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Iraq Reconstruction

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On-the-Record Briefing Via Telephone

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MR. CASEY: I think what I'd like to do is just throw this open to you, let you make a couple of general comments about the situation vis-à-vis reconstruction, and then we'll just go right to people's questions, if that's okay with you.

AMBASSADOR SPECKHARD: Sure. I would just like to make a few opening points because I know sometimes the view out here when you get a little close to it gives you a perspective that's not obvious to people a little bit farther removed. What I would highlight here is that in spite of difficult challenges, significant progress is being made on reconstruction; and in what I see out here, that is having an effect on the Iraqi economy and situation, that you can't separate these two. So when you look at roughly 3 percent growth this year and an expected 10 percent growth next year for the Iraqi economy; when you see 30,000 businesses being formally registered in just the last year, and that doesn't count all the informal business activity going on; when you see the growth in just commercial activity out in the streets of Baghdad and the other key cities that show a dynamism that's very obvious to those Iraqis and others who are living there, that it's hidden sometimes by what we see on television, which is the unfortunate continued violence and attacks by the insurgents.

But that is not necessarily the total picture of what's happening here. In terms of Iraq reconstruction, when you look at the electricity it's a challenge, but roughly half of the current electricity being produced in this country is the result of our projects at rehabilitation and adding new generation. When you look at clean water and sewer, we have added capacity for several million Iraqis in water and over 4 million in sewage. On oil projects, about 75 percent of the oil production today is the result of rehabilitations that have been done through U.S.-supported projects.

So the oil production and exports they're having here is very much due to our program that's been supporting them. And then there's a bunch of other programs which you hear very little about in areas like education and health, where in education we've trained over 30,000 teachers and had 8 million new textbooks in school, and in health where we vaccinate over 5 million children and have seen a decline in the rate of measles and have protected against polio. So there's a lot going on out there in that particular area that I would just highlight for people that have seen all the news stories about what perhaps isn't going as well as we would have liked.

The second major area that I'd like to highlight is that for our program management we are taking some significant steps to try to adjust the program as we go along, to improve the effectiveness of our support, and in particular I'd highlight a couple of key areas. One is that we've shifted away from large design/build kind of contracting where you have a sort of cost-plus where you find the contractor and then he works together with us to design the entire project and that the cost is then carried and the risk is carried by the U.S. Government. We've shifted away from that to direct contracting for most of our programs now. Previously, for ongoing projects and past ones, it was about two-thirds design/build and one-third direct contracting. For all the future ones, we're shifting to about three-quarters direct contracting and only keeping for design/build the remaining sort of large projects that need to be finished on the generation side which have a technical requirement that can't be filled by the Iraqi side. So that's one area.

The second area is we're getting Iraqis much more involved in the process of making decisions on projects, both at the national level with the ministries and the federal government, and at the provincial level with the provincial councils. We've set up over the last year Provincial Reconstruction Development Committees where the local provincial councils and director generals of ministries in the provinces determine their priorities and essential services and then we use our money to support them in their priorities, and then they help monitor and oversee and help also support these projects.

Third, we've shifted to much smaller and more visible projects. We wanted initially to jumpstart the process of the economy again so we had to work on those very large systems to get them back up and running after the war. Now what we want to do is being showing at the community level quick, high-impact, visible projects that can help affect the support for local community and provincial leadership and the federal government.

And last, I would highlight that we work very closely with SIGR out here. They have a team out here and they sit in on meetings every week. They sit in my task force meetings with all of the military and civilian units that are working on this. They are working with us on the issue of asset transfer and support to channel our programs to the Iraqis and make sure that they sustain them and continue them. So I wanted to highlight that as well.

The last thing I will mention and then I'll open it up to questions is sort of where we're headed in addition to having made these adjustments. The real focus here is trying to accelerate the transition to self-sufficiency in Iraq in terms of their ability to carry the progress forward that we've started, and that's both at the national and the provincial level.

At the national level, we are working on a national capacity development program to strengthen the key ministries in their core functions and ability to administer their programs and deliver essential services to the people.

