counterparts in other ministries around the world; in fact not just here but in other emergencies, other projects that we work together jointly with Canadian CIDA, which is the AID of Canada, DFID in Britain, and CSA in Sweden, for example. And what we do is de-

cide exactly which donor government will do which sector in which province and which institution. And we work very carefully with these matrixes we develop over a period of time through other emergencies to directionalize this process. And finally, we do program evaluation to make sure the program is getting on track, or we can get it back on track.

The reconstruction itself actually began for AID on the 28th of April when the President declared major combat over, because our contractors, particularly that are doing the reconstruction primarily, had provisions in their contracts for insurance purposes that said until the combat was officially over, on a large scale they could not go into the country. So we have been working at this for about five weeks, not in terms of the disaster response which began earlier, but in terms of actual reconstruction.

We took control of the port facilities from the British Marines on May 23rd, and with our contractors are now responsible for managing the port. We began the preparatory work to upgrade the port to international standards, and we have been working closely with our friends in the World Food Program for the preparation of massive movements of food into the country. They have moved already 440,000 tons of food into the country and began the first national distribution of food on June 2nd.

I just came back 2 days ago from Cyprus, where I met with the UN officers there. They have, by the way, their best team I have ever seen in any emergency. They've collected them, put them in Cyprus and Iraq and Kuwait, and I am very pleased with the quality of people who are running this. Romero DeSilva is arguably the best logistician in the international system, and he is in charge of the entire UN effort on humanitarian food assistance side.

A million more tons of food will arrive by September and the entire system will be up and running.

The airport administration will be taken over as well for the international airports only. AID is not responsible for the local airports. We are now doing the preparatory work to upgrade them to international standards, and a civil aviation conference is scheduled for June 14th with other U.S. government agencies for the restoration of commercial air traffic to international standards.

We began, on May 7th, a 24-hour, 7-day a week dredging operation for the port of Umm Qasr. It is now down 9 meters and we can bring in vessels that carry up to 15,000 tons of cargo. In the next few months we hope to remove the four wrecked ships that are at the bottom that we had not known were there until we conducted our assessment. We expect that within three months the port will be up to a standard it hasn't been in 20 years.

We have completed the engineering work for reconstruction of the boilers at electrical generating plants, the repair of the 400 KVA and 135 KVA high voltage initial transmission repairs, the urban water system in the southern part of Iraq, and 3 bridges which are critical to traffic around the country.

Most of this work has nothing to do with the war. This has to do with the lack of investment over a 20-year period towards this infrastructure in a country, by the way, that had western standard infrastructure as late as the mid 1980s. Because of the Iran-Iraq war and the success of destructive things that Saddam did to his

country, there was no investment and maintenance of these. For example, Basra right now has better electrical service than it had in 14 years. They have not had, in most of the city, 24-hour electrical service. They do now have that.

The only remaining problem we're facing in electrical requirements is in Baghdad and we have made a great deal of progress just in the last week to bring it up to pre-war standards, at least.

In water and sanitation, we purchased, for the first time, enough chlorine for all of the treatment plants in the country for 100 days, purchased through UNICEF. The water and sanitation system experts are now coordinating with Bechtel and with UNICEF and the NGO community about local rehabilitation and then longer term reconstruction of those systems.

We bought 22 million doses of vaccines and are beginning a massive immunization program. We have established a surveillance system to monitor potential cholera outbreaks—which have not happened yet, but we are watching it—and set up a tracking system for international medical donations.

We have begun our back to school campaign to encourage students to return to school not only for education purposes, but to get them off the streets. One of the first public safety things we do in any reconstruction effort after a war is to get kids off the streets by opening the schools up as fast as possible. We have already provided enough school materials for 120,000 students in Baghdad during the month of May. We have inventoried 700 schools with the Ministry of Education in Basra, and finalized the purchase of 8,000 school kits for teachers and students for 700 schools in Basra for the opening of school, and we have begun giving grants for the reconstruction of Basra schools which have been neglected for more than 15 years.

We have awarded a contract to UNESCO that does high school textbooks for the printing and distribution of 5 million math and science textbooks. We have begun the process with UN agencies to evaluate the textbooks generally, many of which are full of ethnic, racial and religious vitrea against groups, not just the United States I might add—he had a lot of people he hated—and those textbooks need to be revised. UNICEF does textbooks grades 1 through 6, UNESCO 7 through 12, and we want the international system involved in this, so it's not an American only effort we're funding.

Senator BIDEN. Mr. Natsios, I apologize, I didn't hear the beginning of your statement. Has that process begun?

Mr. NATSIOS. Yes, it has begun, and the textbooks in fact are being written now specifically for math and sciences, that's the first category.

Senator BIDEN. Thank you.

Mr. NATSIOS. We have also begun a call for grants that's been published on our web site for American universities to begin a university and college partnership program between American universities and colleges and Iraqi institutions, which is being greeted very enthusiastically in the university community in the United States in the areas of health, education, agriculture, and engineering among others.

We have also begun a process of evaluating proposals from the NGO community for community assistance and rehabilitation at the local level.

And most importantly, I had a fascinating briefing by our local government contractor from the Research Triangle in North Carolina that was awarded a bid. They have begun to set up neighborhood councils and we've been giving them small grants to begin projects. One fascinating story in one city in the north, we had a meeting of the Shiite, Suni and Christian leaders in the community and they told us they had never sat down, ever, in a cooperative way and talked about what they could do in a common way to improve their society. This was the first time they've ever had a meeting like that.

Senator BIDEN. Where was that?

Mr. NATSIOS. This was in the north, I think it was in Mosul, I don't know. I can get the name of it. But they said this is the only constructive meeting we have had without suspicion and malice and acrimony in the meetings.

There's some moving stories. We opened the first Internet cafe in Umm Qasr. We showed the local Hamas leaders and the new village council what the Internet was. They said they'd heard rumors of this thing but they had never seen it. And several old men sort of broke down, I didn't quite know why, you know, Internet cafes for us are quite common. And they said, we heard stories that this thing called the Internet existed, we never understood it until now. We showed them they could look up any Muslim or Arab speaking newspaper in the world, instantly get it, or English speaking or French or whatever, on the Internet, look it up and read it every day. They had never seen this before, they couldn't imagine that they could freely read newspapers from other countries anytime they wanted to. It was a very moving event apparently, from what our staff is telling us.

We have begun the marshland initiative assessment process. We haven't got a plan in place yet to do this, but there is an assessment team working with the NGO community, international organizations and the White House on how we will look at the restoration of the marshes, to which enormous ecological damage was done. 90 percent of them have been destroyed. There is one great marsh that's still left, about 200,000 people in it. This is the remnant of the classic Marsh Arabs that Wilfred Thesiger wrote about in a wonderful book in the 1950s about living among those Marsh Arabs, and is something I have always remembered in the work I've done around the world.

And finally in the area of agriculture and rural economy, a competitive procurement will be published very shortly for assistance in improving agricultural production, world finance, reducing water logging and soil salinity, and other areas in the agriculture sector.

So, we have begun the process, it's accelerating quite rapidly at this point, contractors, NGO staff, international staff, and our own agencies. We have been working, by the way, on this report of this conflict with the UN, I have never seen, actually, such intense collaboration with UN agencies among themselves or with the international donor agencies as I have in Iraq, and I have been involved in more than 10 reconstruction efforts in the last 14 years. There

are more than 5 major UN agencies that have large funding from us to do their work.

And one thing we do have, and I would just conclude with this, we have never had a unified assessment system, an international system for reconstruction. Usually we all have different mechanisms to assess the situation. In January we began training the civil affairs units, part of the U.S. Army, and I'm a retired civil affairs officer myself, I served in the first Gulf War, and they are very critical and we work very closely with them. We use this template, the UN agencies use this assessment template, the NGOs are trained in it, other donor governments were, and all UN agencies are now using it. So we now have one template for the first time in any reconstruction effort, for assessing each sector in each region of the country, so there's a common language that we can all get to quickly without having to retranslate everything back into a language we all understand. That's been a great benefit from the start, and so, those conclude my remarks.

[The prepared statement of Mr. Natsios follows:]

PREPARED STATEMENT OF ANDREW S. NATSIOS

Chairman Lugar, Senator Biden, members of the committee, I am honored to be here today to speak about the U.S. Agency for International Development's programs in Iraq.

As you know, USAID is providing both emergency and reconstruction assistance for Iraq. We are approaching these tasks, unprecedented in size and scope, with six broad objectives in mind. They are to:

- show the Iraqi people an improvement in their standard of living and public services;
- stabilize the population—reduce ethnic and religious tensions, repatriate refugees, resettle internally displaced people, and resolve property claim disputes created under Saddam;
- develop a market economy—produce new jobs and encourage investment and agricultural and economic growth; create the institutions of economic governance which will form the foundation of the new Iraqi economy and the fiscal structure of the national government;
- support the de-Ba'athification of Iraqi society—eliminate the palpable sense of fear that was a feature Saddam's rule; and create a genuine civil society that can control the abuses of the state, stabilize social order, and help reconstruction take place;
- create accountability and control systems to prevent oil revenues from being diverted by future Iraqi governments and ensure future revenues are used for public good; and
- ensure a peaceful transition to a pluralistic democracy representative of the ethnic and religious make-up of the society.

I will discuss what we are doing and what we plan to do in Iraq in the context of these six objectives.

Show the Iraqi People Improvements in Their Living Standards and Public Services

The brutality of Saddam Hussein's regime is well-known, but his rule was also characterized by the willful neglect of many areas, among them basic infrastructure, education, health, governance, and the economy. The highly centralized nature of the regime severely limited opportunities for local or individual initiatives. The level and quality of services people received was substantially lower than the gross indicators of Iraqi economic development would suggest.

Prior to the 1990s, for example, Iraq had one of the best education systems in the Arab world, achieving universal primary enrollment and significantly reducing women's illiteracy. Those achievements have eroded significantly since then, however. Primary school enrollment at the time hostilities began was approximately 76.3 percent and secondary school enrollment was down to 33 percent, with nearly twice as many girls absent from the classroom as boys.

In health care, too, the downward trend is clearly evident. Today, almost of a third of the children in the south and central regions of the country suffer from malnutrition. Low breast feeding rates, high rates of anemia among women, low birth weight, diarrhea and acute respiratory infections all contribute to Iraq's high child mortality rate—131 deaths per 1,000 live births. This rate has more than doubled since the 1980s.

Emergency Humanitarian Relief

Thanks to early, prudent, and thorough contingency planning, the pre-positioning of emergency supplies, and careful coordination with U.S. and international humanitarian organizations, the humanitarian crisis in Iraq that many had predicted was avoided. Many elements of the U.S. Government were involved in this unprecedented effort—but there are three units of USAID in particular that I would like to focus on today: the Office of Foreign Disaster Assistance (OFDA), Food for Peace (FFP), and the Office of Transition Initiatives (OTT).

The first challenge facing any relief effort, especially one of the size and complexity of Iraq, is gathering accurate information so that urgent needs can be identified and specific interventions designed that make the most sense for a specific location. To this effect, USAID assembled the largest Disaster Assistance Response Team (DART)—outside of a few search and rescue missions—in history. The DART included more than 60 people—doctors, public health professionals, water and sanitation experts, food distribution and agricultural specialists, logisticians, security officers and specialists in refugees, internally displaced persons (IDPs) and abuse prevention. Most members of the DART have had years of experience dealing with complex humanitarian emergencies and international relief situations, and their assessments of the conditions on the ground are vital to our humanitarian and reconstruction efforts.

In the months prior to the war, OFDA began preparing for a possible humanitarian emergency by stockpiling emergency relief supplies, including water tanks, hygiene kits, health kits, plastic sheeting and blankets. OFDA also provided funding to the World Food Program (WFP), UNICEF, and NGOs to set up logistics operations, offices and relief stockpiles. Because of this, our NGO partners were in a position to respond quickly to urgent humanitarian needs and are now making repairs to water and sanitation facilities in Ar Rutbah, Basra, and Erbil. OFDA grants are also supporting urgent health care assistance: CARE is working in Baghdad; Save the Children in Mosul; the International Medical Corps in Basra, al Nasariyah, and Wasit; and World Vision in Ar Rutbah. OFDA has also purchased medical kits, each containing enough supplies for 10,000 people for three months. In late May, the DART provided 33 of these kits to our NGOs partners for distribution in several cities in Iraq.

Timely USAID grants from the Office of Food for Peace helped prepare WFP to undertake the largest mobilization operation they have ever carried out. The first country-wide distribution of food in Iraq is already under way. Much of it comes from a \$200 million FFP grant to WFP which made it possible to purchase food in Jordan, Syria, and Turkey for immediate consumption. In just the month of May, for example, more than 360,000 metric tons (MTs) have arrived in Iraq from neighboring countries. All of this is in addition to the 245,000 MTs of U.S.-produced food that is already in the region or en route.

As a result of these careful preparations—and the fact that the Iraqis received increased rations prior to the fighting—there has been no food crisis in Iraq. We anticipate continuing U.S. food shipments through October and perhaps longer, if needed. The long-term solution, however, is the creation of a functioning market system. In the meantime, our food specialists on the DART have been working with DoD, WFP and the Ministry of Trade on issues like finding the 9,000 trucks needed to haul the 480,000 MTs of food that we expect to arrive in Iraq every month, assuring security along the corridors from Kuwait, Jordan, Syria, Turkey, and Iran, and preparing enough silos, warehouses and equipment to support these vital supplies.

The Office of Transition Initiatives (OTT) specializes in small, “quick impact” programs. OTT's flexibility and quick turn-around times have proved invaluable in many situations. OTT grants are currently helping the Town Council in Umm Qasr, Iraq's principal deep water port, get up and running and funding sports activities for young people there. One of the lessons we have learned from our work in other failed and failing societies is the need to keep young people, especially young men, off the streets, in school and in healthy activities such as sports. Unless they are occupied, young men are often a source of disruption, for they can be easily lured into looting or organized crime and violence.

OTT has also provided grants to keep the electric generators at the Mosul Dam running, so that the 1.7 million people who depend on it have electricity. Other OTT

projects currently underway include efforts to repair a school in Umm Qasr; shore up the Mosul Dam; put 16,000 people to work cleaning up garbage and debris in al Thawra; and supplying water testing equipment, refurbishing the fire station, and supplying new furniture and instructional materials to primary school in Kirkuk.

In addition, OTT has begun work on repairing ministries and public buildings and supplying them with computers, copiers, communications equipment, supplies and furniture, so that they can resume their normal functions. One of the advantages of this approach is that it allows us to work directly with Iraqi citizens and civil servants on practical every-day matters. Already we have started programs with the Iraqi Ministries of Justice, Irrigation and Finance, as well as the Central Bank, and we are looking at the possibility of doing more. Indeed, we have received proposals for 30 ministries and commissions for just such services.

Other OTT projects envision repairing the Courthouse in al Hillah; building concrete platforms for three radio and television broadcast towers; assessing the needs of fire department throughout the country; and designing more public works projects such as in al Thawra (ex-Saddam City).

Infrastructure Restoration

Since the President declared an end to major combat operations in Iraq on May 1, 2003, USAID's reconstruction efforts have focused on critical areas that will each contribute to substantial improvements in the lives of the Iraqi people. They are ports, airports, electricity, water, sanitation, health, education, and local governance.

Through a contract with Stevedoring Services of America (SSA), we have been upgrading facilities—silos, warehouses, and cranes—at Umm Qasr, Iraq's principal deep water port. Administration of the port was handed over to SSA by the British on May 23. This is the first reconstruction project in Iraq to be transferred from military to civilian authority. In the days ahead, SSA will phase in over 3,500 local workers as managers, heavy equipment operators, maintenance and other workers and is working closely with the newly elected director general of the Iraqi Ports Authority on staff training and port revitalization issues.

At the same time, Bechtel is rebuilding port administration buildings and analyzing the adjoining rail system for repair. Meanwhile Bechtel's subcontractor, Great Lakes, has been dredging Umm Qasr since May 7 on a 24-hour, seven days a week basis. This is dangerous and difficult work: some 200 pieces of unexploded ordnance have been removed from the harbor and ten sunken vessels discovered in the harbor. As a result of the dredging, the channel is now nine meters deep, and two ships, carrying 15,000 metric tons (MTs) of rice and wheat respectively, were unloaded last week at Umm Qasr. Our goal is for the work to have progressed enough so that the port can handle ships carrying 50,000 MTs of food by the end of this summer.

Through our contract with SkylinkUSA, preparatory work to upgrade Basra and Baghdad International Airport to international standards has been done, and we are aiming to have the latter opened by June 15.

Restoring electric power is an urgent priority, a task made considerably more difficult by acts of deliberate vandalism. On May 26, for example, two 400 KY towers were torch cut and hauled down, bringing the number of towers that have been damaged since the end of hostilities to 8. In other cases, substations essential to the restoration of power service have been totally destroyed by looters looking for copper wire and other scrap to sell on the black market.

