

## Embassy of the United States

---

You Are In: [About Us](#) > [Embassy News](#) > [2008 Press Releases](#) > Remarks by Ambassador Charles P. Ries, Coordinator for Economic Transition in Iraq (March 14, 2008)

### Embassy News

---

Remarks by Ambassador Charles P. Ries, Coordinator for Economic Transition in Iraq

Center for Strategic and International Studies  
Washington, DC

March 14, 2008

MR. BARTON: Welcome. I'm Rick Barton, the Co-Director here at CSIS of the Post Conflict Reconstruction Project, and it's great to have you here.

With Karin von Hippel, on behalf of John Hamre, our President, I'm pleased to welcome Ambassador Charlie Ries here today. He's an old friend of mine. In Washington that doesn't always mean that much, but in this case it's actually -- he's actually a friend from when we were about 15 years old in Bolivia. So he really is an old friend, although we haven't seen each other in probably 30 years or so. But I guess maybe the advantage of being an old friend is that we can ask for the highest level of candor so that -- since your old friends tend to know your oldest tricks, we can go straight to the conversation.

I think what he's planning today is to talk for about 20 minutes, and then we'll have plenty of time, about 40 minutes, for a good conversation, question and answers from you. And all I'd ask when we get to that is that you just identify yourself in case Charlie doesn't know who you are.

As most of you know, his -- I think his biography is in front of you -- he's sort of the walking example of transformative diplomacy having been served in Turkey and in Santo Domingo and in London, with the EU, here in Washington and now -- then as Ambassador to Greece and now as Ambassador for the Economic Affairs and Coordinator for the Economic Transition in Baghdad since July of this past year. So he's really had a tremendous range of experiences and, clearly for the challenge at hand, it's probably of great need and value that he has.

So, Charlie, we're really pleased to have you here. The time is yours for the next 20 minutes, and then I'll start to get a little anxious and ready for the questions and answers.

AMBASSADOR RIES: Sure. Okay, thanks very much. I don't think we'll be --

MR. BARTON: One more thing I wanted to mention, this will be recorded and it will be on our webcast probably by this afternoon, hopefully by late this afternoon.

AMBASSADOR RIES: Okay, well -- and even though we have the highest level of candor, for that reason it was probably useful to point out this is -- these remarks are on the record and the actual text -- my text will be on the record and put on our website, and you can have it on yours if you want in addition to the full report of the discussion. And I know lots of people around this table are very knowledgeable of what's going on in Iraq and I look forward to talking to them.

And I will -- I know Rick asked for full candor, but I will not tell all those good stories about when he was 15 years old in the Andes.

MR. BARTON: It's short --

AMBASSADOR RIES: Right. Right. There's not enough time. Time does not permit.

Let me start out by -- I have this very long multisyllabic title, Coordinator for Economic Transition in Iraq, and I'm not sure that that's indeed what I am coordinating. But what I'd like to do today is to focus on the word "transition" because our work in Iraq is in transition. And our common goal both in Baghdad and in Washington, as well as in the international community, is to change the way we are directing our resources in support of the Iraqi transition because we think we are transitioning from post-conflict reconstruction to building growth and stability and increasingly with Iraqi resources. We, and the Iraqis, are working to get a self-sustaining, successful economy managed for the Iraqi people and by the Iraqi people.

There are many challenges that we and our Iraqi partners are going to face -- are facing as we tackle this task. But I see some small and still fragile signs that the economy is poised for growth. And that growth and development is crucial to our broader strategy, a strategy that by encouraging Iraq to invest in its own reform brings it into the global economy as a productive participant.

But there is no question that security is our biggest hurdle. Security is essential for investors and economic development in general and, of course, essential for all of us interested in Iraq. Al-Qaeda and other violent extremists offer only misery and poverty. Since the military surge began, we have seen Iraqis reclaiming their own neighborhoods and institutions, building their businesses and looking to the future. Markets are re-opening despite the uncertainty around them.

What the military surge has given us is an opening, a chance to help our Iraqi partners create the economic conditions that can solidify security gains. Without that economic component, without a return to day-to-day commerce, construction, civil society, security will remain dependent on armed force.

Reconstructing the economy is a daunting task. Iraqi officials are attempting to move their state-owned -- state-run economy forward after years of stagnation under Saddam and years of sanctions by the international community. Those years created crippling distortions, compounded by the post-conflict environment. Iraq must now pursue major reforms, particularly of inefficient state-run industries, and the public distribution system for food and fuel that remains the largest single item in Iraq's national budget. It must create a private banking system that can provide credit and spur domestic investment. And it must attract international investment, not only to take advantage of energy resources but also to create a robust private sector that generates jobs and gives Iraqis a stake in their country and its future. And as it does all of this, it must build its own capability, as a government, to deliver goods and services.

