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**Presenter: Charles Hess, Iraq Project and Contracting Office; Bill Taylor, Iraq Reconstruction Management Office; Chris Milligan, USAID**

**Wednesday, January 19, 2005 10:00 a.m. EST**

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### Special Defense Department Briefing On Iraq Reconstruction

To view slides during the briefing: <http://www.defenselink.mil/news/Jan2005/d20050119slide1.pdf>

(Note: Mr. Hess, Mr. Milligan, and Mr. Taylor appear via teleconference from Baghdad, Iraq. Mr. Bryan Whitman is moderating the press conference in the Pentagon.)

MR. WHITMAN: Ladies and gentlemen, good morning here in Washington, D.C., and good afternoon in Baghdad, and welcome today.

We have a number of individuals that will be joining us. This is a -- kind of our continuing series to provide you with information on reconstruction efforts. Some of the individuals you know and have come to you not only from this briefing room but via the modern technology of satellites. And you'll note that Charles Hess, who's the director of Iraqi projects and the contracting office, known as the PCO, is there; along with Ambassador Bill Taylor, who's the director of the Iraq Reconstruction Management Office. And we also have Chris Milligan, who's the deputy mission director of the U.S. Agency for International Development. Each one of them is going to talk to you briefly about a few things that are on their mind, and then we'll open it up here for questions. I'll just remind you once again that while we can see them, they can't see you. So if you'd just go ahead and identify yourself, that would be helpful.

MR. HESS: Good morning. Good morning, Washington. This is Charlie Hess.

Last time I was in the Pentagon, on, I think, around the 15th of December, I spoke with you on what we've done basically for several months now, in terms of giving you a continuous update with respect to progress in terms of the Project and Contracting Office programs. And I'm very pleased tonight to have with me Ambassador Taylor and Chris Milligan to give you sort of a -- so we can give you a full, comprehensive picture on that, where the program is and how it's moving forward.

As you know, the center of gravity here and the focus certainly of attention around the world is on elections, and there's certainly a lot of anticipation leading up to that event here next week. And multinational forces are committed to assisting the Iraqi security forces in securing a safe environment for them to happen for the first time in four decades and all of our reconstruction efforts, so that they can continue as planned, certainly improving Iraq's infrastructure and the quality of life for its people.

General Casey, the MNFI commanding general, recently said this is a counterinsurgency campaign, and all of elements of national power must work synergistically to defeat the insurgency. Getting to elections and making sure construction projects proceed is critically important to helping meet the expectations of the Iraqi people -- to give people work, so they have a job, rather than a reason to join the insurgency. And the military element of power will do their part of this.

But if this is going to won, then it has to be won on the political and economic side. And that's the reason we're here tonight, to talk a little bit about that.

Since we last spoke, again, in December, our construction starts within PCO have increased from 1,167 to 1,578 starts. And the amount of the IRF monies apportioned and obligated are continuing on target. Also, the disbursement of those monies are continuing at a significant pace.

I know you've got some handouts back there that give you the facts and figures on all of those activities and numbers associated with the program, so I'm not going to dwell on that.

And so what we'd like to do here, essentially, I'll turn it over to Ambassador Taylor, let him have some opening comments, and then ask Chris Milligan to do the same, and then we'll be glad to entertain your questions. Thank you.

Ambassador Taylor.

MR. TAYLOR: Charlie, thank you very much.

We are glad to be here to talk about this. As Charlie says, the focus here is on the elections. In about 11 days the people of Iraq will go select a parliament, a national assembly that will write a constitution. This is a major development in the history of Iraq, and we are very excited to be here. We've got a major role to play, as Charlie has indicated.

What we've been doing since we last talked to you has been to focus on elections and focus on providing services and clear movement forward on infrastructure to the Iraqi people. In order to do that, we've been challenged by a security situation that's often difficult to operate in. And so that has suggested to us that we had to make some changes, and we've been doing some adjusting of our programs. And in general terms, we have been moving projects that would have shown up, would have provided results in a year or two or even three and moved them forward to now.

As an example, we have been focusing on four cities where the military has had some success. As Charlie indicates, General Casey's program is not just on the military side. General Casey and Ambassador Negroponte have a team that focuses on the military as well as on the economic and the political. Four cities have been cleared, if you will, in major cases, of terrorists, and following those clearances we've been moving in with reconstruction work. And in Najaf, in Samarra, in Thawra -- that is, Sadr City -- and in Fallujah, we've been moving projects from the far distant into the near term.