In parts of the north and south of the country, however, there is a surplus of electricity. For the first time in more than a decade, Basra has electricity 24 hours a day, a marked improvement in the life of the country's second largest city. At the same time, electrical shortages continue in the center of the country. We are working hard to rectify these problems. Bechtel has completed its assessments and we have approved task orders that will enable them to repair the 400 KVA and 135 KVA high voltage transmission lines.

We are also funding new boilers for electrical generation plants. A further problem is that much of the country's power generation depends on natural gas, diesel and bunker oil, which Saddam's regime failed to produce in sufficient quantities. With the lifting of U.N. Security Council sanctions and the gradual restoration of the country's oil field capabilities, this problem should ease.

Another way Saddam punished the people of southern Iraq was by withholding chemicals to treat and purify drinking water. This contributed greatly to the unnecessarily high death and illness rates, particularly among children and other vulnerable groups. USAID has begun addressing this by providing funds to UNICEF to purchase enough chlorine for 100 days of water treatment for the southern

governates of Al Muthanna, Al Basra, Dhi Qar, and Maysan. The International Rescue Committee, acting on another USAID grant, will work to improve the rural water systems in 59 areas in An Najaf Governate.

Other infrastructure work includes the restoration of bridges at Ar Rutbah, Al Ramadi, Mosul, and one just southeast of Baghdad.

Health, Education, and Agriculture

Initial evaluations of the health sector show that services have been disrupted and equipment, medicine, and supplies have been looted from some hospitals and warehouses. While there have been no major outbreaks of communicable diseases, the potential for such outbreaks remains a source of concern. USAID's goal in this sector is to meet urgent health needs as well as normalizing health services rapidly. To this effect, we have worked through UNICEF to supply 22.3 million doses of vaccines to prevent measles, pediatric tuberculosis, hepatitis B, diphtheria, whooping cough, tetanus and polio. This is enough to treat 4.2 million children under the age of 5 as well as 700,000 pregnant women.

We have also established a surveillance system with WHO, UNICEF, and ABT Associates to monitor cholera, worked with the Iraqi Director of Public Health on a diarrhea survey, established a database for tracking and coordinating international medical donations, and helped prepare public service announcements about sanitation and breast feeding. In addition, we have made grants to CARE, Save the Children, the International Medical Corps, and World Vision for emergency health projects in Baghdad, Mosul, Basra, al Nasariyah, Maysan, Wasit, and Ar Rutbah, respectively. Our grant to ABT will enable them to address other medical needs, such as pharmaceuticals and equipment and coordinating donations of medical supplies. ABT will also work with the Iraqi Ministry of Health to improve their administration of medical services throughout the country.

In the education sector, we have launched a "back to school" campaign with UNICEF and delivered 1,500 school kits that helped 120,000 students in Baghdad return to their classrooms in May. Through a contract with Creative Associates, we have inventoried all 700 schools in Basra with the Ministry of Education, begun making grants to refurbish a number of schools there, and finalized plans to distribute 8,000 school and student kits for Basra schools when the new school year starts in September. The next step is to do the same in Dhi Qar Governate. We are also funding UNESCO to print and distribute 5 million math and science texts on time for the beginning of the school year, and we are in the process of soliciting proposals to link U.S. colleges and universities with Iraqi institutions of higher learning on various health, education, agro-industry, engineering, and other projects. A USAID technical advisor is also working with the Ministry of Education on ways to deliver sufficient equipment, material, supplies for the new school year.

We are also about to launch a competitive procurement for assistance to Iraq's agriculture sector. This program will address issues such as increasing agricultural productivity, rural finance, and reducing water-logging and soil salinity.

Stabilize the Population: Refugees, IDPs and Abuse Prevention

The emergency humanitarian assistance and early reconstruction work cited above are only one part of USAID's overall strategy for Iraq. Stabilizing the ethnic and religious tensions within the country, resettling TDPs, and ultimately helping resolve some of the complex property disputes created during Saddam's 24 years of corrupt and abusive rule are important goals.

Our first step began with the DART, which, for the first time ever, included specialized abuse prevention officers. Our Agency has years of experience in post-conflict situations. A priority for the DART was to identify key contacts with the U.S. armed forces, civil affairs units, the International Committees of the Red Cross, NGOs, the media, and local leaders and brief them on the kinds of lawlessness and human rights abuse that occur in the immediate aftermath of a conflict so that suitable responses could be fashioned. As part of this effort, each of our abuse prevention officers distributed USAID's Field Guide to Preventing, Mitigating and Responding to Human Rights Abuse, which was designed for just such situations.

Another important goal of our abuse prevention officers was to identify mass grave sites. Iraq tragically has plenty of these sites: clerics have told us there are 146 of them in and around Najaf and another 29 in Karbala. The presence of mass graves is an important reminder of the nature of Saddam Hussein's regime. Other mass grave sites have been found near Musayeb, Kirkuk, Basra, Al Hillah, and elsewhere. Should any of Saddam's immediate circle be tried for major human rights abuse or crimes against humanity, the sites will be *prima facie* evidence.

These abuse prevention officers are also monitoring the situation of IDPs in northern cities like Kirkuk, Dohuk, Zamar, and Domiz, where upwards of 100,000 Kurd-

ish families were driven from their homes as part of Saddam's Arabization campaign. Many of these Kurdish families are now returning to their homes—or trying to—and this makes for a potentially destabilizing situation. Our role, for the moment, is to try and sort out the dynamics of these conflicting property claims, so that ultimately, they can be resolved by legal means, somewhat like they were in Eastern Europe after the fall of the Berlin Wall.

Elsewhere our abuse prevention officers are working with several NGOs to identify and train local groups in human rights monitoring and grave site protection.

Another early USAID grant supports the International Organization on Migration (IOM), which is providing relief supplies for up to 500,000 IDPs in central and southern Iraq and coordinating the distribution of supplies for another two million Iraqis in the same region. As you know, after the first Gulf War, Saddam deliberately targeted the Marsh Arabs, or Madan people, for destruction. Tens of thousands were killed, land and water mines were sown throughout the region, and some 200,000 people were driven from their homes. The systematic draining of these marshes reduced them to a tiny fraction of their former size, destroyed a way of life that had survived for millennia, and caused an environmental catastrophe of unprecedented size and scope. This month, we hope to send a team of hydrologists, environmental specialists and economists to the region to study what might be done to begin restoring some part of this region and how to include the Marsh Arabs in the process.

Develop a Market Economy and Create Institutions of Economic Governance

Under Saddam, the Iraqi economy was highly centralized and exceedingly corrupt. All the country's heavy industries, and much of its light industries are government owned. So, too, is the oil industry, which is the main source of the country's revenue. With the lifting of U.N. sanctions and the gradual improvements in the oil sector, some revitalization of legitimate economic activity should follow naturally, along with a reduction of black market activity which has in the past fueled criminal syndicates. Yet much more must be done to make a solid break with past practices and put the country on a solid economic and commercial footing.

One of the keys to doing this will be to harness the power of the private sector and give the economy the jump-start it needs to create jobs and raise incomes for millions of Iraqi citizens. We are about to seek bids for a contract that would begin this process. We also expect to provide technical assistance under the policy guidance of the Treasury and State Departments to Iraq's Central Bank, Ministry of Finance, and the private banking sector. Within a year, we hope that the Ministry of Finance will be able to handle government payrolls, Iraqis will begin tackling some of the tough economic choices that lie ahead, a legal framework will be established that encourages the private sector, and access to private commercial banks will be widespread.

An early focus on economic governance is essential if the new Iraqi government is to be successful. Many laws and institutions need to be changed or created from scratch: a framework for fiscal and monetary policies must be put in place and legal and regulatory reforms shaped. Customs and tax policies must be devised so that the government has revenue from more than just the oil sector and the proper incentives are given for the private sector. Property rights and the repatriation of profits must be assured, clear tariff structures created and free trade encouraged. USAID, working with other USG agencies and appropriate international organizations and partners, will support Iraqi efforts in all of these sectors to transform Iraq's economy and establish a model for the region and beyond.

De-Ba'athification of Iraqi Society

Ambassador Bremer's recent decision to remove 30,000 members of the Ba'ath Party from all positions of responsibility in post-Saddam Iraq was a wise and necessary step. Clearly, the top echelons of the Party can hardly be counted on to take the country in the proper direction. Indeed, until such time as they are jailed or thoroughly reformed, these people can be expected to obstruct progress in whatever way they can. Many of them have long experience with smuggling, black marketeering, and armed repression. One of the great dangers is that they will turn, as others have done in Serbia and Russia, to criminal syndicates or armed paramilitary organizations whose ties to extremist elements could make them very dangerous to both Coalition Forces and ordinary Iraqis. Some will turn to crime—extortion, murder, and robbery. Others will foment tensions among contending ethnic and religious groups or hire themselves out as mercenaries and enforcers.

While it is obviously not USAID's job to provide security or police protection, we do have experience in many post-conflict situations with rehabilitation and reintegration programs following demobilization and disarmament. And, as I men-

tioned above, we do have human rights monitors in the country already, and they are preparing to expand our capabilities substantially in this domain.

De-ba'athification also hinges on the success of our larger goals in Iraq: the establishment of a stable society, with free market economy and an honest, competent democratic government that represents the entire spectrum of Iraqi citizens.

Creation of Accountability and Control Systems in the Oil Sector

Iraq has the second largest proven oil reserves in the world. Oil is the country's primary foreign exchange earner and the major source of government revenues. It can be a source of great wealth and hope for the Iraqi people, but it can also be a source of great temptation to the unscrupulous. The way oil revenues are used, therefore, will become an extremely important political and economic question in the country as soon as a new government is established. How the industry is managed will likely set the pattern for the way the country is governed economically and politically. Simply put, ensuring the transparency and accountability of every facet of the oil industry is crucial to the country's transformation.

The natural resources of the country belong to the Iraqi people. This puts a huge premium on questions of economic governance. Yet unless the new government is honest, technically sound, and strongly democratic it will be very difficult, if not impossible, to break with the corrupt practices of the past. We must, therefore, make it crystal clear that a new day has dawned and that there will be robust systems of accountability and transparency in place from the beginning.

Ensure a Peaceful Transformation to a Pluralistic Democracy

The three most important tasks the U.S. must accomplish if we are to be successful in Iraq are security, democracy, and a free market economy.

No one with an understanding of Iraq's history should expect that the country can be immediately transformed into a fully functioning democracy. As we have seen all over the world, the process of democratization is often slower than we would like. And yet, the slope of history points in one direction only—toward more democracy and more democratic governance in every part of the world. Even in the Middle East, there are unmistakable signs of progress, but so too are there formidable obstacles.

Iraq, of course, presents a special case. The brutality with which the Ba'ath Party ruled has left a legacy of suspicion and fear. Individual initiative has been discouraged if not crushed outright. The centralized, autocratic nature of the regime afforded little opportunity for anyone to develop the local governance skills that are so essential to the daily functioning of a working democracy. There has been no freedom of speech, no freedom of thought, no freedom to organize interest groups of any kind, no freedom to develop political views or skills or parties. All of this has left a legacy that can and will be overcome with time. Our job is to accelerate the pace at which this happens.

Our first step has been to work with Coalition forces to identify key local leaders with whom we can work and connect them to opportunities for relief and reconstruction assistance. This has been an important part of our DART's responsibilities, as well as those of our NGO and private sector partners.

In April, we awarded a contract to Research Triangle Institute (RTI) to work with local communities in secure areas and respond to their priorities, and help build up local governments so that they can respond to their constituents and deliver basic services like potable water, schooling, and health care. Already RTI and its sub-contractors have about 20 people in the country, working closely with the Coalition Provisional Authority, and that number is expected to reach 50 by the end of this month. RTI's technical experts are setting up neighborhood advisory councils in Baghdad and working with appropriate local administrators to improve the delivery of essential services.

Last week we awarded cooperative agreements to five U.S. NGOs—Mercy Corps; International Relief and Development, Inc.; Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance; Cooperative Housing Foundation International; and Save the Children Federation, Inc.—as part of our Iraq Community Action Program. This, too, is specifically designed to promote grass-roots citizen involvement in the affairs of some 250 communities through Iraq.

One of the hallmarks of a free society is an open, pluralistic media, and we are working to create one in the new Iraq. Already, we have given funds to Radio Sawa to support their reporting of humanitarian and reconstruction efforts and to Internews to help support a symposium that brought Iraqi, Arab and Western media experts together to develop a set of recommendations on fostering a free, pluralistic media in Iraq.

Conclusion

One of the strengths of USAID is our ability to enlist the American private sector in projects of great importance to the country. Neither we nor any other government agency has the expertise on hand that we have been able to bring on board through our relationships with the private sector in just the past two months. This was a major reason we were able to position enough supplies and technical expertise in the region to deal with a potential humanitarian crisis and start our reconstruction efforts quickly and aggressively.

But if we are nearing the end of the emergency phase of our work, we are a long way from completing the reconstruction, for our goal is nothing less than the transformation of Iraq into a functioning, stable state that poses no threat to its own citizens or its neighbors and serves the interests of the Iraqi people. Rebuilding the physical infrastructure of the country is but one part of this. Helping the Iraqis build the institutions of an honest, democratic state that represents the broad spectrum of Iraqi society at the local, regional, and nation level and a functioning, transparent economy based on the power of the private sector will be at least as important. We have no illusions that this will be quick or easy. The President and Secretary of State have made it clear that the United States is in this for as long as necessary.

Thank you.

The CHAIRMAN. Thank you very much. Let me just indicate that we will now have a question period in which we will have 7 minutes on the first round so all can be heard. We may then need to proceed through additional questions.

I would just say at the outset that this was an apropos comment made by my colleague Senator Biden as you were proceeding, and I agree with him. He said these gentlemen really mean business; we're getting somewhere. As a matter of fact, the testimony is impressive. I would commend to all of our colleagues the four papers you have presented plus the additional information you have furnished, because it does have a structural soundness to it, a tactical and strategic emphasis that I believe is very important for all of us to understand and to build upon. Sometimes people feel they are almost being harassed by our insistence. I think that we feel excited that you are proceeding in so many ways and with such success.

Let me just say that each one of you has played a role as part of the administration, and I once again mention Senator Biden's earlier quote about how he found it impressive that the President of the United States was meeting one on one with the leaders of the Arab world, expressing as a matter of fact that we are going to have success with the road map. Now skeptics of that process abound everywhere. They ask, are we really staying the course and is there longevity to this? My own judgment, at least from my knowledge of President Bush, is that there is. People will be surprised, as they will be, I think, with Iraq.

We are now talking about a successful Iraq down the trail. You're saying we are going to take the time and spend the money and do the planning so that, as a matter of fact, in the war against terrorism, there will not be a nation out here harboring young men who fly airplanes into our World Trade Center or into our Pentagon, a nation that has seen a festering mass of difficulty for the last 20 years. As you have explained, the government not only tortured its own people and ran down its economy, but from time to time attacked others and used weapons of mass destruction against others. This is a matter of record. Now it's gone, what is coming in its place is what you're trying to describe.

Let me just say that there are two technical challenges that I am curious about in my time frame. The first has to do with the debt. You pointed out, Secretary Taylor, that you have had success in getting forbearance with regard to demands for payment for servicing that debt through 2004. That's important, because the dimensions of the debt are difficult to define, quite apart from what is to happen with it.

It is all well and good for people to argue that the Iraqis ought to govern themselves, Iraq for Iraqis. Yet the fact is, whoever is in Iraq now is faced with dimensions that are very substantial. So, without there being someone to more or less wipe the slate clean, whatever fledgling government that comes along could be crushed by international pressure, by demands for payment of this debt, whatever it may be.

You may not be able to go further than you have in trying to define the dimensions of it, or precisely what kind of conversations we're having. Yet I hope that we're having conversations with European countries, with Russia, with other countries, that indicate that they are going to need to settle this situation for very little. In other words, we are not going to have a case in which America tries to put together a country to finance the debts of other countries that really need to take a differing view.

My second question is an internal one that any of you may want to answer. Congress did appropriate the supplemental of about \$2.475 billion. There was a first report to Chairman Young, but it doesn't have much in it. It's not really clear to me, in other words, what Ambassador Bremer has asked for and what he has been granted, and how far \$2.475 billion takes us. That part of our internal housekeeping seems to remain either vague or nonexistent. If any of you could comment on the first matter that I raised, or the \$2.475 billion and who's asking for it, who's getting it, and where that will take us, I would appreciate it.

Mr. TAYLOR. Mr. Chairman, I'll take the first one, or at least get it started. You are correct to emphasize this very important problem. I think the success we have had so far, of having an agreement that we can't expect service payments at least through the end of '04, has been significant, because it was a concern as we make plans for the budget for this year and next year that we can effectively zero out that alone.