We see five major hurdles that the Iraqi Government is facing now and on which we are engaged in helping them. First, Iraq needs to ensure that it can respond effectively to the needs of its citizens. This is basic to democratic governance. It means ensuring services -- electricity, water, health, education -- that respond to the needs of Iraqi citizens. It means reaching tough political compromises to pass and spend budgets, and plan projects and services that reach people beyond Baghdad. It means effectively countering corruption so that services are available to all.

Second, Iraq needs to make effective use of its vast energy resources both for export and as a fuel for industry. Many of its hydrocarbon resources are untapped. Iraq must pass a hydrocarbons law to facilitate international investment in this critical sector. Rising energy prices and Iraq's vast resources can make oil and gas the catalyst for a vibrant industrial economy.

Third, and related of course to that, Iraq needs to attract investment from abroad but especially from the domestic economy. Private enterprise is viewed by most Iraqis with suspicion. Iraq is crippled by ineffective state-owned firms that require major cash infusions to renovate antiquated and near-worn out infrastructure. That means restructuring its dysfunctional banking system and establishing a stable regulatory environment. It also means ensuring transparency and a level playing field, while educating citizens on the benefits of a competitive economy.

The fourth challenge is closely linked to the need for investment. Iraq must reduce unemployment and underemployment. Officially, unemployment is eighteen percent, but underemployment is much higher,

perhaps as high as 40 to 50 percent. Having a job means having a stake in the Iraqi economy and, importantly, in the country's security.

The fifth major challenge is to revive Iraq's agricultural sector. Some people mistakenly think of Iraq as endless, dry desert. It is not. It is a land of two great rivers capable of supporting the most advanced and productive agribusiness sector in the region.

Now these are tough issues to tackle, for any government, and it would be easy to be overwhelmed by their complexity. But gradually, as security improves, we are seeing some cautious signs of progress.

One of these was the February 12 decision by Iraq's parliament to approve the country's 2008 budget. The budget provides for total expenditures of \$49 billion dollars, up nearly 22 % from \$41 billion in 2007, and it includes a capital investment budget of \$13 billion and a security budget of \$9 billion. The budget demonstrates the Government's recognition that it must take the lead responsibility for reconstruction efforts. Its passage was a small step forward politically as well; no one in Washington needs to be reminded of the political compromises needed to get any budget through a legislature. Its distribution of funds among the provinces and the regions for the second year in a row is a strong sign that compromise between the various ethnic groups is starting to jell into working relationships.

The test will be can Iraqi public institutions more quickly spend the budget? Can these institutions respond effectively and honestly to the needs of Iraq's citizens at both the national and provincial level? The Iraqi Government executed only 22% of its capital investment budget in 2006. It did better last year; current, although incomplete and not directly comparable data, suggests that the Government of Iraq has spent about 60% of its 2007 capital investment budget. If it can maintain this trend, it will show that the Iraqi Government is increasingly directing Iraqi resources to meet Iraqi development needs.

There are also signs that Iraqi businesses are growing as security has permitted. There was an increase of 9 percent in new businesses registered nationwide during 2007 compared to the previous year. Over 37,000 private sector companies have registered since 2003. And over 70,000 micro loans have been made across Iraq by the United States -- with U.S. support -- with nearly 100% repayment rate. Iraqi markets are reviving, and middle market companies are also stronger.

Now growth in investment is essential for job growth. A few weeks ago, Baghdad held the first "Business 2 Business" Expo since the 1991 Gulf War. Iraqi led and organized. The event gave Iraqi business representatives contact with foreign companies, other local businessmen, and provincial and national Iraqi Government officials. All in all more than 5,000 participants attended.

International companies, not just energy conglomerates, are beginning to look for investment opportunities in Iraq as well. Several groups have expressed interest in building international class hotels in downtown Baghdad. The Ministry of Industry and Minerals recently concluded three production sharing joint ventures with international consortia to revive state-owned cement factories. A tender will soon be issued for similar production sharing partnerships for petrochemical, electrical equipment and other facilities. A new business hotel will open at Baghdad International Airport, and an International Business Center already is open there, complete with state-of-the-art security. Iraq has passed an investment law to provide a framework for foreign investors; publication of the implementing regulations will be an important next step.

This is having an effect, slowly, by fits and starts. As I drive around Baghdad outside the International Zone, I see areas where once closed businesses are opening and informal street sales are picking up. Not everywhere; it changes neighborhood by neighborhood. But in December 2007 the Center for International Private Enterprise conducted a poll of the Iraqi private sector. It showed that more than three-fourths of business owners, some 78 percent, anticipate growth in the national economy over the next two years. Almost half of business leaders surveyed, 46 percent, say the business environment is better now than last year, and 45 percent believe that sales will increase in the next six months. A significant majority, 82 percent, of Iraq's business operators believe that opening Iraq's borders to international business will improve their own. That's powerful incentive for the Government officials as they tackle privatization and economic reform.