And so that's what we've been doing. Be glad to take your questions in a moment. But glad to have Chris Milligan of the -- acting mission director of USAID here in Baghdad.

Chris.

MR. MILLIGAN: Thank you, Ambassador.

I'm from the United States Agency for International Development. And since this is my first time attending these press conferences I thought I'd take the opportunity to provide you with a short background on what we're doing in Iraq.

USAID began working in Iraq in March 2003. Since then, we are administrating about \$5 billion in assistance through the first and second supplemental. We work across multiple sectors: infrastructure, essential social services such as health and education, economic opportunity, strengthening democracy, as well as emergency response to crises. To date, we have over 8,000 activities completed or under way. More importantly, most of our activities are generated at the community level. They're identified as priorities by Iraqis at the grass-roots level.

We look forward to continuing our assistance in the upcoming year and supporting the Iraqis as they work to improve their lives.

Thank you.

MR. HESS: Thanks, Chris.

We'd be glad to take your questions.

MR. WHITMAN: All right, we'll open it up from here, then.

Q Yes, this is Vince Crawley with the Army Times newspapers. You said -- could you give me some more examples of what projects you've moved forward to facilitate the elections? Are they just short-term jobs programs? Are there -- you know, I'm just trying to get an idea that I can get my hands around.

MR. HESS: Let me start, and then I'll ask Ambassador Taylor to add some commentary as well.

What we've done is we've taken a look at all of the projects that essentially provide the kind of community service that we were really trying to get through the IRRF program, to include things like short-term improvements to water supplies, water conservation measures; improvements to pumping stations and pumping plants that have not been necessarily effective in providing the kind of throughput and capacity that the population needs within Iraq. And again, those are projects that I think are the kinds of things we've looked at.

We've also looked at electrical projects in terms of transmission and distribution systems that we moved forward, as well as a substantial number of village road projects in terms of paving projects. Many of these roads in the villages were never paved, and what we're doing essentially is providing several hundred kilometers of new paved access road for the public in those communities.

Those are the kind of things that are susceptible to be easily moved forward, and in the case where we work very closely with the ministries to identify those projects, and that's specifically what we've done.

MR. TAYLOR: Charlie's exactly right. Just an example. In the electricity area, instead of working on large generation projects that, again, will take a lot of time to design and build and bring online, in particular in those four cities that I mentioned, in kind of the post-battle cities, we are focusing on hooking up businesses and homes, sort of the final -- the distribution of electricity, which also has the advantage of being able to be done by Iraqis, Iraqi firms. And this is an advantage not only for employment -- as you indicate, there are employment opportunities here -- but also, the ministries are able to work, and the ministries -- Iraqis doing it requires less security, which has been, as I mentioned earlier, a major problem.

MR. WHITMAN: Jim?

Q Jim Mannion from Agence France-Presse. Talking about security, what has been the impact of the intimidation campaign on your reconstruction efforts, I would guess mainly in those four cities, but wherever else you're operating?

MR. TAYLOR: Let me just do a little bit, and then both Charlie and Chris can describe the effects on their programs. But the security problems -- and that is, we're talking about intimidation, as you said, of workers, of truck drivers, of contractors taking its toll on people who work for USAID and PCO. What that has done has been to require more security. That increases the cost. It slows down the projects. What we need to do is focus on delivering the projects but with due regard for the safety of the workers.

On particular issues -- Charlie, do you want to --

MR. HESS: Thank you.

Let me just also amplify on that. The security not only impacts directly in terms of the necessity to provide security forces and security details associated for the contractors so they can do the work, but it also -- the insurgency also impacts the ability of us to produce the commodities necessary so that the work can be done.

For example, when the insurgents damage oil pipelines so that electricity can't be produced, that curtails the power to the branch plant so that you can't produce concrete. So you're going to have to do that in a less effective manner. And that increases the material costs.

So again, what I would say is that security not only has a direct impact but it also has the indirect impact associated with making things more costly to produce.

MR. TAYLOR: Chris?

MR. MILLIGAN: That's correct. But in spite of these constraints, we do have progress that is continuing across, I think, all agencies. And we continue to look for work-arounds in order to keep progress moving while addressing security concerns.