At the provincial levels, we are setting up Provincial Reconstruction Teams that will combine military and civilian engineers, rule of law experts, economists, AID directors and contractors, and supporting that with a program of local governance expertise in the Iraqi sector where we hire actual Iraqis to help support with expertise to support provincial governments.

So that whole area is focused on moving as quickly as possible to develop that capacity. That's particularly important in the provincial level where provinces have not had to do much public administration in the past because it was all done out of Baghdad. That's going to change under the new constitution, so we're trying to get ahead of that particular development.

The second area is focused stabilization where we want to more effectively integrate what we're doing in areas that have been the source of insurgent activities in some of the key cities. And the idea here is we've been doing a lot of different activities from micro-enterprise and loan programs, short-term job corps work, the civil -- essential services work we've been doing with the corps with our own ERF programs. But what we want to do is integrate these much more in a direct way so that the business development you're doing connects to the job training that you're doing, connects to the employment that you're trying to create, connects to the essential services, so maybe part of the job employment process is actually working on some of the projects we're doing, if it's road construction or something else. And you build into the process of that particular project the notion that they should be hiring some of the people you just trained to try to get jobs.

And the last two areas: infrastructure security, and we are very focused on this and that includes trying to strengthen the security forces' ability to protect infrastructure, improve the coordination between the ministries that are responsible for the infrastructure and the security forces, building in quicker and stronger repair and response mechanisms, and trying to build more redundancy and resilience into the system.

And then the last is on sustainment. We have a program where we're trying to improve training for the operation and maintenance of all of our projects and the ministries' technical capacity to support these projects and also working with the government to ensure that they understand the challenges of ensuring that they have the proper resources in their budget to maintain and support the infrastructure that we've helped them develop.

I'll stop there. I know you don't want me to go on too long but I wanted to give people a sense of what I'm spending my time on here and the direction that we're trying to move the program in response to the lessons learned and to the needs on the ground.

MR. CASEY: Baghdad, let me pass around people's questions and please everybody just identify yourselves since Dan obviously can't see you.

QUESTION: Sue Pleming from Reuters. In terms of lessons learned, what have you learned in terms of trying to improve the electricity grid and water supply, because electricity is, I think, still below prewar levels and water -- the Iraqis still don't have a steady supply of clean water?

AMBASSADOR SPECKHARD: Sure. On the electricity grid, the key there is really Baghdad. What you see if you look at the electricity throughout the country is actually we're doing fairly well outside of Baghdad. Prewar, in the Saddam era, the rest of the country was starved and Baghdad was basically the one place where you got 20 to 24 hours of power, but would you probably get four to five hours in many other parts of the country. Now that's much more evened out but the challenge has been, in particular, as some of the insurgents have tried to undermine support for the central government, they have looked to the electricity transmission

as a way to try to undercut this support.

What we've learned in that process and what we're trying to focus on in dealing with that is a couple of things. One, obviously, protect the infrastructure to a greater degree. That is not an easy task. I would say there's about 17,000 kilometers of linear infrastructure related to the oil and electricity grid, so you can't have a guard at every spot. But what we have done is focus on the areas where we're having the biggest problems in terms of breaks and directing additional Iraqi army support to those particular elements, trying to improve the protection services of the actual ministries that are responsible for those and also ensure that we have, again, the rapid repair, redirecting and ensuring that we have the supply of temporary towers that can move in, that we have better coordination between the security, including MNF, and the repair teams so that the security is there for them to repair things.

And then perhaps most importantly over time is we need to try to make the system less vulnerable in other ways. So, for instance, for Baghdad we are looking at increasing electrical supply right around the Baghdad ring, so you don't need to rely on a generation that's much further away. And there should be two projects coming on line in about the next six to eight weeks that will add another 300 megawatts to the Baghdad power supply, which is about roughly a little over three hours of power for the city. So, on that side, I think what we're doing is trying to find a holistic approach that both looks at security but also looks at generation.

We are also -- on the electricity the challenge is maintenance and support for the systems. The Iraqis have not had a good system of maintaining their infrastructure. Their basic system under Saddam had been you buy something new or you fix something and then you run it into the ground and then you replace it. And what we are working very hard is to get them to be maintaining these infrastructure on a more regular rate.