They are starting to do so, but they must do more. The Central Bank, recently the victim of a record-

destroying fire, but still functioning, has reduced interest rates from 20 percent to 17 percent. With the IMF's support, Iraq's core inflation has dropped from nearly 32 percent in 2006 to under 13 percent last year. And the IMF – no pushover – predicts 2008 growth at 7 percent.

Now, in the energy sector, for oil, production and exports are growing. A specific example: the North Oil Company experienced record production levels for the month of February. It reached or exceeded 600,000 barrels a day for 13 days of the month. Now, let's put it in perspective. From 2005 to 2007 it never reached that production level. The last time the North Oil Company reached 600,000 barrels a day was in 2004 but only for two days.

With oil prices rising, oil export sales have topped \$41 billion in 2007. During the last quarter of 2007, the oil production averaged nearly 2.4 million barrels a day of which 1.9 million were exported. This is good, but the potential is much greater. That is why we are urging the Iraqi Government to reach another tough political compromise, agreement on a hydrocarbon framework law, which will pave the way for the development of more of Iraq's energy resources for the benefit of the Iraqi people.

As it looks to the future, the Iraqi Government realizes the role it can play in the region and internationally provided it can consolidate security gains and continue to make economic progress. It has applied to join the World Trade Organization, and recently submitted a draft legislative package in accordance with WTO requirements. It will hold a second working party meeting with WTO officials next month. At the end of February, the European Commission and the Iraqi Government held the fourth round of negotiations for a Trade and Cooperation Agreement with the EU; a fifth round will be held in June. And at the recent U.S.-Iraq Dialogue on Economic Cooperation, we obtained Iraqi commitments to reform state-owned banking system and to agree to convene the Trade and Investment Council, which we established back in 2005 and is yet to meet.

So what are these small signs of change mean for the United States? It means we are making our long anticipated change in the nature of our assistance. We are moving beyond the "bricks and mortar" reconstruction projects we began in 2003 and 2004. Instead, we are using our assistance dollars as leverage to enable the Iraqis to invest their own resources responsibly and more productively.

We are focused on capacity development that strengthens the Iraqis' ability to do their own jobs. We are providing specialized training to ensure more officials have the technical skills they need, whether to operate a water treatment facility or a power plant. We are also investing in programs that enable the Iraqi Government to operate effectively: to use technology, conduct contracting, develop budgets and train staff. Over 7,400 civil servants have participated in this training so far.

We are providing some short-term support in areas where fighting has recently ceased. The Concerned Local Citizens Program supports 90,000 Iraqis who have stood up to provide security for communities and economic infrastructure. Since those threats have come down, the Iraqi Government is now considering ways along with us to provide the CLCs, these concerned local citizens, with other employment opportunities. Our Community Stabilization Program operated by USAID provides jobs, essential services, vocational training and micro-grants for other at-risk groups. All of these efforts are designed to ensure that the Iraqis see and feel the benefits of security. Our civilian Provincial Reconstruction Teams, operating with military brigades, work directly with local leaders to identify needs and find resources to address them.

And we are looking ahead to more aggressively addressing some of the most difficult issues in development. I recently proposed the redirection of some of our assistance dollars to support initiatives led by a new Embassy Coordinator for Anti-Corruption, Ambassador Larry Benedict who gets the post at the end of this month. Effectively tackling the scourge of corruption will be vital to sustained economic progress as corruption distorts decision-making and diverts resources that could otherwise be put to use improving the Iraqi standard of living. It also undermines Iraqis' faith in their own government.

I, and many others, closely monitor political cartoons in Iraq's vibrant free press. Many, many of them are a commentary on corruption in government. As with Thomas Nast's cartoons about Tammany Hall politics, these caricatures are serious indictments. We must help Iraq fight this insurgency also.

All in all, the improvements in security are having an economic impact, risk is down, progress is up, and the

economy is growing in Baghdad and beyond. It may be considerably better than generally understood. That said, the situation remains fragile. In some senses, the decisions ahead are as momentous as those of the recent past. The Iraqi Government must define its relationship with Iran and the other neighbors, decide on the regional future of Kirkuk, and finish off a determined insurgency. Economic growth can add resilience to the political and security process, but the three remain bound together.

It's a cycle that must be self-reinforcing. We're at an early stage. We have achieved a measure of security, which has brought signs of economic revival. In the next stage, the Iraqi Government must spend its \$49 billion budget for this year in order to strengthen that recovery, creating jobs and opportunities for investment. Our assistance, from the U.S., from the international community, must support the Iraqis' own efforts. Our assistance can only reinforce the Iraqis' ability to grow the economy themselves for it is the jobs and growth that will lead to the next stage, long-term stability.