For example, this past month we've been able to get three water stations -- water treatment plants online and complete the work on some rehabilitation of the railroads in spite of the security conditions.

So it's required us to rethink our approaches, find work-arounds. It does create delays in some cases, but the important thing is that progress does continue.

MR. WHITMAN: Do you need to follow-up on that?

Q Yeah. I mean -- but overall, the effect, I guess, is that it has slowed the reconstruction effort, that they are succeeding in that regard or to that extent. Is that fair?

MR. HESS: (Off mike) -- said that we are succeeding. I think that is a fair statement, and I think the numbers of projects under way I think demonstrate that. Again, we're not doing these projects with a great expatriate presence; we're doing it using an Iraqi workforce that's committed to get the programs done despite of intimidation, despite of threats and real physical violence against them or their families. And so my hat is off, again, as I mentioned previously, to them and their families for supporting the notion of building a democratic state within Iraq. And clearly there are many, many people who are committed to that cause, and it's being demonstrated in the fact that we have 1,500-plus projects under way today with several hundred more probably

projected to be under way here by the end of the month, frankly. So --

MR. TAYLOR: The other thing to say about this is the security problem is not uniform across the country. In the northeast and in the south, security is pretty good. That's not to say there are no incidents, but it is -- it enables us to do work there, and a lot of the work that both Charlie and Chris are doing is focused in those areas. The security situation is not as good in the center of the country. And there, again, going back to these four post-battle cities, we were able to go back into Fallujah, where we couldn't work at all for the time when the insurgents controlled that city, and now we can get back to work in Fallujah. So it is geographically sensitive.

MR. WHITMAN: Let's go to Tony.

Q Hi. This is Tony Capaccio with Bloomberg News. I had two quick questions.

One, what is the bill right now looking like for Fallujah? When we talked I think it was two sessions ago it was roughly in the \$100 million range, Ambassador Taylor.

And I had a second question on U.S. contractors.

MR. TAYLOR: Yeah, on Fallujah, as you say, we started off looking at a -- somewhere in the vicinity of 100 million (dollars), both on the U.S. side and on the Iraqi side. And that's -- I want to make the point that the Iraqi government is playing a major role in the Fallujah rebuilding. That is likely -- that 100 million (dollars) is likely to go up, if for no other reason than we are looking at a compensation program, compensation program for people whose houses have been damaged, in some cases badly damaged, and the government of Iraq is looking to see how it can compensate those people to allow them to rebuild their house. So above the 100 million (dollars), I would imagine another 20 (million dollars) to \$50 million will be applied to Fallujah.

And you had a follow-up?

Q Yeah. This is on the Fallujah question. I asked you this a couple sessions ago, about the extent of damage from the conflict, and you were just going to Fallujah. In retrospect, was the damage a lot heavier than you had anticipated?

MR. TAYLOR: Yes, it was heavier than I anticipated. The damage was pretty severe. You've seen some of the footage from the city. There's a lot of work to be done. People are moving back in now; over 100,000, 120,000 people from Fallujah have gone back in. Some have stayed, not all. There is economic activity returning to the city. There is fresh fruit being sold on the streets. People are starting to repair houses. Electricity is starting to be restored. The water is started to flow again. The sewage is being moved out of the streets and yards. So the progress is there, but there was significant damage.

MR. WHITMAN: Right here up front. If we have time for another one from Tony, we'll get back to it.

Q Quick one. Last time -- this is Pam Hess with UPI. The last time we talked I asked how many of your contractors had been killed, and you said you'd look into that. And the second question I have is, could you please break down the 1,500 projects and the money that you're spending into the rough geographical regions of Iraq: say, the Sunni triangle, Kurdistan and the Shi'ite south?

MR. HESS: Yeah, we -- yeah, Pam, this is Charlie Hess. And you're right, I need to get you that number, because we do have that, I think, as part of our facts. And I'll ask Lieutenant Colonel Schnaible to get that and provide that to you here right after this session today.