On the water supply, the challenge there is, in fact, we have added significant capacity to clean water system and to the sewer system. The challenge is in the distribution networks where the systems that are going to the homes are rusting and corroded and the lines of the sewer and the water are near each other so you have challenges of seepage in between those. And that's a big challenge and what we want to do there is focus on that at the community level to try to get those projects to start to deliver at a community level and not try to fix this in all one huge swoop. There's a huge amount of investment that's necessary, but we can do a lot more at the local level to get that happening.

What we found, again, when we did these projects initially was we split up the work. The U.S. was going to do those major parts of the supply side and then the distribution, as you got closer to the home, was going to be the responsibility of the ministries because they had much more capacity to be able to do this. What we found is the ministerial just follow-through in implementation on this has many times been much short of what is needed and so we're going back in to try to work with them to address those shortfalls.

QUESTION: Ambassador, Jim Glanz, *New York Times*. I was joking with General Bostick when I was in Baghdad last time that regarding the 1,800 or 2,000 megawatts that the U.S. is saying it's added to the grid, that Iraq may be the only place where you can add 1,800 to 4,400 and get 3,900, which is the number that's in the latest figure report. And I'm wondering from talking with Iraqis both in the ministries and on the streets, a lot of them don't think it's fair to compare U.S. successes to the collapsed state of the infrastructure right after the invasion. I mean, everything went to zero. And when you're saying 75 percent of the oil being pumped now is related to U.S. projects, I presume you're comparing to that. The same with electricity and I'm not sure about water. But at a certain point is it fair to compare what's being produced now to basically zero after the U.S. invasion and do you think that's going to resonant with the Iraqi people?

AMBASSADOR SPECKHARD: Well on your issue of resonating, I mean, it's clear the direction we're trying to take this program is to recognize that, really, to get the visible impact for the Iraqi person on the street you've got to get closer to the delivery mechanisms, so that what they need to see is what's happening on their block or on their street or in their home. That being said, you do need to take care of the fundamental supply in all of these areas at the basic level as well; that you can go ahead and fix the distribution system, but if you don't have more clean water going into that distribution system, you haven't fixed it, you haven't -- you're not going to have the result. Same thing on electricity. So my sense is we understand that. We're making some adjustments to that particular point, but that doesn't negate the fact that you had to undertake that bottom-line effort.

The same thing on some of these numbers in terms of like electricity. You can't just take the Iraqi electricity production, say, right before the war and say had we done nothing, that would all be there. In fact, that was deteriorating at such a rapid rate, unless you maintained that with really sizable investments, that was going to be coming off line. It wasn't going to be sustained. And in fact, if you talk to people, it wasn't that great before the war. It wasn't like they such wonderful electricity, particularly if you go outside of Baghdad. You're going to find, in fact, it's improved throughout the rest of the country compared to where it was if you talk to people about how much they're getting. Baghdad is the center of that challenge. But that wasn't sustainable and it would take a significant amount of investment just to keep that where that was.

So what we did was invest to keep this additional maintenance -- through additional rehabilitation support, maintenance and generation to add those additional generation on line. So their stuff, it comes off line, our stuff comes on line. The net effect is not as

significant as they'd like.

There is an expectation problem, a significant one, which is, you know, Iraqis, when they were liberated were hoping that we would, being the wonderful superpower that they perceive us to be, could produce overnight the same things that Americans have, which is 24 hours of electricity, clean water for everybody, beautiful infrastructure. But in fact, that's not realistic in any development understanding of what it takes to develop infrastructure. It's certainly not consistent with our experience in other transitioning countries and economies in the world. It's a multiyear program that takes multibillions of dollars. I think you've seen, you know, the World Bank, \$60 billion estimate of what was needed. So even from the beginning, there was not enough to -- it was only enough to sort of start that process and lay a strong foundation.

Where we need to get now is to make sure that people understand those expectations to understand what it is that's going to be needed in this country to get them the results that they're looking for; and that is a combination of what we've been doing and the support we've been doing with a responsible Iraqi Government that can invest its own resources as well as a responsible government that can access international capital, both private and the international financial institutions, and they will then be able to have a development program like any other country that progresses. And in Iraq's case, they'll probably be more fortunate than most because of the oil revenues to be able to support their continuing development.