I think in answer to your question about discussions with Europeans, many of these discussions have taken place in the context of the G-7 or G-8 apparatus that we have, and particularly the meeting of the G-8 finance ministers including Russia that occurred in France a few weeks ago delved into these issues. There was quite a bit of interest in resolving them, first as you say, to get an estimate of the size of the debt. There is a lot of uncertainty. The estimates we got originally, we see have to be revised. There's quite a range, \$60 billion to \$130 billion, it is a huge amount, and the range of uncertainty is huge.

What we are doing first is having the so-called Paris Club survey all its members to find out what their estimates of the debt are. Second, we have had the IMF survey the non-Paris Club countries which also have a lot of debt, particularly some of the Eastern Eu-

ropean countries and countries in the Middle East. Those two things together will provide us with estimates.

We also have people on the ground in Iraq going through records to estimate, trying to get a better sense of what the debt is.

As soon as that is together, we are going to sit down and try to find a way to have what is necessary, and that is substantial reduction in the value of the debt, and we will work on that cooperatively. So far it seems to me that things are going better than I could have expected and it does show cooperation, but there are going to be differences of opinion amongst the various debtors.

Dr. ZAKHEIM. Let me start with the answer to your second question, Senator, and I think Mr. Natsios may want to talk about this as well. In terms of the appropriated funds and how we look at those as opposed to the other funds, clearly there is a sense that if we are not paying monies directly to the Iraqi people, for example, funds to set up the original Office of Reconstruction and Humanitarian Assistance, ORHA, which has now been folded into the CPA, we have already spent or committed \$250 million of appropriated funds to setting up, or covering rather, the operational expenses. We spent or committed \$175 million of appropriated funds for natural resources risk remediation, that's to remove unexploded ordnance and emergency repairs and so on. So these are the things that we spend money on or contract essentially to help ourselves administer or to do some things that we are really doing.

When you then look at payments to Iraqis, for example, it makes a lot of sense not to tax the American taxpayer in effect by using appropriated funds to pay Iraqis when you have Iraqi funds to do so. So that is a general rule of thumb, and as I mentioned earlier, we have spent \$195 million, of which we spent about, as I said, \$30 million or so, a little less than that, on ministry start-ups. The rest were spent really through salaries, and we requested \$258 million, again, overwhelmingly for salaries for Iraqis.

The CHAIRMAN. That's very helpful. The business plans for Iraq still are not clear to me, and maybe not to you. You're still forming them, but at least you've put some pieces in, made some estimates regarding the oil revenues, made some decisions as to whether to pump more oil or not, and started to determine how much investment is required for that and other sources of revenue. At some point these funds that are now impounded and have been found are going to be exhausted if they are not recurring, so in an ongoing procedure that goes on for months and years, the cash flow situation here is important. We are trying to figure out for us at least, two people who are going to be voting on appropriations as they go down the trail, what we might anticipate for the American people. Therefore this is still, in my mind's eye, something that I would like to see fleshed out a little bit more.

Likewise, the debt situation, as you say, maybe \$70 billion, maybe \$130 billion, maybe more than that. Some have made estimates; everybody is trying to divine what we think is owed there. All I'm saying is that to leave the Iraqi people facing all of that as the rest of us leave and say do your best, would be ridiculous. Having undertaken the responsibility of nation building in Iraq, we're going to have to build the debt structure to end it in one form or another, or there will be no viability after these cash flows that

I'm talking about finally come along. We know what they are, and we either supplement them, or we get the French, the Germans, the Russians, somebody else to also contribute to the cash flow, which is a pretty good idea. One reason I would sort of like to see what kind of flow there is going to be is that we then could become rather poignant in asking them to do those things.

You know, as I visit Russia to talk about arms control, I could also talk about debt, and about their obligations. Senator Biden and others have visits and we do some of this work from time to time. Sometimes it's impressive to people that we're worried about it and we might be voting on it. This is why these are not abstract questions which the administration answers in dribs and drabs until we find out what we're talking about. This is a team effort now, in which we understand we're in there for a long while, and we try to get some construct.

Having said that, you have filled in a lot of blanks today. I thought it was very, very impressive, and I appreciate that very much. Even as I raise these additional questions, I do so in good faith; because as you know, we all need to be thinking about them. This is not an antagonistic situation or a competition; it's looking for the best thing that we can put together at this stage.

Senator Biden.

Senator BIDEN. Thank you very much, Mr. Chairman. I want to echo your view and express the cliché, we're all in this one together. The American people are not going to stick with us on this unless we are able to come up with a coherent and uniform view.

I would begin my questioning by saying I think we suffered from an overwhelming expectations game. On the ground in Iraq, I'm sure, Mr. Natsios, as you have found, the average Iraqi looking at the awesome military power we had, does not understand why we can't reconstruct Iraq as rapidly as we can deconstruct it. I mean that sincerely. I see when I am traveling, and I always kid about this, but it's true. I find that we are the totality of their problems and the totality of their solutions, from their perspective. And so the Iraqis are sitting there saying if the United States really wanted to do this, the water and the lights would be on, it would be like the Lord on the seventh day, you know what I mean, and so that's a difficulty.

The other expectation game is, with all due respect, Secretary Taylor, and I do think you have made good progress, the idea that we accomplished no one seeking any payment on debt to 2004. This is no accomplishment at all in the sense that nobody expected anything. They know there's nothing to get, there's no way to get it out now, and I think the expectation game is going to get very very tough in terms of the debtor community when in fact things start to roll a little bit more. That means we are going to have a real hard time making it clear that this has to be worked out. So I think your real work is cut out for you, and I know you know that, but I think the expectation game is real in terms of the debtor community, particularly the smaller and the poorer countries, or large countries like Russia with real needs, and I think they're going to find it very much difficult to work it out. We look forward to working with you to help in that effort.

Let me ask one question, Mr. Natsios. You mentioned the success in Basra, and I'm not being a wise guy when I ask this. Did we get the electricity on or was that the Brits? I mean, was it you guys, was it AID who did this, or the Brits?

Mr. NATSIOS. I would like to give you any success story attributable to us; however, it's almost never just one institution. It was the British Marines with their engineers, with UNICEF, UNICEF did some of the work, with AID, and DFID, which is the British aid agency, all worked together on this.

Senator BIDEN. So you worked together on this. What I'm trying to get at, again, is expectations. Was the bulk of that led by AID?

Mr. NATSIOS. No. It was led by the engineers. What we led with was funding, but that started before Bechtel arrived on the ground and before the contract was activated. They started that very early on and Bechtel has taken over much of that responsibility.

Senator BIDEN. Now, let me ask Defense, you have given us a pretty detailed estimate of the resources that we can bring to bear right now to help build Iraq and as I listened I added it up, and it's about \$15 billion now roughly, based on your statement, including congressional appropriations, Iraq assets, UN and international donations, and projected oil revenues. Add them all up in the near term, next 12 months roughly, and you're talking about \$15 billion. What I still don't have a sense of from all this testimony here is what are the costs going to be over that same period of time, matching those revenues? Do we have an estimate of the cost?

I'm just going to lay it out and any one of you can jump in, if you could speak to this. We're going to have, and I don't want to get into a debate about how long, but at least for the remainder of this calendar year, and my guess is the next fiscal year, we are going to have somewhere over 100,000 American troops in the region and we're going to have probably close to 150,000 troops. I would like to know what the annual cost of maintaining just those troops is, which as I understand it is not being paid for out of any Iraqi assets frozen, any Iraqi assets in the future, any Iraqi assets at all. And although there will be contributions, God willing and the creek don't rise, from NATO forces and others to supplement those forces, there will be no in-kind contribution that I'm aware of to pay for the maintenance of those U.S. forces. So what is the cost of that, of our current deployment?

[The following information was submitted by Dr. Zakheim on August 8, 2003 in response to Senator Biden's question:]

Dr. ZAKHEIM. Based on current mobilization levels and projected demobilization schedules, the total estimated cost of maintaining the current mobilization and military operations now in Iraq is approximately \$3.9 billion per month. However, projecting annual costs out into the future cannot be done with any certainty at this point—and it may be misleading to suggest that any such estimate is valid. The drawdown of troops in support of Operation Iraqi Freedom is currently underway and will continue through next year. The U.S. Central Command's stability operation plan for Iraq is still evolving to meet the dynamic situation within the country. The number of troops and the pace of demobilization are still to be determined. Therefore the annual cost of supporting the troops cannot be estimated with any degree of certainty.

And second, what are the additional cost estimates that we have in the near term, meaning the next 3, 6, 12 months, for all the things that you've talked about, and how do they match to reve-

nues that are pledged, we have appropriated, or represent assets of the Iraqis?

[The following information was submitted by Dr. Zakheim on August 8, 2003 in response to Senator Biden's question:]

Dr. ZAKHEIM. The costs for the current post-combat transition-stability period is approximately \$3.9 billion per month. However, this level of spending can change significantly if the level of operations (OPTEMPO) or the number of Reserves deployed were to change. A limited drawdown of troops in support of Operation Iraqi Freedom is currently underway. The environment within the country remains dynamic, however, and the U.S. Central Command stability operations plan continues to evolve. The number of troops and pace of demobilization over the next few months has not yet been determined.

Projecting costs for the next few months is difficult due both to the dynamic environment within Iraq today and to the continuing identification of reconstruction needs. We are continually assessing both the needs and our ability to garner the appropriate resources. To date the international community has offered to contribute over \$2 billion in cash and in-kind assistance for Iraq reconstruction and humanitarian assistance. This amount is expected to rise significantly in the next several months in response to further UN appeals for assistance, an informal international consultation meeting on the heels of the UN Flash Appeal, and a formal international donors conference planned for September 2003.

In addition, the United Nations Security Council Resolution (1483) calls for certain monies to be placed in the Development Fund for Iraq (DFI) which will be disbursed at the direction of the CPA. The DFI now has an initial deposit of \$1 billion derived from the UN's "Oil for Food" escrow account. It is expected to also accept proceeds from the sale of petroleum, petroleum products and natural gas and returned Iraqi assets provided from UN member states.

Approximately \$1.7 billion in formerly blocked and confiscated Iraqi state assets in the U.S. have been vested in the Treasury Department for apportionment to Federal agencies for requirements that benefit the Iraqi people. In addition, about \$800 million in Iraqi state assets have been brought under U.S. control in Iraq. The seized assets, which include primarily U.S. dollars are being verified for authenticity.

Finally, in the Emergency Wartime Supplemental Appropriations Act, 2003, Congress appropriated \$2.475 billion for the President's Iraq Relief and Reconstruction Fund which is the primary source of U.S. government funding for Iraqi recovery activities. Congress also made \$489 million to the Department of Defense within the Iraqi Freedom Fund to be used if needed to repair damage to Iraqi oil facilities and to preserve a petroleum distribution capability.

Dr. ZAKHEIM. Let me start with the military costs. The Congress gave us a supplemental of approximately \$62 billion, most of which was for maintaining operations, and those were assumed to the end of this fiscal year. We have already allocated and essentially paid back something slightly over \$30 billion to the services for operations that they had essentially forward financed.

We are still going through our mid-year review of expenses, and what costs we project out to the end of the fiscal year, and we believe that the supplemental will be adequate.

Senator BIDEN. The end of the fiscal year being this October?

Dr. ZAKHEIM. Yes, sir, September 30th. It will be adequate to cover within reason whatever number of troops remain. The reason for that is that we had built in some estimates for moving troops back and there is a cost to that, and the pay for the troops, of course, is a constant wherever they are. So the real issue is, how much more are you paying to keep the troops out there, as against how much are you paying to bring them back, and it looks at present to be in balance.

We will be able to get you better numbers for the record a little later on when we finish this review, but it looks like the supple-

mental will be covering the cost of troops through the end of the fiscal year. Beyond that, I am not in a position to predict right now.

Senator BIDEN. Well, I have not heard anybody even postulate that we are likely to bring home the bulk of American forces in the next 12 months, not the fiscal year. We're now doing the appropriations process, we are in that cycle, and we are going to appropriate money for the Defense Department, which is already well underway. Can you give us the estimate as to the cost for the next fiscal year, because you have to be doing that now? What is the cost for the next fiscal year of maintaining the projected military presence, whatever that is? I know you don't know for certain, but that's part of the budget process now and there probably will be a supplemental come January of next year again if past is prologue, and that's not a criticism, it's an observation. So, can you give us a sense what we're going to need for the next fiscal year just to maintain troops which comes out of direct Congressional appropriations?

Dr. ZAKHEIM. Regarding the statement you just made about a supplemental in January, I cannot talk to the future. The reason is that last year the supplemental came quite a few months into the fiscal year. Right now, to estimate the timing of a supplemental we have to do two things. First, we cannot forward finance again until we get our estimates right, and then we have to get our estimates right and get them up to Congress. So at this stage, I would not be doing any justice to anyone by giving you a concrete estimate on that.

Senator BIDEN. With all due respect, and I know my time is up, if you guys don't have an idea in June of 2003 what the cost of maintaining forces is going to be in Iraq for fiscal year 2004, then it's not the Defense Department that I remember. You guys have to have an estimate now. If you're going to wait until next January to present us with a proposal, that is, I would argue, irresponsible, irresponsible. You've got to give us your best estimate now; and so I assume that's in train, and if it's not in train then it's derelict.

Dr. ZAKHEIM. I don't think we are derelict, Senator. I think I indicated that it was in train. All I simply said was that in putting this estimate together, and particularly as you yourself indicated, with regard to troop levels and bringing troops back and so on, that does take a little time. It is not a question of whether we wait until January, it is simply a matter of assessing where you are and projecting out where it is apt to be. You cannot predict perfectly. We have done pretty well with the supplemental, but we cannot predict perfectly and we want to have our estimates right.

Senator BIDEN. What is the current cost of maintaining deployment per month now, just now?

Dr. ZAKHEIM. Probably in the region, if you include the cost of reserves, in excess of \$3 billion per month, but I can get you that figure accurately.

[The following information was submitted by Dr. Zakheim on August 8, 2003 in response to Senator Biden's question:]

Dr. ZAKHEIM. Based on current mobilization levels and projected demobilization schedules for Operation Iraqi Freedom (OIF), the total estimated cost for the remainder of the fiscal needed to maintain the current force level is approximately \$3.9 billion per month. This estimate includes the following costs:

The Department anticipates that on average approximately 124,501 reserve component members will be mobilized on active duty for OIF during FY 2003 at an esti-

mated incremental cost of \$0.8 billion per month. This cost estimate includes all pay and allowances as well as personnel support costs (e.g., medical, temporary duty costs) associated with mobilized Reserve and Guard members.

In addition, approximately \$500 million per month is estimated for the incremental cost for imminent danger pay, family separation allowance, foreign duty pay, subsistence, defense health care costs and other military personnel support costs for personnel directly supporting OIF.

Also, the Department estimates that ongoing operations during the transition and stability period will cost approximately \$2.6 billion per month. Included in this category are various necessary consumable items, such as subsistence, fuel, spare parts, and transportation costs and other ground, air and naval operational costs.

Senator BIDEN. Thank you. I will come back.

The CHAIRMAN. Thank you very much, Senator Biden. Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you, and gentlemen, thank you for appearing this morning.

To follow on with Senator Biden's questions on costs of maintaining our forces in Iraq, Dr. Zakheim, would you clarify where we are with force structure now for example, which countries have troops in Iraq, are providing additional security, what the numbers are? For example, I think when Secretary Wolfowitz was up here a couple weeks ago, he noted that the British had 20,000 troops in Iraq. My understanding now is we have 10,000 in Iraq. Are they demobilizing, who's there, what do we anticipate in addition to allied troops? Are you factoring those in, at what numbers. To replace our troops? Would you clarify that picture for us?

Dr. ZAKHEIM. Well, Senator, most of that I will really have to do for the record, but let me say this. The number of the troops that are out there and that would be coming out there obviously would be less than those that were fighting the war, and that explains to some extent the turnover in British forces. I will get you for the record the exact numbers as to where the British are right now. In terms of other contributions, again, this has to be worked through Ambassador Bremer and the Coalition Provisional Authority (CPA), but we have quite a few offers, some of them are well-known. For example, the Spanish have offered forces, the Italians have offered forces, as well as many smaller countries.

Senator HAGEL. Pardon me for interrupting, but could you tell us who is on the ground there, which countries have forces there?

Dr. ZAKHEIM. The British have forces on the ground, the Polish have had forces on the ground.

Senator HAGEL. They had?

Dr. ZAKHEIM. I believe there are still some there but I would have to check on that. There are some smaller units and I will get you that for the record, Senator.

Senator HAGEL. To go back to the British forces, are my numbers correct that there are 10,000 troops, British troops there now, versus 20,000?

Dr. ZAKHEIM. I'd have to check into that.

Senator HAGEL. You're not sure?

Dr. ZAKHEIM. I'm not sure.

Senator HAGEL. That's a little puzzling, don't you think, if you're coming up here to testify about the issue of reconstruction and security, anticipating questions that Senator Biden asked, that the Chairman has asked, and others will ask, and you have no idea how many British troops are there?