In terms of the geographic dispersion of the projects, again, we can pull that together because we have that based upon our -- where the program is. Again, certain sectors, if only in certain areas, given the fact that oil only is -- the oil process and the oil production is only done in the north and in the south. So again, you're going to find some gaps there. But by and large, just to make a general statement, when it comes to programs that are sort of general in nature, like schools, health institutions, they're designed to be located where the demographics and the population is. And that's really the driving force on those kinds of institutions. Other things like railway stations occur where the railroads are and the major cities along the route that were pre-existing. So the renovation is being conducted there. And then ultimately, in the electrical sector, the distribution and the generation and the transmission lines are designed to provide a national grid, and that ultimately will provide, presumably once all of the generation capacity is there, suitable capacity for the entire nation if not a localized system. So -- but we -- but again, we can give you a geographic notion of how the projects spread out.

MR. MILLIGAN: On the USAID side, we have programs in every governorate. And as Charlie was saying, the infrastructure projects are specific to where the infrastructure is located. However, on our community development projects, which as I mentioned, are over 4,500, they're located throughout and equally distributed among every governorate in Iraq.

MR. WHITMAN: Let's go back there to Otto.

Q Otto Kreisher, Copley News Service. You know, unemployment's obviously one of the big problems there. Some think it's -- it'll feed the insurgency if people have nothing better to do. Any figures on how you're doing and what your projects' stimulating in employment, and is there any ripple effect of what your projects do that create domestic employment?

MR. TAYLOR: Yeah. We did try to keep track of the direct employment of our programs, on the PCO side, on USAID, on Corps of Engineers. And it's over a hundred thousand Iraqis who are working at it, and given time, at that the current -- my current number is about 108,000. It does vary, depending on the season. It varies depending on enemy activity. But we do take account, we do keep track of the... of the employment.

I would say, however, that the real benefit to employment is economic growth. And so if we can set the stage for economic growth not only on the infrastructure, on building the electricity infrastructure to allow shops to open and businesses to reopen, but also set the stage on the economic regulatory side, the investment climate, which will come once the security situation is better, then that's where the real source of jobs will be.

Chris, you have --

MR. MILLIGAN: An interesting aside to that is that throughout Iraq there are business registration centers, and last year, last calendar year, there were over 20,000 new businesses registered in Iraq. Now those businesses will be receiving assistance in USAID programs, in business deal management. There are programs that are training in -- employees in vocational training.

We're also providing assistance to the government of Iraq in economic development and economic transformation, strengthening the central bank, strengthening the banking system, and as -- and modernization of the economy and the regulatory systems as well.

So I think that it is good news that there were over 20,000 new businesses registered in Iraq last year. And that does provide some evidence of the economy growing and that there are -- there is spin-off and a multiplier effect for all the investments that are going on in Iraq.

MR. WHITMAN: Tony, we'll go back to you.

Q This is Tony Capaccio again, with Bloomberg. About a month ago we had an example of a U.S. company based in Arlington or Alexandria, Virginia -- I can't remember the name now, but The L.A. Times broke the story -- the company pulled out of Iraq, citing security issues and insurance premium issues. Was that atypical, or is that a concern that you have, that more companies will follow the example of this Virginia-based firm?

MR. HESS: Let me talk to that one. Yes, I'm familiar with the story and familiar with the company. And in fact what we had agreed as a result of the work that they were performing and where it was being performed -- that it was for a mutual benefit for us to try and do that work in a different mechanism than going through the design bill mechanism that we had established with them originally.

And so consequently this is one of those areas where -- again, that was in the transportation arena. Clearly, in Iraq, there is a substantive transportation engineering capability, as well as construction capability. And so, given the security environment, given the concerns about security, again, it was mutually agreed, and we worked this also with the Ministry of Construction, which is responsible for roads and bridges, to accomplish a lot of this work using local contractors. And again, that enhances our ability to promote the work being done safely, with less of a security cost and in a more timely fashion. And so that's the reason why we did that.

Q Sir, have you heard from other U.S. firms that they're contemplating pulling out, firms outside of transportation sectors?

MR. HESS: I have not heard of anyone else contemplating pulling out. Again, what we're working -- we are working with all of these firms that are doing design build work to make sure that their footprint and the size of their expatriate staff, their use of Iraqi firms and employees is considered as they accomplish the work, again, given the security environment.

MR. MILLIGAN: USAID has awarded over 45 contracting grants. And I agree with Mr. Hess; we haven't heard from any of the implementers about pulling out. In fact, they regularly take prudent measures. Many of them have operated in Iraq for over a year and so they're just -- when times necessitate, they act conservatively to move things forward, but no plans on pulling out.