QUESTION: Hi. I'm Anne Gearan with the Associated Press. Can you talk just a little bit about something you just alluded to that -- what effect does the election and the formation of a more long-term government have on your planning and on your looking ahead to the day that you don't have to be in the business of figuring out whether the sewer lines are too close to one another?

AMBASSADOR SPECKHARD: Well, it has a really significant effect on what we can expect. Our challenge has been that in working with the ministries, when you go through three turnovers in a relatively short period, getting the leadership that you needed to focus on the strategic planning in these ministries for the capital investments that are necessary and then implementing those capital investments is absolutely critical. And our sense is with a four-year government, we then can build that capacity.

Where you see this not working in the past was you might be able to get a good plan with them together for the electricity capital investment but, in fact, because of sort of the legacies of the Saddam era, only one person could basically authorize each project and that meant only the minister could do that. And if the minister wasn't there, if he was out of the country, if there were disruptions to the political system at that particular time, you could even have a good plan and you couldn't even get it implemented. And there would be bottlenecks because they have not been good at sort of delegating and decentralizing decision-making after their planning. Or there'd be challenges between the central government and different ministries, so the Ministry of Electricity had the plan and the Ministry of Finance had the money, but the dynamic between those two, they've talked about in broad terms, but actually getting the money transferred and then getting the details of how that's going to be implemented become a challenge.

All of those things, our sense is, with a four-year government, you can start to seriously make progress on and you won't lose sometimes through the continued transitions that we've had in the past the momentum.

QUESTION: Hi. It's Farah Stockman with *The Boston Globe*. We spoke, I think, a couple months ago. At that time, there was a lot of wrangling over what the Iraqis would pay for as far as sustainment, what the Americans would pay for, and it and things like the Iraqis expected the Americans to put more money up for actually sustaining some of these large-scale infrastructure projects.

I'm wondering, you know, how much pushback the Iraqis have had in taking on some of these costs. Has there been any case where the Iraqis have said we're simply not going to pay for sustaining this thing that you guys built? I mean, has that happened anywhere or are they totally on board with taking on the cost of some of these projects? And I guess -- well, that's my first question.

AMBASSADOR SPECKHARD: On that issue, we have been negotiating with the ministries and with the Ministry of Finance the expectations as to what's necessary to sustain these projects. And my sense is that we've had significant progress there. Their challenge is making sure that they are adequately able to implement that. Even when they have sometimes the best intentions, implementation of those intentions is not as smooth as possible and that's where we want to stay engaged with them to make sure that when they understand what the sustainment cost is of a project, we then help them to monitor, support and develop it. So we are developing a asset transfer system so that they can put in one spot all of these capital investments that we've made so that they understand what those are and then help them understand what the maintenance costs of these are.

There is still a cultural challenge here to make sure that they understand that there's a bias in their system that says put the maintenance on all of the old stuff; new stuff you don't need to have maintenance. It's sort of like, you know, somebody in the U.S. who bought a brand new car. Well, the fact is you can drive that and never change the oil for quite a long time before you really run into trouble, but the life of that car is going to be significantly reduced. Their impression is if I, you know, have to worry about maintenance, I'll worry about the old stuff first and then get to the new stuff. We are working with them to sort of make them

understand the importance of actually maintenance being actually central to the newer programs as well in terms of the importance over the life of those projects and the support for Iraqis. But this isn't an overnight thing. This is a medium-term prospect that we're going to have to continue to engage them on.

I haven't had in engaging them a big pushback in the sense of what you're talking about in the sense, uh, we're not going to do this. It's more of just a daily challenge that everyone understands in government: If you have priorities, how do you allocate those priorities in your limited resources? And they, of course, would rather we spent more on sustainment and then they would spend more on their own capital investment. But they -- the resources the U.S. Government has is limited and they're going to have to begin to take on responsibility for this.

But it's not a question of having a lot of choice, I mean, in the sense that it doesn't negate the importance -- you can't say, well, we shouldn't have done this generation project, because I think as one of the earlier questions showed, electricity is still very high on the government's agenda. So in my mind, it's not like any decisions that we've made so far; the question that's more is making sure as we move ahead the government makes wise decisions as to where they put their resources.