Dr. ZAKHEIM. You are talking about a transition; so if I'm going to give you something, I want to be sure that it's accurate to the day.

Senator HAGEL. How about a ballpark? Can we get you on the record to take a wild guess?

Dr. ZAKHEIM. I don't like—

Senator HAGEL. Are 20,000 still out there?

Dr. ZAKHEIM. No, 20,000 are not still out there.

Senator HAGEL. What is your position at DOD?

Dr. ZAKHEIM. I am the comptroller, Senator.

Senator HAGEL. That means controlling. As I listened to your testimony, everything has to go back through you; is that right?

Dr. ZAKHEIM. Well, certainly with respect to resources, that's correct, Senator.

Senator HAGEL. Well, troops are classified as what?

Dr. ZAKHEIM. But they are British troops.

Senator HAGEL. And that's not factored in as to what may be a factor as to troops we'll need, more or less, because our allies have troops or will have troops, that hasn't factored into your equation?

Dr. ZAKHEIM. Force planning, sir, is normally done by the Joint Staff, and requests of other nations for forces are done in conjunction with our policy people. The last time I checked, sir, the British government does not run those kinds of things through me, and it would be presumptuous, quite frankly, to do anything other than try to get you the facts on the ground as opposed to talk about their decisions. That is not my theme, sir.

Senator HAGEL. All right. Let's try another witness and maybe we will get some answers.

Mr. Larson, the June 24th meeting that you described, tell us about what's going to happen there and what you anticipate, what are the objectives? Is this to get allies to commit to resources?

Mr. LARSON. This is not a pledging conference as such.

Senator HAGEL. International donors?

Mr. LARSON. Yes. It's beginning the process of preparing for a pledging conference that I would hope to have in September. What we found is that a good way to get this sort of mobilization of resources underway is to have a meeting at officials level, basically the level of those of us at this table, and to task out work. One of the things that we want to do and it's already underway is make sure that there is an international assessment of needs, and the United Nations Development Program and the World Bank are going to work on that together. We will take stock at the conference of where that work stands.

We believe it is going to be possible to have some representatives of the Coalition Provisional Authority from Baghdad attend this meeting to give a firsthand account of what they're thinking at that stage, of what the nature of the needs are, what the budget will be, a lot of the questions that senators are asking today, recurrent needs for salaries, investment needs for these various sectors that need to be rehabilitated.

Then we will set in motion planning for a ministerial level, cabinet level donors meeting, as I say, in September. We are frankly pleased that the United Nations has been willing to step forward and work on this with us. We were pleased that at the G-8 meet-

ing just ending yesterday, there was a positive reference to this conference, and an understanding that the international community is going to need to pull together.

Senator HAGEL. So you're looking at September as the meeting to get people to pledge and commit; is that right?

Mr. LARSON. I think that's fundamentally right. There will be a blend, Senator, between the humanitarian needs where there has already been a fairly strong international response, and reconstruction. We expect this June 24 conference to come immediately after a meeting that is planned to focus on reconstruction needs. I think that—excuse me, on humanitarian needs. I think we will get pledges on humanitarian needs at both conferences and then we will have to have that roll over to a September meeting.

You know, donors will want to see what the needs are, and that will come out of the assessment that is being worked on as we speak.

Senator HAGEL. Let me ask you this question. I know that decisions are made at levels higher than yours, although your level is pretty high, under secretary. It strikes me that waiting until September—I mean, we are just now into June. I don't know what the mystery is here as to the help that we need in order to bring stability and some security to that country and anticipating what those needs are, and then why it takes so long for assessments.

Mr. LARSON. Let me respond quickly. This is a rolling process. Even as the military operations were underway, we were meeting and having consultations with allies. We were going out and making requests for things like help in policing, as well as humanitarian support. So we are not just sitting around and waiting until the fall. On those things where it's possible to move forward, we are moving forward, and we're getting responses, as Under Secretary Zakheim and I and others have indicated.

But we think to carry this to the next level, we're going to, in order to get the sort of commitments that we would like to get out of European countries, for example, we are going to have to go through a process that will give them some benchmarks, and part of those benchmarks will be the needs assessments that have been done internationally by the World Bank and UNDP, and those can be meshed with the needs assessment that the Coalition Provisional Authority.

Senator HAGEL. Just a quick point, since my time is up. By September, the world is going to change considerably in Iraq, and all the crack planning that has been done obviously is missing some of that, and we'll come back around to this in the next round. But as I fade off in the sunset in my first round of questioning, Dr. Zakheim, could you provide this committee with a number of American troops in Iraq?

Dr. ZAKHEIM. I believe the actual number right now is a classified one.

Senator HAGEL. You're kidding? We have newspaper reporters at the tables here, and they may want to tell you, because we read about it almost daily in every major newspaper. Deputy Secretary of Defense Wolfowitz gave us a number when he was here. So that's your answer?

Dr. ZAKHEIM. That's my understanding. I will get you the number.

Senator HAGEL. Maybe some of the reporters want to give you the numbers, but we will see the next round of questions. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Sarbanes.

Senator SARBANES. I pass for now.

The CHAIRMAN. Senator Feingold.

Senator FEINGOLD. Senator Sarbanes, you are very courteous, thank you.

Why don't we start with Mr. Zakheim. The administration has rightly emphasized the idea that Iraqi resources will be used for the Iraqi people. This is a very important idea, but I'm sure you agree that just articulating it is not enough. So my question has to do with the transparency of this. How are the Iraqi people supposed to know how funds and seized assets and oil revenues are used? You did mention that there are careful accounting procedures, but what is the proactive effort that is being made to ensure that this information is actually available to the Iraqis? Since the United States is now engaged in nation building in Iraq, doesn't it make sense to do everything we can to establish a culture of transparency and accountability right away?

Dr. ZAKHEIM. I completely agree with you, Senator, and I think as you are well aware, the presidential envoy, Ambassador Bremer consults with Iraqis, there are Iraqis working back at the ministries and therefore, anything that is going to be public for us will be public for them. There is no particular reason to hide from them what is being done with their funds, it's quite public.

What I have told you this morning regarding the expenditure for salaries, for example, is that we are giving them the numbers, we are providing them. It is no more, no less than that. There is every reason to provide the same level of accountability to the Iraqi people, since they are going to want to know what happened to their money, as it would be to the United States Congress and the American people who want to know how we are treating that money as custodians.

Senator FEINGOLD. What are you actually doing proactively to get that information out?

Dr. ZAKHEIM. As I understand it, the Coalition Provisional Authority is in constant contact with leading Iraqis. There are efforts to stand up the ministries. We put monies into that so that there are Iraqi civil servants working who would have access to information. We are also funding two daily newspapers, which will provide announcements and information for Iraqis. As you know of course—

Senator FEINGOLD. Is that kind of information currently in those newspapers?

Dr. ZAKHEIM [continuing]. I doubt it probably is as yet, but it could be. It is probably most useful for Iraqis in the civil service sector. Again, we are rehiring people, paying them, and once they are on board, they will have that information.

Mr. LARSON. Senator, your question also touched on the oil aspect of this. Just to say briefly, the Security Council resolution sets out a relatively clear process for having transparency with respect

to the use of oil proceeds that are deposited into the development fund for Iraq. It includes an international advisory monitoring board that would have representatives of the UN Secretary General, the managing director of the IMF, director general of the Arab Fund for Economic and Social Development, as well as the World Bank president. So with respect in particular to the development fund, which will be the repository of oil proceeds, there is a process that will ensure accountability and transparency in the use of those revenues.

Senator FEINGOLD. Let me ask anybody on this panel more about just the expected cost of overall stabilization and relief and reconstruction. Obviously the percentage at this point that the United States is enormously greater than the other possible contributors. I would like to know how much the United States has spent to date. Do we expect the relative percentage of what we're spending versus other donors to change? What can we expect the percentages to be once that happens. Mr. Zakheim?

Dr. ZAKHEIM. As I indicated in my testimony, we are clearly providing the largest percentage. That will change, because once more donations come in and particularly given the conference that will take place, as Secretary Larson said in September, we expect that the size of our percentage will change, although we may remain the largest donor. That is the case in Afghanistan and again, there our initial percentage was much larger. With the influx of other contributions, that percentage diminished. I expect a similar pattern with respect to Iraq.

Senator FEINGOLD. What do you anticipate the pattern will be, what's the goal? Where are we at now and what is your plan and our plan, given your role as comptroller, for what percentage we will be paying and others will be paying? I would like to get some number estimates of what the goal is.

Dr. ZAKHEIM. The first thing to do, as Secretary Larson noted, is get the needs assessments done. Quite frankly, the international financial institutions were reluctant to send teams out to Iraq until there was a Security Council resolution passed. These needs assessments take some time. Once we have them and we know the size roughly of what we are trying to achieve, we would then go out and solicit support from countries that are wealthier and countries that are not. Small countries have contributed already. Organizations like the European Union are likely to significantly increase their contributions over the long term once those needs assessments are done.

Until that point, I think it is very difficult to make an estimate of just what our percentages are likely to be.

Senator FEINGOLD. But I'm asking you what our goal is. My constituents want to know how much we're going to pay. They want to know as much as possible what the total will be and what can be expected as a percentage by other countries. I understand that that can be affected to some extent by what the needs are, but you must have an objective in mind with regard to how much the United States of America is going to pay here and how much other countries are going to pay. I want to know what that objective is.

Dr. ZAKHEIM. Our objective is clearly to solicit as much as we can overseas. Just to give you another example why it is so tough to

predict, we cannot give you the revenues from oil which are not simply going to be available for reconstruction. Sixty percent are still going to be used for food. As that situation improves in Iraq, oil revenues will be available, that will lower the overall numbers. It's tough to predict that, we have to do some serious analysis by lots of people. So to say, "Well, here's a cap on our numbers or here's a cap on our percentage," when we clearly don't know the size of—

Senator FEINGOLD. I wanted to know, though, not a cap. What's your goal? What would you like to see happen? Would you like to see the rest of the world do 90 percent of this or 10 percent of this? What's a realistic goal that I can tell my constituents, we're going to try to get other people to help us with?

Dr. ZAKHEIM [continuing].—I think the realistic goal is to get them to contribute as much as they possibly can.

Senator FEINGOLD. That is a complete non-answer. You must have some goal. You must have some documents or papers that say you know, our goal here is to try to push the donors and everybody else to contribute X percentage. You don't have such a goal?

Dr. ZAKHEIM. I just do not think it's easily answered that way, Senator.

Senator FEINGOLD. Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR RUSSELL FEINGOLD

I thank the Chairman and Senator Biden for holding this important hearing, the second in a series scheduled since the regime of Saddam Hussein fell and the U.S. became responsible for Iraq. These hearings help to establish where we stand today and to clarify the sometimes-ad hoc policies and procedures in place, so that we can meet our responsibilities to the American people and exercise oversight without constantly groping in the dark for the most basic information. So first and foremost, these hearings are giving all of us the tools we need to do our jobs.

Equally important is the role that these hearings can play in helping to inform the American people about the magnitude of the task ahead. The men and women of the United States military performed brilliantly throughout the military engagement in Iraq, but that was only one piece of the puzzle. The U.S. mission in Iraq is not yet accomplished. Our work has only just begun. We still have not secured the weapons of mass destruction and the means to make them that were at the heart of this Congress's reasoning for taking military action. A repressive order has been replaced with simple disorder. The American people deserve to know what will be asked of them in terms of the costs of reconstruction and the amount of time during which our military sons and daughters, husbands and wives, and mothers and fathers will be on the ground.

The hearings also help to raise some critically important issues. Over the weekend the *New York Times Magazine* ran a very disturbing article about conditions in Afghanistan, the last country where the U.S. forcibly removed the government in power, rhetorically committing to stay the long and difficult course of stabilization and reconstruction in the aftermath of the conflict. I supported our action in Afghanistan wholeheartedly. The Taliban government colluded with the Al Qaeda network, and the President was right to use force against these enemies. But as the article put it, reconstruction in Afghanistan to date has been "a sputtering, disappointing enterprise, short of results, short of strategy, short, most would say, of money." This is about more than failing the people of Afghanistan. It is even about more than damaging our international credibility. It is about our security. We know what disorder and international indifference bred in Afghanistan in the recent past. And yet our resolve to do the hard work of reconstruction has been called into question repeatedly over the past year.

Now we face a new challenge in Iraq, and we are asking the donor community, the Iraqi people, and the rest of the world to believe that reality will match our rhetoric, and to believe that we will stay committed to reconstruction in Iraq. There is ample reason to be skeptical. Hearings like this one help all of us to assess whether or not we are on the right course.

The CHAIRMAN. Thank you, Senator Feingold.
Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman. I would like to thank the distinguished panelists also. As we try and look at the situation there in Iraq and judge what we have in front of us, I didn't hear too much on the most important area, in drinking water, and we're getting some reports from the media on the ground that it's not very good, that most of the citizens are getting their water from sewage choked waterways, there's been an epidemic of cholera. What exactly is the situation? I think Mr. Larson said that 75 percent of Baghdad has drinking water, but didn't refer to the rest of the country. Mr. Natsios addressed some obscure cities in the south that had 100 days worth of drinking water available. What actually is the situation with that most basic of needs, especially if much of our food needs to be mixed with good water. I guess, Mr. Natsios, you raised your hand. Give us an assessment of where we are and that will help us know where we're going and how bad it is.

Mr. NATSIOS. Our first priority is the drinking water and the reason for that is that about 400,000 children have died needlessly in the last five years, mostly from dirty water. It is unconscionable that a country of this wealth has child death rates of the size that Iraq has had. And Saddam successfully blamed the international sanctions regime, which is nonsense. This deliberately planned effort by the central government to kill off the children of his opponents, the Shiites and the Kurds.

Senator CHAFEE. But where are we, never mind who's to blame?

Mr. NATSIOS. No, let me just go through this because we're dealing with a very different position in different areas of the country. The central part of the country, the water system is in reasonably good shape. The areas in the north where the Kurds are were independent of the central government, they are in recently good shape; there are pockets here and there. Our focus is on the 60 percent of the population who are Shiite in the southern 60 percent of the country.

We just completed an assessment using Bechtel engineers of the water pumping stations, and there are a total of 673 water pumping stations and 253 treatment plants. The treatment plants have had no chlorine for years. We have enough chlorine now that we just purchased through UNICEF for 100 days so that all of those areas in the south will have chlorine very shortly. It's been ordered, it's on its way. That will at least clean up temporarily the condition of the water system in the south so we can drive down these death rates. The death rates in India, for example, which has the largest numbers of poor people in the world, 101 per 1,000 die before they are 5. The rate of death in Iraq is 131. The death rate in Jordan among children is 50. Iraq is considerably richer than Jordan, so we're hoping to get the death rate down in the next six months to a year, fairly quickly, and the water system will be the principal means by which we do that.

In order to do this more systemically over the longer term, in addition to fixing the water system we have to also fix the sewer system. The sewer system doesn't treat sewage in the south, it simply flows into the Tigris and the Euphrates Rivers untreated and that's

where the water comes from, for the most part. There are also wells, but they're not in good shape either.

So we are now in the process of taking the assessment we've done to determine the facilities that need rehabilitation or reconstruction first, and then the ones that are in reasonably good shape, we will do those last. And Bechtel will begin that process in terms of actually doing the reconstruction very shortly. Congress just released to us \$234 million last week, and a good portion of that money will go into the Bechtel contract and they can begin construction in this area.

We have improved the situation in Basra fairly dramatically over what it was before the war or during the war, but it still is nowhere near where it should be.

Senator CHAFEE. Thank you very much. You've painted a picture of an extremely impoverished country with no access to good drinking water pretty much, so I think that let's us know the magnitude of the task in front of us, what we have as we try to bring some stability and order to this country, starting with that.

Moving, if I have the time, to the next precious liquid, the oil, and Mr. Larson, you said that their capacity at peak was 3.5 million barrels per day. Do we have some kind of goal, I've heard that Iraq has the second largest reserves in the world, known reserves in the world, as to what we want for price per barrel? If we're able to generate close to 3.5 and perhaps more in the near future, would that glut the market? And I suppose there are competing dynamics here. We'd like to have a lower price of gas here and help our economy, but we also want a higher price per barrel to help the Iraqis. Do we have an idea of what we want for a price per barrel on the world market, and can we affect that in the years to come with controlling the second largest known reserves in the world?

Mr. LARSON. I think in the short run our focus is very much on getting the existing capacity up as quickly as possible. Mr. Ghadhban, who is serving as the CPO, indicated last month that production had reached 800,000 barrels a day and he expressed hope that it could get up to 1.5 million barrels a day by the middle of this month. If so, that would be very good progress. He also said he'd like to see it approaching 2 million barrels a day by the end of the year and then be sustained at that level or somewhat above that level in 2004.