Q Gentlemen, this is Pam Hess again. What is the national unemployment rate? We've heard figures as high as 60 percent. I'm not sure about that, though. And when do you expect to finish spending out the full \$18.6 billion -- or whatever -- I guess you have about \$12 billion in your accounts for that.

MR. TAYLOR: Yeah, on the unemployment, figures are suspect. We don't have accurate figures I don't think, yet. And USAID is actually working with the Central Statistics Office to improve their capability. However, what the CSO, the Central Statistics Office, tells us right now is the unemployment rate is about 22 percent. This is not inconsistent with what we've heard. The general sense is somewhere between 20 and 30; and 22 or 25 is probably a reasonable guess.

The second part of your question was --

MR. HESS: When will they spend the money.

MR. : How long will it take --

MR. TAYLOR: Oh, how long it's going to take -- thank you. Yeah, how long it's going to take to spend the money. The \$18.4 billion we've had for about a year, have been using about a year, and we have got under contract over \$10 billion of that \$18 billion. So \$10 billion of the \$18 billion under contract. And the rate of

contracting that PCO and that USAID increases, so it won't take us the full three years that Congress gave us when they appropriated these funds. When Congress appropriated the \$18.4 billion, they said you have to get it obligated within three years, and after a year, we're at \$10 billion.

MR. HESS: And the other point there is, based upon the projects yet to be started and some of the longer-lead projects, the reality is there will be relatively few projects left to construct after the end of this calendar year. In 2006 there will be -- I won't say a handful but there will be many, many less, many fewer projects, less to construct.

Q (Off mike) -- some clarification?

MR. WHITMAN: Go ahead.

Q Thank you. To the American taxpayer who are watching this, I think, closely, what matters is when that money is not obligated but when it's actually spent, because that means the project has been finished and the Iraqis are seeing some results and hopefully that will result in more stability. So could you put the end time on that, please?

MR. HESS: As far as spending, again, I think we will be in position to expend all of the funds by the end of calendar year 2006, and the reality is much of the expenditure will occur in this calendar year. Basically the large bulk of our projects will be accomplished within this calendar year.

Q Hi, it's Mike Mount with CNN. Just to go back to Fallujah quickly: General Sattler said yesterday that the electricity plants in Fallujah were up and running and a lot of the water plants were up and running as well but kind of alluded to the fact that a lot of the houses weren't actually receiving electricity yet because of the power lines down. Do you have a sense on how much of the city is actually receiving electricity, in terms of households or businesses, and what kind of sense of time it will take to get a good portion of that city up and running with electricity?

MR. TAYLOR: General Sattler is correct, of course, that -- in that both there is electricity and water flowing into parts of the city but he's also correct that it is not -- the entire city doesn't have the benefit of electricity restored and water. We were able to allow people back into the city on a sectorial basis, kind of sector by sector. And that was based on the conditions in the sector, how free it was of terrorists, but also the essential services that we could provide -- in particular, electricity and water, as you said. So we have focused on the one sector and that is now receiving electricity and water. The rest of it will come. It will take several months, I expect, before the entire city will have the benefit of both.

MR. WHITMAN: We have time for one more. Let's go ahead.

Q This is Joe Talbot from al Hurra TV. Sir, would you tell us about construction project on the border, on the Iraqi border to enforce security?

MR. HESS: Construction projects on the Iraqi border for security -- yes, essentially there's a series of border forts. That's part of the Ministry of Interior's border and -- border patrol elements essentially. Those projects are under way in various areas throughout the nation. They're located not only along the Syrian border, they're located along the Iranian border, and they're also off to the west in Anbar province with respect to, again, Syria and the Jordanian border. Some of those are -- in fact have been -- we've used a number of different methods to construct those. Some are actually being done under the auspices of the maneuver units, using local contractors again. Some have actually been done with local labor supervised, for example, by the Seabees with the Marine Expeditionary Force. And again, that's sort of a variety of methods. We're using the most expeditious to get those done; again, using design-builder as well as contracting using maneuver

commanders to assist and support us.

MR. WHITMAN: Very good. Well, gentlemen, I'd like to thank you once again for this update. It's very helpful for us back here, and appreciate you taking the time to do it. And we hope that we can talk to you in another couple of weeks.

MR. HESS: Thank you very much.

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