MR. CASEY: Did you have a follow-up on that?

QUESTION: I just really quickly wanted to follow up on that. I know that the Ambassador had announced that he was going to wait before going forward with sending something like a billion dollars until the Iraqi Government came -- was formed. And I'm just wondering -- in order to give them some kind of say in how the money would be spent. And I'm just wondering, you know, how prepared are you to radically change what that money was planned for?

AMBASSADOR SPECKHARD: We are moving out on that now in a sense because the sense is that we have, while the government formed -- has not been formed, we know the key political leaders in the different political parties that are going to be central in the new government and so we have been able to stay and consult with all of the different groups. So our sense is we have a good sense of what is the most pressing needs here. The most pressing needs obviously are in the areas of electricity and water and the other elements. Our sense is if we move forward on this program that they still will be in the process of actually obligating the funds, time between now and when the final obligations occur, that we can make further adjustments. But we are beginning to move on those programs.

QUESTION: Dan, it's Charlie Wolfson from CBS. Picking up on your last point, would it be fair to conclude that the work you're doing, or let's say the battle you're waging, that the work you're doing will ultimately be judged on the two points you just made -- electricity and water? If you don't deliver on those, it doesn't matter how many schools or hospitals and other things you do well? Are these two the Achilles heel of the whole thing?

AMBASSADOR SPECKHARD: My sense on this is that reality is we'll be judged on how well we are able to support the capacity development of this new permanent Iraqi Government. Because at the end of the day the investments we've made here, they're here and that generation capacity is there and you can go out to the plant and see it. Why you don't see it sometimes in Baghdad is because someone cut a line in the (inaudible) and you can't get the transmission in or the refined oil products are down because they've cut a refined product line or they aren't properly maintaining some of the plants they have because they're keeping them running too long because they wanted to get maximum output right before, and then all of a sudden it goes down in an unscheduled way or they have to use fuels that are not the best fuels for the plants. Sometimes when they use, for instance, crude oils, you have to take a plant down every week to ten days instead of every three months if you were using gas or other kinds of things.

These kinds of issues can be fixed if they start getting the policies right, if the government -- as this new government gets its capacity development right for the ministries, if it -- and obviously if it gets a good handle on the insurgency. And that, in part, is both political and a security issue. And last, if they really tackle the corruption issue.

So my sense is we will be judged not sort of like we're in a stovepipe here. I think that's what my main message is here. You can't take reconstruction sort of as an isolated section of this whole thing and say are you doing well or not doing well on that. It's all integrated and we will be judged on the integrated package. And I think that if we have success in supporting this new government and they build their capacity to manage themselves, that four years from now or ten years from now when the history books are written, the investments that we've made will have shown that this was a key component, that if it had not been made the government would not have been successful.

So it's sufficient but perhaps -- a necessary but not sufficient condition by itself to have success. And I say that with, you know, all understanding or reality in the environment we are in, and the pressures to do things as quickly, given our environment here, you know. Not everything in what we've done is perfect. There are going to be many people for many, many years focusing on what didn't work or what wasn't the best. But I think for those that take an objective assessment over time, we will be judged on that

integrated piece. If this next government is capable and manages, addresses the issues of corruption, addresses the issues of unity to work together and focuses on good economic policies that will get investment into its oil sector, which is the revenue driver for the rest of this, they will then be able to take what we started and be successful.

QUESTION: Dan, Sue Fleming again. On this issue of refined oil products, how much is the shortage of refined oil products affecting reconstruction and pushing the projects ahead? And you also mentioned corruption. There seems to be quite a bit of corruption in the oil contracts to deliver refined products to Saudi Arabia -- and what's the other country, is it Kuwait -- Turkey and Kuwait. And Saudi Arabia, I think, is also bringing in some refined oil products.

AMBASSADOR SPECKHARD: On the first point, my sense is that what we're talking about here is it's not affecting the reconstruction in the sense of finishing the projects or being successful in the projects. What it does is it affects, particularly on the electricity side, the maintenance issue of these things. What you'll find is if you talk to an expert here is one of the challenges is the frequency with which these power plants go down and have to have maintenance, and that's because they're using fuels that are not the best, which work but are not the best. They use different grades of oil rather than diesel or diesel rather than gas. So as you can move up into the better systems or the proper fuels for the electrical generation, you get a longer generation capacity and more efficiency out of that. So that's how it affects it. As refined fuels get more scarce, that then they end up switching to different types of fuel to keep the electricity generation going. That, in turn, because they're using different fuels, causes more maintenance.