We are in the first instance working very hard. The Iraqis and the Army Corps of Engineers are working very very hard to make sure that those sorts of goals can be met.

I think that the decisions about whether to increase production well beyond the levels that had previously been possible in Iraq is something that a new representative Iraqi government is going to have to decide. For the purposes of my calculations, I used the figure of \$20 a barrel. It's a very rough guess. It represents the fact that Iraq produces a sour crude that sells at a discount of 3 to \$4 dollars per barrel under other types of crude oil. I don't think that we should have a goal with respect to the price of oil. I don't think that we can or should try to aspire to be controlling it. There are lots of other factors, shifts in demand in many parts of the world, production from Russia, from Kazakhstan, from Venezuela, from West Africa, that all have a bearing on that.

Senator Hagel has been conducting a series of hearings about the international energy market and the effect of this on global energy security. One of the points that we had tried to make in those hearings is that you can't focus on just one major supply region to understand how the oil market works, you have to understand that there are several big areas that interact together.

Senator CHAFEE. Thank you.

The CHAIRMAN. Thank you very much, Senator Chafee. Senator Sarbanes.

Senator SARBANES. Thank you very much, Mr. Chairman.

I would like to ask about a product I recently saw. I was at a conference over the recess and I learned that Proctor & Gamble has a packet that you put in a 10-liter can of water and it cleans it up. It seems to me that it was sort of a very significant breakthrough in terms of providing clean water. I understand that you all are dealing with them about that; is that correct, and what does it offer in terms of addressing the water problems?

Mr. NATSIOS. I had to demonstrate the technology to them and I actually drank the water.

Senator SARBANES. You don't look any worse for wear.

Mr. NATSIOS. No, I'm still here. I was a little disturbed as to what the water was. They didn't tell me what it was when I cleaned it up, they told me after I drank it what I had just drunk. And as I said, I'm still here, although a little upset about what I had just taken in. It's an extraordinary technology and its very useful for us in emergency situations. We may purchase some of it, we're looking at that now. I think UNICEF is looking at purchasing some of this technology. However, in terms of cost, over the longer term, we tend to look at systemic solutions to water problems, which is to say we want the water system itself to be functional or we want the treatment plant, and we want the processing to take place in the treatment plant and the clean water to run through the system. That's the cheapest way so far. This is more expensive than that, but in the case where it would take too long to do that, in the interim, this is an appropriate technology where the treatment takes place at point of use, so we are intrigued by it and I can tell you, it does work.

Senator SARBANES. Now, when is the donor conference?

Mr. LARSON. June 24th, Senator.

Senator SARBANES. Who is the point person for foe donor conference?

Dr. ZAKHEIM. It is a joint effort; the three of us in particular are working on it.

Senator SARBANES. I want to follow up on what Senator Feingold was asking. Are we going to the donor conference with no framework or guidelines of what it is we want to get in terms of the allocation or a percentage of contributions?

Mr. LARSON. I was looking for an opportunity, Senator Sarbanes, for an opportunity to clarify a little bit about that, our thinking on how we get the best possible contribution from other countries.

Senator SARBANES. What I understand Mr. Zakheim's answer to be is well, we will get what we can get.

Dr. ZAKHEIM. It is not exactly that. Let me clarify that please, sir. Basically, the point is that there are a variety of sources, in-

cluding, Iraqi sources. If we lay out percentages, we do run the risk of scaring some people off. The June conference, in any event, is a technical one; in effect it is a planning conference for September where there will be a full-blown donors conference. Even then, if we say, "Well, we're doing X percent and we expect you to do Y," some people will say, "we just might not do what you ask of us."

We found regarding Afghanistan, and I was involved there with many of my colleagues here, that in raising the funds for Afghanistan, we got several billion dollars of support. I found that it was much more effective not to come up with fixed percentages and instead push people to do more, rather than say, "Here's a percentage," because the first thing they will say is, "Who are you to determine the percentage."

Mr. LARSON. If I could just amplify slightly, Senator Sarbanes, we found as we started approaching other countries on this that some certainly in the coalition, but also some outside the coalition were very very willing to be involved in this sort of work. Japan, for example, is very very interested in being involved. But we also want it understood that we have a political process to get some of the other major contributors into this game. Part of that process was getting the United Nations Security Council resolution, because that was really a signal that we could move forward.

A second part of the process is getting an assessment of what the needs really are and making sure that the focus is on helping the Iraqi people.

A third part of the process is helping, is trying to get some distinction between the sorts of things that governments have to do, humanitarian support, basic types of reconstruction, from what will probably be done by the private sectors. We have talked in this hearing about needs in the area of telecom and possible big oil investments. I assume that those are the things that the private sector is going to have to step in and do.

I believe that politically the way to get countries on board is to make them part of the preparatory process, to bring them in on the 24th, make sure they feel that they are a part of identifying what the needs are, and then I think based on the experience that we have had in Afghanistan, that we, you know, have a real shot at getting some significant support from them, but if we came out with a percentage goal now, I think it would be counterproductive to what clearly all of the senators here and all of us at the table are trying to accomplish.

Senator SARBANES. What is the percentage that we're putting into Afghanistan?

Mr. LARSON. I would like to get that for you for the record. It's the plurality but it's not over half. We have gotten very significant contributions from the European Union for our work in Afghanistan.

[The following information was submitted by Dr. Zakheim on August 8, 2003 in response to Senator Sarbanes' question to Mr. Larson:]

Dr. ZAKHEIM. At the Brussels conference in March, the United States Government committed \$600 million out of a total international commitment of \$1.8 billion, *i.e.*, 30 percent. I note, however, that the USG's total commitment for fiscal year 2003 was subsequently revised and will be on the order of \$900 million (versus the \$600

million pledged in Brussels). If other countries do not make additional pledges, our overall share will rise.

Senator SARBANES. Now, I would like to ask Mr. Zakheim. Secretary Rumsfeld said in a hearing before the Senate Appropriations Committee, and I'm quoting here: "Let me be clear. When it comes to the reconstruction, before we turn to the American taxpayer, we will turn first to the resources of the Iraqi government and the international community."

I'm interested, first of all, in ascertaining what are the resources of the Iraqi government to which he is referring. They are presumably seized Iraqi assets and oil revenues, I would like to know the magnitude of those. And secondly, he talks about the international community; what is he referring to?

Dr. ZAKHEIM. I think that's right in terms of the Iraqi resources, it is the seized and the vested assets.

Senator SARBANES. And how much is that ?

Dr. ZAKHEIM. As I said, the amount seized is roughly \$800 million, it is actually \$798 million right now. That is excluding gold that has been seized, and that is being assayed with the help of the Treasury Department and the U.S. mint, and we will know what the value of that is.

In addition, as you heard earlier, the vested assets, that is, the monies that were essentially frozen in this country, total about \$1.7 billion.

So right there you have approximately \$2.5 billion, which is about the equivalent of what the Congress gave us in appropriated funds. That gives you a rough sense of the proportions.

Senator SARBANES. And the oil revenues?

Dr. ZAKHEIM. That is over and above that, Senator.

Senator SARBANES. How much do you have to spend to get the oil on line? I've heard a figure as high as \$20 billion.

Mr. LARSON. That's very exaggerated, Senator Sarbanes. The CEO of the oil ministry that's working on this is suggesting that it will take in the hundreds of millions of dollars to achieve the goals he set out for this year, that is, to get production up in the range of 1.5 million barrels per day sometime this month, and to 2 million barrels a day by the end of the year.

Where you begin to get these very large numbers is when you begin to talk about actually increasing the baseline productive capacity, going beyond where Iraq has ever been in the past. And that's where I believe that one is really talking about how much foreign investment can Iraq attract in order to increase its baseline capacity.

Now there's a middle ground between 2 and some significantly larger number, and that is, what would it take to get them back to 3.5 million barrels a day. My testimony quotes Cambridge Energy Associates with a figure of \$3 billion. It is a figure, I don't mean to endorse it, but it's sort of a reasonable estimate of what it could take to get to 3.5 million barrels a day.

Senator SARBANES. My time is up, but I want to pursue just for a moment, Mr. Chairman.

There is a story in the *Washington Post* today entitled, "Iraq Is Ill Equipped To Exploit Huge Oil Reserves." The story develops, in part, on the basis of a report by the Council on Foreign Relations, spelling out some figures. And this story is sort of miles apart from what we're being told from the witness table. Now, you know, maybe this is all wrong, but somehow we have to get to the point where we have a set of facts that people are more or less agreed upon in terms of being able to evaluate the situation.

Mr. LARSON. Senator, I'll make two quick comments on today's story. First of all, with respect to the cost that it will take to get production up to the levels I indicated, 1.5 million barrels per day this summer, 2 million barrels per day by the end of the year, I put my faith in the people who are the ground actually assessing the physical state of the infrastructure. No one knew before they were able to get on the ground and take a look at these things exactly what had to be done and exactly what it would cost. Now the numbers that I have quoted to you today may turn out not to be right, but I think they are closer by a considerable degree than any estimates that were done at a desktop in New York.

The other piece of this article that I think was confusing is that many of the comments were sourced to the French oil company Total, and they were talking about what needs to be done to get \$5 billion or more new investment to develop new capacity. And those are important issues, but they are issues in my judgment that are not today's issues, they are issues that will only really become serious issues at the time we have a representative Iraqi government that is in a position to decide whether they want to increase oil productive capacity beyond what it has ever been in the past.

The CHAIRMAN. Thank you, Senator Sarbanes.

Senator BIDEN. Can I ask for a point of clarification? Daniel Yergin, from Cambridge that you referred to, he told us in the meeting that you and I attended that it would take \$5 billion, not \$3 billion, to get to 3.5 million barrels per day. Your statement says \$3 billion. We called to check. He said \$5 billion, not \$3 billion.

Mr. LARSON. If we misquoted the Cambridge study, we'll certainly clarify it, but I think Daniel Yergin would agree that any of these estimates are very approximate, there's a range, but if his point estimate is 5, we then we should change our testimony.

Senator BIDEN. Yes, but it's a 67 percent increase, or difference, so that's why I raised it.

[A follow-up to Secretary Larson's response follows:]

UNITED STATES DEPARTMENT OF STATE,
Under Secretary of State for Economic, Business, and Agricultural Affairs,
Washington, DC 20520-7512,
June 11, 2003.

Hon. RICHARD LUGAR, *Chairman,*
Committee on Foreign Relations,
U.S. Senate.

DEAR SENATOR LUGAR:

Thank you for allowing me to testify before the Foreign Relations Committee on economic restructuring in Iraq on June 4. As always, it was a pleasure to appear before the committee and to speak with you and your colleagues. I look forward to

continuing our dialogue on Iraq reconstruction as we move forward to support Iraqi efforts to undo the terrible legacy of Saddam's misrule.

Senator Biden asked a question about the numbers I had used in my testimony concerning the costs associated with raising Iraqi oil production to a rate of 3.5 million barrels per day. I cited a figure of \$3 billion for the Cambridge Energy Research Associates (CERA) annual conference in mid-February, but Senator Biden recalled that CERA has more recently used a higher figure of \$5 billion to reach that level of production. In response to his question, we have confirmed with CERA that they have in fact increased their estimate of the likely costs associated with raising Iraqi oil production to 3.5 million barrels per day. The new estimate is at the high end of their late-February estimate: \$5 billion, raised from the lower level I cited in my testimony earlier this week.

The fact that CERA's numbers have been updated reflects how difficult it is to project potential costs associated with raising oil production. Given the uncertainties, it is possible that CERA and other analysts will revise the numbers further. It is important to note, though, that even at \$5 billion, the resources required to restore Iraqi production to its highest historical levels do not approach the tens of billions of dollars being discussed in the media.

I also want to make sure you were aware that the State Oil Marketing Organization has announced a tender for the crude oil now in storage in Ceyhan, Turkey, and in southern Iraq, with bids due June 10. The first liftings should take place about a week after that. Restoring oil exports under Iraqi management sends a clear signal of progress to Iraqis and the international community and provides much needed financial resources for the Iraqi people.

Please contact me or my staff if we can be of further assistance.

Sincerely,

ALAN LARSON

The CHAIRMAN. Senator Alexander.

Senator ALEXANDER. Thank you, Mr. Chairman. I have listened to the four of you and I thank you for your testimony. My opinion is that your progress is impressive and specific, and it answers a lot of questions. I have three questions I hope to get in.

Mr. Larson, you just came back from France. The pictures looked good. The president seemed to have a one-day good visit there, but if I am not mistaken, France agreed to help with the reconstruction of Iraq, and what might we expect from France, and what could France do at this conference at June, for example? What might we expect from France as we look ahead, specifically regarding the Iraqi debt?

Mr. LARSON. I think that the G-8 meeting was a very important milestone in the process of reconstruction, because the leaders were able to discuss privately the challenge of reconstruction in Iraq. And in his concluding statement, President Chirac's concluding statement, he referenced the importance of this conference and the importance of working together on reconstruction for Iraq.

We believe that France is very important in two respects on donor issues. One, they are an important donor and contributor in their own right. And secondly, as a large member of the European Union, they will have a very very strong voice in determining the extent and way in which the European Union gets involved in reconstruction.

Finally, on the debt aspect of your question, the French do preside over the Paris Club, the institution that Under Secretary Taylor mentioned. Treasury and State represent the United States in the Paris Club, and as Under Secretary Taylor mentioned, we are pressing the issue in the Paris Club right now. At this stage it's

basically a data collection issue, but I think that everyone agrees not only with the point that if we cannot expect Iraq to be servicing debt, at least until the end of 2004, and I they at least privately would agree with Under Secretary Taylor's statement, that when the time comes, it's going to be necessary to get substantial debt relief to Iraq.

Senator ALEXANDER. Mr. Zakheim, let me take the discussion a different sort of direction. The administration now says we're there for a long haul. The committee seems reassured by that. I agree with that. However, not everybody is excited about that and one group are spouses of many of the men and women who are serving in our military. Last Friday, Senator Chambliss and I each held hearings in our respective states, and Senator Dodd and Senator Nelson will do so in the next week, and then we will have a joint hearing later this month on issues affecting military parents raising children. And what we have is more missions, longer deployments, fewer soldiers, a few more women in the service, more spouses working, and a lot of pressure on our volunteer army.

And if family readiness isn't in good shape, it affects readiness of our military. One witness before our subcommittee on children and families last week pointed out her great pride in her husband's work, but that they had a 17-month old daughter and he's been in Afghanistan or Iraq for 15 of the 17 months, and most of the time he was home, he was training with helicopters. He's a volunteer and he also volunteered for the marriage, but there is a lot of pressure there.

And I wonder as we think about the future in this long haul that we're all there for, we need to also be thinking, and I hope you're planning as a part of all this, how we—the size of our force structure and the length of our deployments, and how that affects military readiness by not putting too much stress on families.

Dr. ZAKHEIM. Senator, we certainly do that, and the best evidence of that is that re-enlistments are still very very high. We have probably historic retention rates. We are doing a number of things in terms of the pay and benefits that we are providing our forces. Thanks to the Congress, we are able to provide them with really healthy benefits and pay, not necessarily yet fully competitive with the equivalent in the civilian world, but certainly a lot closer than they were some years back.

Second, we are looking very carefully—and the Secretary of Defense has talked about this—at how we can realign—particularly reserve and active missions—or rather, the functions of the reserves and the actives. It turns out that there are some things that are almost uniformly reserve activities (civil affairs is a good example), because there was some sense in the past that this is what reserves ought to do. It is quite clear that this should not only be a reserve activity.

Of course of all our forces are voluntary, but in a sense with respect to the reserves, some of them were more voluntary than others, if you will. So we are looking very carefully at the missions

and the taskings we are giving to our reserves. Some of those might migrate over to the active force to provide a little more relief in that regard, so reserves are not deployed for excessively long periods. We are also looking at personnel tempo, which affects the active forces as well. The course we are taking is very much under advisement.

Senator ALEXANDER. My last question has to do with contracting authority. I want to make sure I have this right. We've got the resolution, the United Nations says the UK and the United States have the authority. There is an organization which you call the CPA, Bremer's in charge. He reports to the President; is that right?

Dr. ZAKHEIM. That is correct.

Senator ALEXANDER. He reports directly to the President?

Dr. ZAKHEIM. He does report to the Secretary of Defense.

Senator ALEXANDER. He reports to the Secretary of Defense, so he's not the President's representative?

Dr. ZAKHEIM. No, he is the President's envoy, but he reports to the Secretary of Defense.

Senator ALEXANDER. Oh. How does that work?

Mr. LARSON. This is very similar to the situation of an ambassador in another country. You know, the ambassador reports to the President through the Secretary of State, and I think this is similar.

Senator ALEXANDER. I will leave that to the President.

Let me get on down to the next level. The next level is, you had designated the Army to handle the contracts.

Dr. ZAKHEIM. Yes, Senator.

Senator ALEXANDER. So if someone wants to be a contractor for drinking water, for a variety of—for all contracts going into Iraq, they call the Army? Is that how you find out what to do?

Dr. ZAKHEIM. Well, what they do, the Army administers the contract.

Senator ALEXANDER. Who does the contractor call?

Dr. ZAKHEIM. The contractors will go to the CPA. That is their address.

Senator ALEXANDER. Where is the CPA?

Dr. ZAKHEIM. That is Mr. Bremer's organization.

Senator ALEXANDER. So you call Baghdad?

Dr. ZAKHEIM. No. There are officials here as well. Contractors also work for AID, for example, and then AID puts proposals to Ambassador Bremer, so Ambassador Bremer and his staff in Baghdad are the ultimate authority deciding what is done, and then the various agencies.

Senator ALEXANDER. I don't want to overstay my time, Mr. Chairman, but I'm trying. I thought you simplified this and I'm now a little more confused. So what does the Army do about contracting?

Dr. ZAKHEIM. The Army is essentially managing the contracts; its role is simply to make sure that the contracts are drawn up properly and are audited properly. It is basically responsible for contract management. It will issue those defense contracts that it is executive agent for. The Army will not, for example, issue contracts that are issued by AID.

Senator ALEXANDER. So the Army only does Army contracts. I thought the Army was working for Mr. Bremer and the CPA.

Dr. ZAKHEIM. Yes, but the Army is the executive agent for the Defense Department and for the CPA.

Senator ALEXANDER. Isn't the CPA in charge of everything?

Dr. ZAKHEIM. Yes, it is.

Senator ALEXANDER. Well then, why wouldn't they be in charge of AID contracts?

Dr. ZAKHEIM. I will let the director of AID answer that one.

Mr. NATSIOS. The contracts that we let, we let 9 contracts, are AID contracts. They report to us, we spend the money, we are responsible, we are audited by the GAO, the Inspector General. All the money we spend is money that you the Congress appropriated. We do not have any of these other sources of money. All our money is appropriated money. The contracts are by AID, they are AID contracts, I am responsible ultimately as the CEO of AID.

We have a fixed set of things we are supposed to do that was agreed to by an inter-agency process beginning last October, and we are carrying these functions out. There has been one or two more things that were added along the way that we weren't planning to do, but the inter-agency process said we want you to do this, please do it, and whatever we are asked to do, we do.

Senator ALEXANDER. Thank you, Mr. Chairman.

Senator SARBANES. Mr. Chairman, could I ask one follow-up to that? Who makes the decision on whether these contracts are going to be non-bid contracts?

Mr. NATSIOS. For AID?

Senator SARBANES. Well, no, for anybody.

Mr. NATSIOS. Our contracts, we have one contract that's just for hiring some technical personnel people that we issued last October, I think we hired 20 people, and was not bid. All our other contracts are approved through what is called under the FARS, Federal Procurement Act, limited competition. This was done in January when there was debate before the Security Council as to whether or not other countries would endorse this, and so we were told by the inter-agency they wanted this done quietly within the confines of federal law. And we did it exactly according to the federal act and the FARS act.

A limited competition means you go to nine companies or eight companies. In the case, for example, of the engineering construction contract that Bechtel ultimately won, there were seven companies, the largest engineering and construction companies in the United States as prime contractors that were asked to bid. They bid. There were two final bidders. We asked for last best offer. We chose Bechtel because they had the lowest price with the highest technical review, and they were awarded the contract. But those were bid. They were bid using this limited competition which we also used, by the way, in Afghanistan and was also used in Bosnia.

It's a much faster process. Our process normally takes six months from the time you bid the thing publicly to the time you

award the contract. We did not have six months, we were told we have two months. I said then we must use a truncated process, which there is a provision for in the FARS, which is what we used.

Senator SARBANES. Did the military do the same thing or are you doing non-bids?

Dr. ZAKHEIM. The way it is going to work is that—and this is also in answer to Senator Alexander, so I can be clear on this. When there is a requirement by the CPA in Baghdad, the Army will be issuing the solicitations, contractors will respond, and then the Army, once the decision is made, will simply issue the award. Will the contracts necessarily be sole source? No, not necessarily at all. Again, it is a function, as Mr. Natsios said, of the urgency and the need.

Senator SARBANES. You have been doing primarily sole sourcing up to now; is that correct?

Dr. ZAKHEIM. There has been, as you just heard, an urgency there. We are caught really—.

Senator SARBANES. No, no, I understand Administrator Natsios' procedure and that seems to be in conformity with existing law and seems to retain a competitive bidding dimension, although circumscribed from what might ordinarily be the case in order to address the urgency of the situation, but it's not my understanding that that's what the Defense Department has been doing.

Dr. ZAKHEIM [continuing].—I'm sorry, sir, what do you think we have been doing? You've lost me here.

Senator SARBANES. Have you been following the procedure that Administrator Natsios was just outlining?

Dr. ZAKHEIM. What we have done, we have issued contracts, some of them sole source. Again, because some of the things that were needed, for instance supporting the ORHA people in Baghdad, were exceedingly urgent.

Senator SARBANES. Thank you, Mr. Chairman. I will pursue it.

The CHAIRMAN. Thank you very much, Senator Sarbanes.

Let me start the second round just by making an observation; you're welcome to comment. I have heard a discussion of the technical conference on June 24th with a potential pledging conference in September. This is an overall point of policy of our government; and it is important that we try to emphasize to other nations that we are all involved in the war against international terrorism, all of us. The Iraqi situation, as the President has stated on other occasions, is one chapter of that, but it is only one chapter. Afghanistan is another chapter. It is an ongoing story, and we do not know how many chapters we are going to have.

One part of it, which precedes the Mideast, is the problem of the leftovers from the Cold War with the Soviet Union. There are huge stores of weapons and materials of mass destruction that are potentially obtainable by terrorists. They could obtain them from other sources, but Russia and the United States have more than 95 percent of the stores. Already we have drawn the attention of the G-8 to that issue, both at last year's conference and in preparation for the G-8 conference this year, attempting to pin down what was an overall pledge at the time, that the United States was doing roughly a billion dollars worth of work in this area in threat reduction and other programs, and the G-8 would do a billion.

Throughout the past year, some of us, as we have visited with the British and the French and others, have been asking how much are you going to do? They began thinking about it, and began to put some figures on this. We've had a hearing or two here. I believe Mr. Larson was in one. Ideally you would have a chart with 10 years of projects. Countries would be invited to take on projects in terms of their own self interests and geography. For example, tactical nuclear weapons or Russian submarines that are not strategic but, nevertheless, would foul up the waterways of the northern seas in a big way and so forth, would be an important objective.

In any event, together we are moving toward cleaning up the materials and weapons of mass destruction, the fissile materials that might be a part of this intersection of fissile materials and terrorists, would be the final bottom-line existential event.

Now Afghanistan is an important part, and Dr. Zakheim has said there have been pledges made. We have heard testimony that some of the pledges have not been kept as yet, or at least there has been some reticence in being forthcoming with the monies that we might have anticipated. Maybe they felt we were too reticent, that our plans were not comprehensive enough for Afghanistan. Ours are becoming broader. The involvement of NATO certainly is a breakthrough for that organization as well as our overall diplomacy with European countries.

I sketch all this because I think it's relevant to whatever you're going to talk about on the 24th of this month and subsequently. This is not simply a cafeteria course on whether you want to sample Iraq and get a little bit here and there. It is really a question of our overall diplomacy in getting an idea out there that the intersection of terrorism with weapons of mass destruction, is a potential existential event for all the participants, not just the United States. This was not just an idea in which we became aggressors and decided to become universal enforcers and so forth.

We have suffered here. Other countries have too, but maybe not in the same dramatic way. They might sometime unless we all work together and round up the rest of the terrorists. There are a good number of things that we are doing. I hope that is the context for the conference you are preparing for and for whomever will represent the United States at this conference. It seems to me that that's the kind of context we're going to have again and again as we approach these issues.

Otherwise, whether it's debt servicing or who contributes this or that, or what have you, it becomes an ad hoc matter of the moment; and that really won't be good enough. We will be back again in this conversation in which people ask Senators representing Americans, how much are we doing, how much are others doing, and how much are we asking others to do?

Now if the thought is, do as much as you can, make your best effort. That isn't good enough. Ultimately this entire situation is going to falter through mistrust of others, whether they are allies or whether they just happen to be other countries in the world that might be affected by terrorism. So I just ask any of you, do you generally agree that this is a reasonable context and if so, is that the way you're approaching it?

Secretary Larson.

Mr. LARSON. Thank you, Senator. I think it is, and in answering, I would like to commend you for all the leadership that you have shown on the issue of the Global Partnership and cooperative efforts to reduce the threat posed from these materials left over from the Cold War.

This provides, I think, an excellent example of what we are trying to do. As you indicated, last year at the Canada G-8 summit, we were able to push through after a great deal of diplomacy and effort, a plan that really was sometimes called 10 plus 10 over 10. In other words, to get a commitment for \$20 billion over 10 years, of which the United States might provide half. At this most recent G-8 summit yesterday and a few days before, there was a reaffirmation of the commitment of the G-8 to that plan. We were able to bring in some additional partners, Norway, Sweden, Poland. So we are growing this out from the G-8 so it isn't just a G-8 initiative.

I think it is a good model or template, but to be able to get that sense of commitment to other countries to a share of a global effort, we first of all had to get them to accept that it was a global effort, and I think the Security Council resolution and the G-8 statement of a few days ago will be very helpful in that regard. We had to give them a sense of what the magnitude is. We had to give them a sense of the \$20 billion as being a rough estimate of what really ought to be done over the next 10 years. And then we had to get into the hard work of convincing countries that they needed to do their share of that.

We do have a similar idea here. It's just that if we had started with our partners with the \$10 billion, we need you to contribute \$10 billion without having laid that foundation beforehand, we wouldn't have had the success that we did on the Global Partnership. And so, here in the case of Iraq, I think we need to follow much of the game plan that we followed on the Global Partnership.

The CHAIRMAN. I appreciate that response. It implies of course that we are able to furnish to them a construct that you're trying to provide for us today of the budgets, the cash flow, the other aspects that indicate why we are doing what we're doing and why we are anticipating that they would want to do their part.

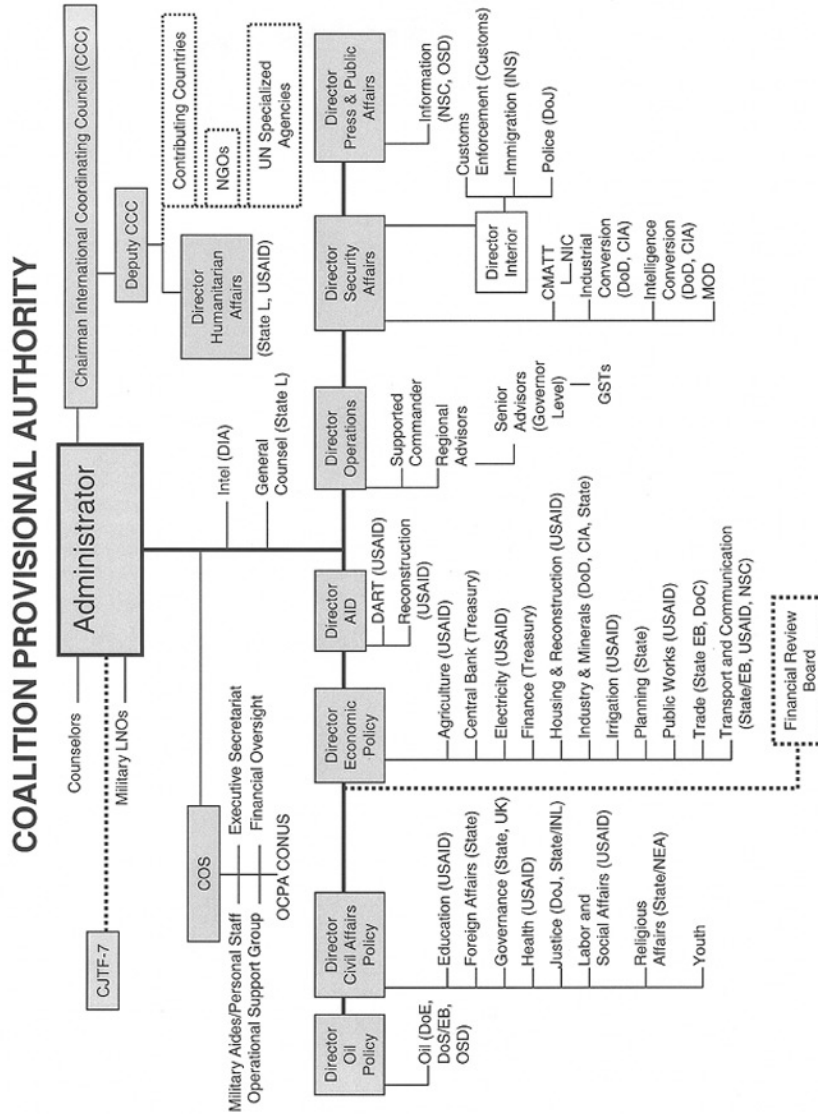
Senator Biden.

Senator BIDEN. Thank you very much, Mr. Chairman.

Gentlemen, there was an Office of Reconstruction and Humanitarian Assistance organizational chart, that is obviously no longer relevant. Is there a chart we can submit in the record as to who reports to whom and so on? Is that available?

Dr. ZAKHEIM. Certainly, Senator, and it is actually a combination of charts so that there is more clarity, and we will certainly submit it for the record.

[The following chart was submitted by Dr. Zakheim on August 8, 2003.]



Senator BIDEN. I appreciate that. Secondly, one of you and I can't recall who, I think it was you, sir, indicated that a national budget is being prepared for Iraq. Who's preparing that budget?

Mr. LARSON. I will take the first crack at this and maybe Under Secretary Taylor may be able to amplify, but as Under Secretary Taylor indicated, Peter McPherson is working with Ambassador Bremer as the key person in Baghdad.

Senator BIDEN. Does he work for Bremer?

Mr. LARSON. Yes.

Senator BIDEN. Okay.

Mr. LARSON. And a main part of his job is really to prepare, in consultation with the Iraqis and with the other parts of the Coalition Provisional Authority, a notional budget. Because it's through that budget that one can identify what the immediate and investment needs are.

Senator BIDEN. I'm not trying to cut you off, but you said a notional budget?

Mr. LARSON. Well, what I mean is that you are going to have to accept, we all are going to have to accept that in the first instance, this will be a rough and ready budget, because—

Senator BIDEN. But it will have numbers?

Mr. LARSON [continuing]. It will have numbers, but it's the sort of budget that if you scratch it too deep, any of us would be able to raise questions about it, and he understands that.

Senator BIDEN. Got you.

Mr. LARSON. That has to be a starting point for coming to the international community or anyone who wants to be a part of this to see what the priorities are.

Senator BIDEN. When is that budget due? What's the time frame?

Mr. TAYLOR. Let me add a few things about it. There is not a set deadline for this, but the meeting in New York is an important event to have as much information for that. What you have been hearing from us in this hearing are pieces, some different sources of funds from the assets, from the oil, and the budget that's being put together by our team in Baghdad working for Ambassador Bremer is the government's budget, and the government's budget is the salary payment, the payment to teachers, et cetera. But broader than that will be the whole budget for reconstruction, which is going to include whatever it has to do for roads, hospitals, et cetera.

And both of those are being done. There is actually a lot of work on it going on right here in Washington.

Senator BIDEN. How many Iraqi ministries are there? You know, when we sit down and do our budget, I think we can make that comparison, we have certain functions, we have 13 appropriations bills. I mean, how many ministries were there and how many ministries are we attempting to maintain? Not the personnel, but is there a ministry for education, a ministry for transportation? How many ministries are there?

Dr. ZAKHEIM. I know that there were a total, I believe, of 24 ministries before the war. Some of those ministries are not going to be stood up as quickly as others. The Ministry of Defense obviously is a later one, agriculture is probably an earlier one. My understanding, and we will get you an answer for the record on that, is we are talking initially about a half dozen more technical ministries that will be ramped up earlier to deal with some of the more immediate, or what you might say less national security types of problems like defense or intelligence.

[The following information was submitted by Dr. Zakheim on August 8, 2003 in response to Senator Biden's question:]

Dr. ZAKHEIM. Prior to the war, there were 23 ministries. As part of the restructuring of the Iraqi government, it is anticipated that four of these ministries will be dissolved due to their past history of abuses or misuse. These include the Ministries of Intelligence, Information, Higher Education and Scientific Research, and the Military Industrialization Commission.

Senator BIDEN. Are there ministries that you would consider functioning? Not that we should or shouldn't, I'm just trying to get a sense of what's on the ground. What ministries are up and running now, if any, and which ones are the priorities to get up and running? Agriculture, you said is one. Can you tell us which ones?

Mr. TAYLOR. I can tell you the Central Bank is up and running and that's important. These economic ministries we want to move very quickly on.