QUESTION: And the corruption issue?

AMBASSADOR SPECKHARD: On the corruption issue, I'm going to have to pass you off to our economic counselor there or others in the embassy because I am not the one who watches the intelligence on that.

QUESTION: Well, I was going to ask you about corruption but maybe I'll pass on that then. There was --

AMBASSADOR SPECKHARD: If it's a general question, you can ask it. If it's a specific one, I mean, you know, corruption is something that we're very concerned about in terms of how it affects the broader economy here. And in a particular area, in the Ministry of Oil and the oil production, it's absolutely essential that the Iraqis address this issue to ensure that they get a handle on it.

We can do some things to help them figure out how to address those issues, and that's something that will be a priority with the new government; for instance, metering throughout the system. Right now, they don't have enough metering in the oil system from, you know, the point at which it's pumped out of the ground or the point at which it's sent to the refinery, to the point at which -- or to the point at which it's loaded for export and then when it goes to markets. All of those particular points, if you start getting transparency in, in terms of what is actually being provided at each particular point, you start having a way to better address it.

And second, we can put more -- they can put more checks and balances into the system in terms of the different elements that go, for instance, at a refinery in terms of who's responsible for monitoring, loading of trucks, who's responsible for the distribution network, and have double checks in that system as well.

Obviously, they need prosecution improvements and judicial improvements, and that's something that we're helping them on as well -- the investigatory arm over here. They have a commission on public integrity, which is sort of the equivalent of our FBI, which we have advisors for. We are working with them on the judicial system to try to make sure that they handle that.

We are also working with them on sharing intelligence if we find out or have any information on corrupt officials, making sure they know where those points are. So there's a lot we can do in that area in terms of what's key for us, which is to make sure that the oil revenues continue to support this country on that particular front.

On the other side, on electricity, for instance, the key there is to try to make sure we put in place a national system, which is one of our products for switching of electricity. Right now it's all done manually, so if you have a gun and you go down to the local substation and you tell the guy, "Switch all the electricity over to me," you'll find some neighborhoods have 24 hours of power and some neighborhoods have zero. That is going to be automated and that should help take care of some of those things as well.

So throughout -- these are just examples, but throughout the system we are trying to help them put into place programs that can try to get at some of the root elements of this.

QUESTION: Ambassador, one more question. Yesterday, at the Senate briefing Foreign Relations Committee, I think it was in response to a question by Senator Biden, it became -- (beep) -- are you still there?

AMBASSADOR SPECKHARD: Yes, I am. I didn't drop off, as much as I'd like to. (Laughter.)

QUESTION: Soon as I said Biden. But --

AMBASSADOR SPECKHARD: I'll wait to hear the full question and then I may drop. (Laughter.)

QUESTION: We'll hear you go in a burst of static. You know, the question came up and I think it was addressed to Ambassador Jeffrey. He had a partial answer. But he said -- the question was: Who is going to pay for security for the PRTs and who's going to be responsible for that? And the answer seemed to be that that was not known at this point, that it wasn't clear whether that be under State's budget, the Pentagon's and who's people, whether it would be regular army or whether it would be private security. And that seems like a big kind of existential question hanging over the PRT, so what's the story on that?

AMBASSADOR SPECKHARD: Well, we're still looking at the options of that, but that has not kept us from getting the program up and running. So I can tell you the way it's working now. The way it's working now with our existing PRTs, it's a combination of the two. And in moving forward on each additional PRT, we are planning on standing those up. And as we stand up a PRT, the Ambassador and the Commanding General will make a recommendation as to how to support the security for that particular PRT. So my own sense is that this is not at all a deal breaker on this particular initiative.

QUESTION: How many PRTs are there now?

AMBASSADOR SPECKHARD: We have three. They're in Mosul, Kirkuk and Hillah in the Babel Province.