Dr. ZAKHEIM. Regarding the Agriculture Ministry, they are bringing back the civil servants. Obviously the more senior the civil servants, the greater the problem; because these people got to the top as part of their connection to the old regime. Then there is a problem with just getting the buildings up to speed because some of them were destroyed.

Senator BIDEN. I'm just trying to get a sense of the time line. January 1st is the date that every witness has basically said from the Defense Department on, that is really the time, though there was a lot of preliminary planning before that, the administration began to really focus on the reconstruction of Iraq after Saddam is gone. And one of the things that we had heard in this committee and in our private conversations at the White House as well as State and other places, was that there was a game plan that existing ministries were going to be able to be preserved, if you will, because there were very well educated civil servants who were competent, who were within those various ministries. And once you got rid of the bad apples at the top, so to speak, they would be able to get functioning relatively quickly. Or at least that was the expectation in November and December of last year—that we had assigned counterpart persons from departments in the United States.

So there were Department of Education people from the United States named and assigned to help get up and running the Department of Education, if there is such a department stand-alone in Iraq, and there were going to be some from the Department of Agriculture, et cetera. So we were going to take American personnel who were going to be the de facto ministers functioning, getting these agencies up and running.

I would like, since my time is up, for the record, to know what ministries there are that you believe that are, that exist in Iraq, what American counterpart personnel by name have been assigned to those ministries, what their functions are, and what the needs that remain are as you're assessing them now, so that we get, or at least I get a sense of how this is going to be stood up, how we're going to deal with this.

I know my time is up, but I would also ask Mr. Natsios, for the record, you had identified on February 19th, in a vision statement, benchmarks and a range of sectors in Iraq for reconstruction. If you could update those for us, it would be very very helpful. And I realize this does not cover the problem we would all agree is maybe the most important thing that's going to hold it all together, what

the transition government is going to be and who is in charge of doing that and how that will be stood up, et cetera.

But one of the big pieces is the reconstruction of the justice system. Who would be the person, if we wanted to get the most knowledgeable person in the administration to talk about the state of the existing Iraqi justice system, what plans we have, preliminary or otherwise for reforming or getting that system functioning, who is the person we should talk to? Who do I pick up the phone and call? I'm not being facetious now. I'm trying to get a sense of who is in charge of the justice system, the justice department for Iraq.

Mr. NATSIOS. Can I answer your earlier question, Senator?

Senator BIDEN. Yes, you can. Does anybody have a name for who that person is? Okay, so we don't have it. Mr. Natsios.

Mr. NATSIOS. There is someone, I just don't know his name.

Senator BIDEN. Oh, okay.

Mr. NATSIOS. We were asked to make functional, and when I say functional, many of these ministries were looted and so there was nothing there. We were given a list of the five essential ministries, five or six, one of them was the Central Bank, which is not a ministry.

Senator BIDEN. Can you tell me what they are?

Mr. NATSIOS. Justice, finance, trade. Now, I will explain why trade is important. Irrigation and agriculture, and the Central Bank. There is, I think one more, I just can't recall from my memory what the other one is.

What we were asked to in AID, and we have done, is put together what we call—and we did this is Bosnia, Kosovo, Afghanistan—ministries in a box. We buy the computers that are put in the network through the whole system, we put up the electric lights. Many of the ministries in Kabul had the roofs blown off, so we repaired the buildings. We bought fax machines, we made the phone system functional, all of the office equipment that you need to communicate. The materials you need, the desks and that sort of thing. We repaired the buildings so people could function in them. And so, that's one thing we did.

The second thing we did is through our contracts put in place, if it was necessary, the training of people in certain disciplines. Now, there is a controversy in the education ministry. We went in and said we really are not enthused about the way in which subjects are taught in schools, highly authoritarian, very propagandistic, a problem with textbooks, the way the teachers were trained. So we went in and said we want to retrain your teacher force, which is one of our benchmarks.

The initial response was we don't need any retraining, we like this the way it is. We said well, we don't like it, and we're going to work with you. We had a long debate and once the senior people were removed, the people at the school level said we want the training, help us. So we're now at the point where we're designing a curriculum to retrain the teachers, and the mid-level people who were not really drawn into the Ba'athist party.

So that's the capacity building part of our job. We don't appoint the people who run the ministries, that is another division of CPA that Ambassador Bremer appoints, and they report to him, but we

do the capacity building and the making of the functions so the place can run.

The trade ministry is important for this reason. You may ask, why are we doing the Ministry of Trade? They run the food distribution system, and without them we can't set up the 44,000 distribution sites for people to get the food that people depend on. So, the most important ministry is trade, because people have to eat.

Mr. TAYLOR. If I could just add a couple sentences to Senator Biden's questions. In the case of the Finance Ministry, our people are working with the civil servants in that ministry and have been from the day they arrived. And they've had to work on how the payment system is working, and they are actually functioning quite actively.

Same with the Central Bank. They are engaged with the people who have been employed for 30 or 40 years in the Central Bank, very qualified, dedicated people. They are thinking about the currency and what monetary policy should look like. So that's all going pretty much along the lines of what we indicated we were thinking about last January, at least with respect to these economic issues.

Senator BIDEN. That's all I want to know, how each and every one of the ministries is working, relative to the way you just described the Central Bank.

Mr. NATSIOS. Could I just add one thing? Senator, we will have to you the updated benchmarks. We adjust them every two weeks and we do have a chart with all these benchmarks on it and dates, and the last time it was updated was two weeks ago, it's time for another update, and we will send that to you.

Senator BIDEN. I appreciate that, thank you.

The CHAIRMAN. I want to recognize the three senators who are here for the second round. My hope is that the hearing will conclude in roughly 21 minutes or so. We will obviously have leeway, as there are important questions and answers. That's the purpose of this hearing.

Senator Hagel.

Senator HAGEL. Mr. Chairman, thank you. Dr. Zakheim, for the record, let me—I have a couple of excerpts, one from a May 20th press conference with Secretary Rumsfeld and the Chairman of the Joint Chiefs of Staff, General Myers, and this is General Myers speaking: "We continue in that broad range of security and stability operations and to support the increasingly effective humanitarian operations in Iraq, as the Secretary said. We currently have some 150,000 U.S. troops in Iraq. Approximately one-third of those forces are in and around the greater Baghdad area."

Two days later, Doctor, at this hearing as a matter of fact, with the Deputy Secretary of Defense and the Vice Chairman of the Joint Chiefs of Staff, General Pace, our colleague Senator Sarbanes asked this question, and I quote from the transcript. He asked this question to General Pace:

Senator SARBANES. How many U.S. troops are in Iraq now?

General PACE. 145,000, sir.

Senator SARBANES. Ah-ha. And are we expecting to increase that number?

General PACE. The number is being increased as we speak, by about 18,000 with the arrival of the 1st Armored Division and then beyond that, there are no current projected deployments.

Senator SARBANES. So, we're going to go up to over 160,000?

General PACE. Potentially, sir, although some of the troops that are there now, the ones who did all the fighting earlier, as General Franks sees the opportunity and the security environment allows, he will bring home who got there first.

I wanted to make sure that's on the record so there is no question about what's classified and what's not classified.

Dr. ZAKHEIM. Senator, you are absolutely right. I saw those numbers on a classified document and that is why I told you what I told you. I asked my staff whether in fact the actual numbers were unclassified, and I have an answer for you. As of yesterday, sir, U.S. forces in Iraq, just over 146,600. You also asked me about the British forces. As of yesterday, sir, British forces in Iraq, 13,000.

I was not trying to obfuscate at all. What I saw was a classified chart. The numbers are not in this case.

Senator HAGEL. Thank you very much.

Secretary Taylor, Secretary Larson mentioned, as you did generally, the Paris Club, negotiations or responsibilities that we are going to have to work our way through, for all the reasons you both understand. Are there currently plans now underway to organize a Paris Club meeting to deal with the debt that Iraq now holds?

Mr. TAYLOR. The Paris Club representatives met and discussed the first task, which was to collect the data on that as best we can for the Paris Club members, and that has already taken place and it's underway. Since there is debt held by countries not in the Paris Club, we have asked the IMF to do the same kind of activity, to go to the countries and ask what kind of debt do you have. And then third, since we want to get information from the perspective of Baghdad, our people on the ground are working with the records to see what their records are of the debt that they owe.

So that is what's underway now, and as soon as we get some clarification, better estimates of the size of the debt, then the actual discussions of how much of value will be reduced and who participates and that actually, the dates for that have not been set at this time.

Senator HAGEL. But that planning is underway to set the date and to take it to the next step to try to resolve?

Mr. TAYLOR. There certainly is a plan to take the next step as soon as we get the information.

Senator HAGEL. Okay, thank you.

Secretary Larson, did you have something to add to that?

Mr. LARSON. No, sir.

Senator HAGEL. A question on the issue of oil. Does anyone at the table know what our position, the U.S. government position would be on advising the interim authority or government or whatever comes at some point in Iraq, what their position should be regarding membership in OPEC? Get out of OPEC, stay in OPEC, have you thought it through?

Mr. LARSON. I think that we are very aware of the fact that oil and nationalism are very closely intertwined in Iraq and that we will want to make sure that any decision on their future participation in OPEC is a decision that the new representative government takes. I'm sure that our team on the ground will be able to help them think through some of their options.

If I could just add quickly in response to Senator Biden's question earlier, that we do have a very functioning administration in

the oil ministry as well, because as I mentioned, Mr. Ghadhban and including many well qualified Iraqis. They are doing a strategic review of the options for the oil sector and the contribution it can make to the economy.

We will have to evaluate, Senator Hagel, that question, but I think it's one where we need to be careful not to be seen as steering them, because it does need to be seen as a decision they make in the interest of Iraq.

Senator HAGEL. This certainly could have a bearing on previous questions about oil pricing and how much they increase production, and all that are going to have an impact on revenues coming from oil in Iraq, which you all know. Anyone want to add anything to what Secretary Larson said?

My last question goes back to the Iraqi military situation, high unemployment, problems that we have because of that unemployment, obviously spilling over into social issues. Who can explain to this committee the plans we have in place to deal with that issue, the Iraqi military unemployed, out on the street, eventually will cause a lot of trouble, and some trouble is being caused now. But what are our plans to deal with it?

Dr. ZAKHEIM. As you know, Ambassador Bremer has made it very clear that because as you say, some of them are being troublesome, he is not going to bring back the wrong people or address them in the way they perhaps would like to be addressed. Clearly, it just adds to the unemployment problem and it goes back to the overall economic recovery of the country. At some point, of course, there will have to be a reconstituted Iraqi military and some of the former military may well be requalified. It really depends on what they did before. The more senior people, are less likely to be requalified, the less senior ones are more likely to be. But at this stage of the game, I think it is a little premature for me at least to speak about how that military might be restructured when we still have our operations that we conduct.

I would reemphasize what Ambassador Bremer has said; the fact that they are unemployed and the fact that some of them are noisy about it should not in any way deter us from getting the wrong people out of uniform and doing it as soon as possible.

Senator HAGEL. Well, in the interest of time, I will not pursue that, but yes, Mr. Natsios?

Mr. NATSIOS. We have found in the aftermaths of conflicts and civil wars that if you don't get young men working, and I don't mean senior officers, I mean young men, we have trouble on the streets. So we developed a set of mechanisms through our Office of Transition Issues, OTI, to do mass employment programs. In a country like East Timor, we recruited a third of the work force through these programs. They don't pay a lot of money, \$2 a day, but for many of these countries, that is a living wage.

We started these programs three weeks ago, and the first one was Sadda City, which is the poorest slum area in what used to be called Saddam Hussein City, but it's a Shiite city and they hated him so much, the first thing they did was to change the name. It was full of, and this is not garbage from the conflict that wasn't picked up, it has been like that for years and years—old trash, garbage, trash; it was just very depressing. So we decided

to make that our first mass employment program. We employed 16,000 people, I think it was \$2 a day, to begin a mass cleanup of the area. It was a huge morale boost for the city, which had been completely neglected for a very long period of time. I think 180 trucks left with the garbage and the trash and the refuse from years on the first day alone, and there has been this very big community uplift that has taken place there. I think we are in four other neighborhoods now of the city, and we will be extending these mechanisms throughout the country in order to get particularly younger men off the streets.

Senator HAGEL. And this includes former military?

Mr. NATSIOS. It does, but it's not the officers. We don't employ those people, and they tend not to want to do a lot of physical labor; I just wanted to say that.

Senator HAGEL. Thank you very much.

Dr. ZAKHEIM. Senator, just to add and amplify, because of your question, we in fact have in the solicitation phase, which means we are very early on, we are soliciting contracts for retraining and reshaping the Iraqi military. Now again, it is early, we are just soliciting the contracts. By the way, in response to an earlier question, while we did have sole source contracts before, the new contracts are all being competed because the kind of FAR regulations that justify sole source as a compelling activity, are not as applicable now. So we are soliciting contracts, we are going to compete on those contracts, and that will include developing, retraining and supplying the army. Obviously it is too soon to determine who will actually be brought in, but there is a process in train that goes hand in hand with what AID is doing.

Senator HAGEL. Thank you.

The CHAIRMAN. Thank you, Senator Hagel. Senator Sarbanes.

Senator SARBANES. Thank you, Mr. Chairman, I just have a couple follow-up questions.

I'm glad we clarified this level of the military. I was very much taken aback when I arrived at the hearing to hear Senator Hagel asking you about that and being told that the figure was classified. I take it that means that you were not aware either of Secretary Rumsfeld's statement or those of Deputy Secretary Wolfowitz before this subcommittee; is that correct?

Dr. ZAKHEIM. At the risk of saying it is not correct, it is not correct. As I mentioned when I answered the original question, the numbers change. I had seen a number on a classified chart. I did not feel that I could reveal that. I checked that, and the numbers I provided, 146,000 for us and 13,000 for the British, 146,006 actually, are as of yesterday, so that is the most up-to-date number. I wish again to emphasize I was not trying to obfuscate or fail to give a straight answers to straight questions.

Senator SARBANES. How can we avoid drawing that conclusion when we have both the Secretary of Defense and the Deputy Secretary of Defense publicly giving us figures and then have you come in and say that the figure is classified?

Dr. ZAKHEIM. Again, because the number I saw, and the numbers do change daily, was on a classified chart. I gave you the number as of yesterday.

Senator SARBANES. On your bidding process at AID, for what duration do you give those contracts?

Mr. NATSIOS. The contracts we did were 12 to 18 months, not all of them. There were some shorter ones. I think the personnel one was for 3 months or something like that, but the longest one was 18 months. I can get back to you, Senator, with precise dates for each one.

Senator SARBANES. I wanted to lay the basis for my question to Mr. Zakheim. It's my understanding that some of the contracts the Defense Department gave on a sole source basis—none of your contracts were sole source, were they, in the AID?

Mr. NATSIOS. The personnel contract, that small one. Other than that, no, they were not.

Senator SARBANES. My understanding is that the sole source contracts that were given by the Defense Department have a multi-year duration to them; is that correct?

Dr. ZAKHEIM. As I understand it, they are 90-day contracts with 90-day options.

Senator SARBANES. The previous ones you gave were 90-day contracts with 90-day options?

Dr. ZAKHEIM. That is what I am being told, 90 days and then 90-day options, so we are talking about a total of 6 months if the option is picked up.

[The following information was submitted by Dr. Zakheim on August 8, 2003 in response to Senator Sarbanes' question:]

Dr. ZAKHEIM. Virtually all post-war Iraq contracts awarded by DoD were short duration (e.g. 90 days) sole-source contracts with 90–180 day option periods. DoD's present objective is to transition all post-war Iraq contracting, wherever possible, to full and open competition. Federal Acquisition Regulation 6.302–2, *Unusual and Compelling Urgency*, was cited as the rationale for the initial sole-source awards. Even in such cases, senior executive approvals are required to fully document any sole source awards, and that all "agencies shall request offers from as many potential sources as is practicable under the circumstances."

Senator SARBANES. Well, I'm looking at a New York Times story of April 11th. The Pentagon contract given without competition to a Halliburton subsidiary, that's Kellogg Brown & Root, to fight oil well fires, is worth as much as \$7 billion over 2 years.

Dr. ZAKHEIM. That is if all the task orders are picked up. We have actually spent a few tens of millions of dollars and what they do in any event is called in the terminology wildcat, and that is for contingencies anywhere, it is not just for Iraq.

Senator SARBANES. Well, was it a two-year contract or a 90-day contract?

Dr. ZAKHEIM. The contracts specifically for work in Iraq that were let specifically for Iraq are 90-day contracts with 90-day options.

Senator SARBANES. What about this contract?

Dr. ZAKHEIM. That is a contract that is not purely for Iraq, it is worldwide. It is based on a series of contingencies that might take place and then we pick up task orders. We let lots of multi-year contracts. This is by no means the only multi-year contract.

Senator SARBANES. Do you let a lot of multi-year contracts on a sole source basis?

Dr. ZAKHEIM. No, sir. What I am saying is we generally let a lot of multi-year contracts.

Senator SARBANES. No, no, no. It's not responsive to the point we're pursuing to say to me that you let a lot of multiyear contracts if those contracts were being let on a competitive basis. That's not what I'm pursuing. Do you let a lot of sole source contracts on a multi-year basis?

Dr. ZAKHEIM. We let some sole source contracts on a multi-year basis. This is not the first of its kind, no, sir.

Senator SARBANES. Why don't you submit something to the committee that develops that?

Dr. ZAKHEIM. Certainly. I am told that even this one was competitive within the contract as well, but I will get you something that clarifies it.

[The following information was submitted by Dr. Zakheim on August 8, 2003 in response to Senator Sarbanes' question:]

Dr. ZAKHEIM. Halliburton-Kellogg, Brown & Root (KBR), was awarded the competitive Logistical Civil Augmentation Contract (LOGCAP III) in December 2001. LOGCAP III is the third competitive multi-year award for U.S. Army logistical support. DynCorp Corporation was awarded the previous multi-year contract award from 1997-2001.

LOGCAP III, as presently written, is a ten-year Task Order Contract, with a one-year base period, and nine one-year options. There were five bidders on the 2001 contract awarded by the U.S. Army Support Command, Rock Island, Illinois. Funding on this contract is by task order.

In late May, the U.S. Army issued a LOGCAP III Statement of Work (this will result in a new contract task order) to provide logistics support for up to 110 thousand personnel in Iraq (for a three-to-five-year span). Internal Government budgets are approximately \$1.0 billion for this new work.

A separate task order was executed in November 2002 under the above competitive LOGCAP III contract. This task order required KBR to develop an Oil Restoration Contingency Plan. This plan included extinguishing oil well fires; capping oil well blowouts; and assuring continuation of the operations of the Iraq oil infrastructure.

The Oil Restoration Contingency Plan resulted in a new contract solicitation. KBR was the sole-source, contract awardee for this new work. This sole-source award was for one year with three one-year options, and was based on the U.S. Army's determination that KBR was the only contractor that could commence and deliver this complex Contingency Plan on extremely short notice. Total contract value (cost plus award fee) is presently \$172 million.

Senator SARBANES. Thank you.

The CHAIRMAN. Thank you very much, Senator Sarbanes. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Larson, you really dialed in on the oil, and I congratulate you. You really know your facts and figures on this and where we are going. And as I look at it, and the cost and where we're going, am I right that if we generate, or if Iraq generates the 2 million barrels per day that you hope for by the end of the year and you get the \$20 a barrel, that's only \$40 million a day, and \$14 billion a year, is that about right, minus what it costs to produce it?

Mr. LARSON. Right. The rough estimate that I put in my written testimony was 14 to \$15 billion a year of gross revenues based on a lot of assumptions, including the ones you just gave.

Senator CHAFEE. That's a long way, if we keep 160,000 troops, that will cost about, according to the CBO, about \$40 billion a year?

Mr. LARSON. Yeah. And we believe that the funds from oil, the oil proceeds need to be put into this development fund for Iraqi use

for the Iraqi people. They are not contributed to the cost of keeping our troops on the ground.

Senator CHAFEE. So we are saddled with an enormous cost here, no denying that, just to keep 150,000, and it's actually going up, according to the testimony, up to 160,000 U.S. troops, and that the CBO estimates, I think \$200,000, \$225,000 per peacekeeper per year, and we're up to \$40 billion per year, without addressing any of the reconstruction. That's just peacekeeping, let alone getting the citizens away from the sewage filth, drinking water, and establishing schools, and other indications of order. As we look at it, how are we going to afford this?

Mr. LARSON. As some of the senators have said, which is the focus of these meetings, is that we identify the reconstruction costs and that we get a strong international support for that. It is to work together as well to get other countries to contribute to the cost of maintaining security over time. Dr. Zakheim has touched on many efforts that we have made to get on the ground support from other countries in this regard, and Poland is a notable example.

Senator CHAFEE. You don't dispute the math, though, about \$40 billion per year for peacekeepers?

Dr. ZAKHEIM. The CBO's estimates presuppose a certain level for a certain duration and there is just no way we can predict that. I think there were predictions before the war started that we needed more than 300,000 troops and that clearly was not the case. The predictions regarding how long and how many troops will have to stay are all over the place as well. I used to work at the CBO, and they make some pretty good estimates; but those estimates do not always bear out. I think it is fair to say that while the cost will be substantial, I do not know what it is actually going to be, and I do not think anybody can honestly tell you that it is going to be \$40 billion.

Senator CHAFEE. I don't know if any of you have an answer to this, but looking back, how we treated the United Nations and the Security Council probably was a mistake, and with these enormous costs, why should they help with this burden? They were opposed to it.

Mr. LARSON. I think one of the missions that we also have moved forward on is to build international support for the task that lies ahead. I think the United Nations Security Council resolution of a couple of weeks ago, which was unanimous, with only Syria not voting, was a very strong signal that the Security Council has said whatever differences there may have been in the past over Iraq, there is an assignment that the international community has that it can't shirk from, and that's helping the Iraqi people reclaim their country.

I think the announcement out of the G-8 summit was another sign that the major countries of the world have recognized this responsibility.

We have in the most recent Security Council resolution a framework for reconstruction that brings in the United Nations, it brings in the World Bank, and calls for other countries to play their part, and so we're going to use that as a foundation for moving forward.

Senator CHAFEE. There is a long way to go from expressions of support and contributing valuable resources. One of the testi-

monies, Denmark, the Netherlands, are committing \$100,000 here, a few million there, and I think probably what we can expect and assume is that we are going to be saddled with the cost unless any of you can dispute that, because looking back, certainly the Security Council and the United Nations wanted us to pursue the inspections and let the inspections process work before we embarked on this endeavor.

Mr. LARSON. I think Senator Lugar pointed us in the right direction by comparing this to what is now called the Global Partnership, which is designed to reduce the risk from chemical or nuclear materials left over from the Cold War from falling into the wrong hands. And there, the first step was to get everyone to agree that this is a problem, to get them to agree that it's a global problem, not just for the United States, and then to begin to set up a framework for working together to accomplish it. Because of the provisions in the international community that existed earlier this year about what should be done in Iraq, it has taken some hard work to get to where we are. We would agree with you, Senator Chafee, that having gotten the acquiescence or support of countries for the most recent Security Council resolution is not a guarantee of financial support, but it's an important milestone towards that, and it's our responsibility to use these needs assessments that are being developed, to have the Iraqi people through their representatives begin to make the case for the help that they need, not to recover from the war but to recover from 25 years of being oppressed by Saddam Hussein. That there will be a growing appreciation that this is something that countries have a moral responsibility to be involved in, but it will not be easy, I'm not trying to suggest that it will.

Senator CHAFEE. Just a follow-up on that. In the first Gulf War, by presenting our case accurately and with enough patience that we did get the Security Council, they did participate in the cost. I don't think that will be the case here because of the way it unfolded.

I just have one last question or note. Somebody mentioned the book about the Marsh Arabs. What was the book?

Mr. NATSIOS. It's called the Marsh Arabs, by Wilfred Thesiger, the last of the great British explorers, about his time from 1950 to 1957 with the Marsh Arabs.

Senator CHAFEE. And you recommend?

Mr. NATSIOS. I strongly recommend it.

Senator CHAFEE. Thank you, gentlemen.

Mr. NATSIOS. If I could just add, we have an update every day on our web site. It's called Iraq Humanitarian and Reconstruction Assistance Fact Sheet, and it has on it a chart of every country in the world that has contributed, how much, what it's valued at, and the current level is \$1,185,000,000. That changes each day or as people make further pledges.

The CHAIRMAN. That's an important announcement, because people may want to follow on the web site with running totals. These hearings are evolutionary; they move on from our testimony today to the actual facts.

Let me just indicate in conclusion, I think Senator Chafee presents a point of view that many Americans may have. There is

some pessimism out there. When we go out of this committee now, or to some other debate with questions about Medicare reform, prescription drugs for the elderly of America, and problems of shoring up Social Security and how to make "leave no child behind" work, these are very important issues for the American people. Although we are focused today on international relations and security in this committee, and these are paramount considerations for us, there are lots of others.

I am somewhat more optimistic. I take my cue again, playing off Secretary Larson's thoughts, that when the United States and Russia, say 12 years ago, took a look at the fact that the Russians had produced 40,000 metric tons of chemical weapons we could have taken the position, and some Americans did, that they made their bed, let them sleep in it, it's not a great problem, and all these things, it's their tough luck. It was a horrible stock, and the Russians had no money with which to destroy it, or likewise, biological things which are much more murky. Nuclear is quite obvious. Of course it's a pretty small world, and we came to the conclusion that it could be our bad luck too.

As a matter of fact, other countries may not have stepped up to the plate until the G-8 meeting that we have been talking about today in the same manner, but I think they do understand that. We had an agreement 12 years ago, and there is a recognition that there are disasters out there. Now Iraq is potentially that sort of situation and we're going to have to be successful. There really is no compromise in the event that we are not successful with the weapons of mass destruction, in getting them either secured or destroyed, nor is there any halfway option with regard to Iraq or Afghanistan.

Other nations may not come to this conclusion instantly. I appreciate the problems that you have as our negotiators, actually sitting at the table with them. Yet all of us really have to be on the same page in indicating that these are potentially existential events for them as well as for us, and that it's out there and it has to be solved, and that we are leaning upon them. Now they may not like that. It's not a popularity contest in terms of leadership of this sort, but it seems to me that more and more are coming to that conclusion, whether they like it or not, and they are beginning to see many of the same things through the same prism that we do.

It is tough going, and I think this committee appreciates that. I personally appreciate your testimony today, your response to our questions and your appearance. I hope that you understand the importance that we place in the oversight function and requesting these hearings from time to time so that we can all catch up, at least through our dialogue with the American people and with people around the world who may have some greater confidence in our system, complex as it is in coming to the right conclusions. I appreciate your testimony.

With that, the hearing is adjourned.

[Whereupon, the hearing adjourned at 12:40 p.m.]

RESPONSES TO ADDITIONAL QUESTIONS SUBMITTED FOR THE RECORD

Question submitted to Under Secretaries Larson (State), Zakheim (Defense), Taylor (Treasury), and Administrator Natsios (USAID) by Chairman Lugar

Question. We have just received the first OMB report dated June 2, 2003 on U.S. strategy and activities related to post-conflict reconstruction in Iraq, as required under Section 1506 of the FY 2003 Emergency Wartime Supplemental Appropriations Act, 2003. One of the questions raised by this report is how much has each cite agency requested to obligate out of the \$2.475 billion in FY 2003 funding, and how much has OMB actually apportioned and provided to implement the Iraq stabilization.

Can you be specific: to date, what are the amounts requested by each agency; what are the amounts already apportioned by OMB by agency; and how much has actually been transferred into each agency's account for obligation for Iraq stabilization and reconstruction efforts?

Response Submitted by Dov Zakheim, Under Secretary of Defense

To date, agencies have formally requested that \$616.1 million be made available from the appropriated Iraq Relief and Reconstruction Fund (IRRF) to implement Iraq relief and reconstruction activities. Three agencies have requested funding from this account: USAID (\$549.1 million), Department of Defense (\$66 million), and Department of State (\$.956 million). OMB has apportioned and transferred \$527.1 million to USAID. Of that amount, \$212 million was provided as reimbursements to USAID for activities in Iraq undertaken with non-IRRF resources. The remaining \$315.1 million was provided for reconstruction and transition activities. In addition to these appropriated resources, OMB has appropriated \$563.9 million in vested Iraqi assets to the Department of Defense primarily for salary and pension payments.

Response Submitted by John B. Taylor, Under Secretary of the Treasury

Treasury technical assistance began work in Iraq with two blocks of funding: A total of \$225,000 remained unused from the FY 2000 Treasury International Affairs Technical Assistance (TIATA) Program; and \$2 million that had not yet been committed to the FY 2003 TIATA Program. This gave the Office of Technical Assistance (OTA) a total of \$2.25 million in resources for use in Iraq. Congress was given informal notification of OTA's intent to use these funds in this manner with the understanding that the funds would be repaid from whatever resources OTA received for its work in Iraq. Use of these funds began February 19, 2003 when funds were obligated to advisor contracts. As of July 14, 2003 essentially all of these funds have been obligated, although spending continues against these obligations.

OTA forwarded the budget request for its activities in Iraq at a joint meeting with USAID at OMB on Wednesday, May 16, 2003. The request totaled \$6 million, broken down into the following categories: Ministry of Finance, \$2 million; Central Bank of Iraq and the commercial banks, \$1.8 million; Office of the Financial Coordinator, \$1.4 million. In addition, OTA requested \$.8 million to provide grant funding to the Financial Services Volunteer Corps (FSVC) to work on inter-bank clearing, the Baghdad Stock Exchange, and Iraq's insurance industry.

According to the agreed protocols for use of funds out of the Emergency Wartime Supplemental Appropriations Act of 2003 (P.L. 108-11), all budget proposals must originate from the Coalition Provisional Authority (CPA) in Baghdad. Therefore, OTA immediately forwarded its \$6 million budget request to the Program Review Board (PRB) of the CPA. OTA received notice that its request was approved by the PRB on June 3, 2003. The approved usage of the funds was subsequently approved by the CPA Administrator, Paul Bremer, and forwarded to OMB in Washington.

Since then, OTA has drafted a Congressional Notification (CN) and agreed the wording with OMB. This will be forwarded to Congress, today, July 14, 2003. Once the CN has lapsed, OTA expects prompt apportionment by OMB. When the funds are received, OTA will reimburse both the FY 00 and the FY 03 TIATA funds to the full extent that they have been utilized. The balance (\$3.75 million) will be spent in ongoing assistance projects.

In summary, OTA has requested \$6 million from the \$2.475 billion Emergency Wartime Supplemental. While none of this funding has yet been apportioned, we expect it to be done promptly after the lapse of the CN. OTA expects the transfer soon after the apportionment is made.

Response Submitted by Under Secretary of State Alan Larson

As of June 4, 2003, the Coalition Provisional Authority (CPA) has requested \$550.1 million and OMB has apportioned \$527.1 million of the \$2.475 billion appropriated to the Iraq Relief and Reconstruction Fund (IRRF) to the U.S. Agency for International Development (USAID).

Breakdown of Funds Obligated for Iraq Stabilization and Reconstruction Efforts,
As of June 4, 2003

(millions U.S. dollars)

	CPA/USAID	Dept. of State	Total
Request	\$549.1	\$0.956	\$550.1
Apportioned and Transferred	527.1	—	527.1
Not Yet Apportioned	22	0.956	23

CPA = Coalition Provisional Authority; USAID = United States Agency for International Development.

Questions for the Record Submitted by Senator Bill Nelson to USAID Administrator Andrew Natsios

RESTORATION OF IRAQ MARSHLANDS

Question. An important aspect of reconstruction will be the restoration of the Marshlands that were devastated by Saddam's destructive and inhumane policies. To restore the Marshlands we must have a comprehensive plan to change water resources management in the Tigris-Euphrates region. I understand the University of Miami's Iraq-Aware Project is a constructive proposal. The Project proposes to work closely with AID and other interested parties to develop a comprehensive framework for a long-term program to address the competing problems that are confronting the Marshlands drawing on extensive Everglades restoration experience. I further understand University officials have met with AID to discuss the Iraq-Aware Project. Are you aware of this project?

Answer. USAID has been researching marshland restoration and management since March 2003 and have met with several interested parties, including the University of Miami, to discuss a strategic approach and action plan. To prepare for the long-term program, USAID fielded a four-person technical team in June to conduct a rapid assessment of the marshlands. Team members included a social scientist, wetlands ecologist, agricultural specialist and a geotechnical engineer. They were joined on the field visits by national and district officers from the Ministry of Water Resources and scientist from the Marine Science Center at the University of Basra, the Iraq Foundation, and the AMAR International Charitable Trust Foundation which provides primary health care to marsh dwellers in Iran and Iraq.

At the time of the USAID meeting with the University of Miami, USAID encouraged the University to submit a proposal under the University Partnership program (Higher Education and Development (HEAD)) that could include marshland restoration and management.

Question. What is the plan for, and when will USAID hear competitive proposals for the Marshland Initiative, as described in CN #130, dated May 16, 2003?

Answer. The program is still in the design stage with the rapid assessment and strategic approach and action plan contracted under an existing task order. If this initiative is approved and goes forward, proposals will be solicited.

Question. Describe the process by which you are awarding contracts in Iraq for this and other projects.

Answer. USAID awards contracts in accordance with the Federal Acquisition Regulation (FAR), the rules that apply generally to all federal agencies. The Agency is responsible for the purchase of over \$2.5 billion of goods and services each year in the support of U.S. foreign policy goals in over 100 countries.