QUESTION: Ambassador, it's Elise Labott with CNN.

AMBASSADOR SPECKHARD: Also -- also I'll just say on PRTs we have -- the British are saying that they will stand up one in Basra and we have the Italians having officially said they will stand up one in Dhiqar, so there's two more that are waiting in the wings. We are also very close on Baghdad, in terms of getting the elements ready in place for that. And we are talking to other coalition partners about our Irbil.

QUESTION: It's Elise Labott with CNN. I just have kind of a, more a philosophical question or the best way you can read it. I mean, there's a lot of talk about developing the Iraqi capability and the capacity, and certainly in the military you can see the desire to get the Americans out and take over the security forces. But do you get a sense of empowerment by the Iraqis that they want to develop their own capacity or they're really kind of -- obviously, there'll be a long-term U.S. construction component, but do you get the sense that they have a desire to kind of take it over and run it themselves or do think there is still a lot of dependence on the U.S., that maybe they should be developing a little bit more of their own independence in terms of reconstruction projects?

AMBASSADOR SPECKHARD: I'll answer your question in two ways. At the strategic level, definitely the Iraqis are clearly exhibiting the desire to be in the lead and to have responsibility for this. And what you've seen over the last year with the Ministry of Planning taking over the donor coordination mechanisms, having them set up sector working groups in each area, having them exerting some of their own authority -- in fact, now projects by the some of the donors actually have been denied or -- denied is the wrong word, but actually not approved by the government as they look at their own priorities and stuff, which is a really good sign that they're sort of saying, you know, which projects do we want, what makes sense for us and so forth. You're seeing that at the prime minister level and the ministerial level as well that these people feel very strongly about, you know, the Iraqi ability to move and to lead the country as it moves forward. That's at the strategic level.

But we're still seeing sort of on our reconstruction side, when you get down to the plant level, there still is this desire, well, you know, the big companies who came in and did this, if we don't care of it, they'll take care of it. You know, if we don't find spare parts, they'll find spare parts. If we don't, you know, solve this problem, somebody else will solve this problem. So there's still a little disconnect sort of between the strategic level and what's happening down at the plant level. And that's what really needs to be addressed this year, that that desire at the top has to translate into effective ministries that work all the way down to the plants to instill in them the problem-solving ability all the way up the line.

MR. CASEY: Dan, I know we've taken you beyond the time I thought you had for this, but can we -- we're just going to sneak one more in on you and then we promise we'll leave you alone.

QUESTION: Very quick. It's Sue again from Reuters. Very quick yes/no. Is electricity still free and is water still free? People don't pay for it, right?

AMBASSADOR SPECKHARD: Electricity isn't free, but the collection mechanisms for electricity are very, very weak. And water, I don't have that. Again, it depends on if you're a consumer or if you're an industry and things like that, so I'd have to give you some details on actual -- what the pricing is there.

What I can say is this is a key element of what we're working with the government on is ensuring that metering is used effectively. Sometimes people have said there aren't meters. In fact, there are meters; it's just they aren't really used or they're circumvented and the system isn't really there to use it effectively. That needs to change.

QUESTION: Well, I mean, do people receive bills?

AMBASSADOR SPECKHARD: It's intermittent. I mean, in terms of who actually receives a bill and who doesn't receive a bill, it depends on how they were hooked up, who they were hooked up by, and you know, the neighborhood, the province and so forth. So it's not a yes or no question. But people do receive bills, but certainly the majority don't probably and aren't paying for it.

What we have seen, though, is that when they start getting prices right in this economy, it does have an impact on demand, and that's a useful result in terms of having a better supply and demand mechanism in the system. For instance, when they raised the price of fuel, you found the demand in Baghdad going down significantly. And this has to be part of the equation, especially when you look at reconstruction here, because electricity demand has increased 50 percent since we started this roughly two years ago from where we had been designing a program for 6,000 megawatts in the country. Demand last summer was up to 9,000. Well, demand will just keep rising if there isn't, as you highlighted in your question, the notion that you actually have to pay for what you receive.

MR. CASEY: Thanks, Dan. Really appreciate you taking the time with us today.

AMBASSADOR SPECKHARD: Thank you, everyone.

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