Sometimes a harbinger can be a small thing. The other day, as I was traveling to a meeting in Baghdad outside of the International Zone, I noticed hundreds of workers installing new, multicolored tile sidewalks on the roadsides. Other workers were establishing small parks set off by yellow brick and wrought-iron fencing. And before you ask, I'll tell you that no, it was not a project funded by the U.S. Government; it was an initiative of the Baghdad municipality. It's a small step, but it illustrates a determination by Iraqis to invest in their own future. That is what we are supporting, the political will of the majority of Iraqis to build a better tomorrow.

Thank you very much.

(Applause.)

MR. BARTON: Why don't we just move to your questions. But I think, Charlie, maybe the first question would be you've sort of presented a sprawling challenge. There are many, many different elements. Obviously, we're trying to be catalytic now in certain of these areas. But if you had to focus in and say there are one or two things that would make you feel really good about where things are going, where would you like to see the improvement? Obviously, you spoke about corruption, the hydrocarbon law and a variety of other items. But if you had to focus in and say one or two things really would be -- we'd have the greatest gain, sort of the Prado principle here, what would they be?

And then I guess the second part -- the second question would be of the many indicators that you've described or harbingers that you've seen, what would be one or two that are going to give you real confidence that things are turning around there as opposed to just sort of that momentary boost that you get as you drive by a project?

AMBASSADOR RIES: Well, things have turned around. I mean the direction is quite positive, and we are seeing economic growth this year. The trick will be to sustain that into the future.

On the economic side, what we -- we need a continuation of progress on the security side. That is certainly going to be a requirement to continue growth on the economic side. But by the same token, economic growth supports our security goals as well. People with jobs and a stake in the future are less likely to turn to the insurgency.

I think that the -- maybe the three most important things that we need are: performance in the utilization of Iraq's substantial public resources now, what we call budget execution, effectively using growing public resources to meet service needs, to find ways to revive sectors like housing and agriculture.

Second, I think we need to see resolution of -- fashioning of a strategy and carrying out a strategy in the energy sector which involves both oil and gas and the electricity sector.

And third, I think we need to see investment -- private investment in the economy which requires banking as well as, you know, sort of opening to the private sector, both foreign and domestic.

QUESTION: Sharon Behn, The Washington Times. I have a couple of questions. One, the first being the up

tick in violence recently, how is that affecting the economic development if at all?

And second, these points that you bring out are very valid but they seem to be the same points that we've brought up for the past three years. So how have things changed then? I mean the same things that we need to see now we've been needing to see for the past three years.

AMBASSADOR RIES: Well, I've been out of Iraq for a week, so the violence of this week is hard to -- it's hard to track impacts of bombings. It is -- we are seeing an uptick. Even at the higher level, my understanding is that the incidents of violence in Iraq is substantially lower than it was at this point last year or at any time last year.

The -- I did look into -- there was a month ago, month-and-a-half ago there was a horrific bombing in the so called bird market, which a hundred people were killed. This was this one that was undertaken by a woman suicide bomber. And I asked our PRT in Baghdad what was the impact? Have people started shutting their stalls in the -- this pet market? And is it -- can anyone speak to whether the crowds are down?

And they went to the market. It's a Friday market, I think, or Saturday market. It's only once a week. And there was no noticeable difference after this horrific event the next week and the week after that as there was the week before it happened. And the sort of man-on-the-street impressions are that things remain better than they were in 2006 and 2007. Obviously, that's fragile and it's reversible, so one needs to continue to make the efforts that we are on the security side.

The things I'm citing as important are things that have been important for some time. But the point I would make is that we are now actually seeing progress. We are seeing progress on the budget side. Two years ago there was a negligible Iraqi budget. It was only our money that was being used. The Iraqis are now using their own funds to do reconstruction. And we -- production of key things like oil and gas are now sustainably above where they were even in 2004. And the attacks on infrastructure are down, allowing those gains, those production gains, to be sustained.

The indicator that you see there is the export pipeline to Turkey, which hardly operated in 2005, 2006 and halfway through 2007. What happened in August -- in July and August is that the Ministry of Oil fashioned an understanding with the local tribes similar to the way that the local tribes have stood up to support security in Anbar, but want a direct understanding without our involvement at all, under which the local tribes would undertake to protect the pipeline.

Since that's been done, the pipeline has operated 90 percent of the days, and that has been behind a very dramatic increase in production and exports. And those additional exports coupled with current high prices have brought in the revenues that now allow the Iraqi Government to meet the bulk of its own reconstruction needs.

QUESTION: Keith Crane, The Rand Corporation. I have two many questions but I'll try to keep it brief. Some yes and no questions. I talked to the USAID Administrator had come back and she had informed that the civil roster had almost been done but not implemented, direct deposit of salaries was still almost done but not implemented, and then the financial management information system was almost done but not implemented. Have any of those gone forward, because most of the blockage was at high levels of the Iraqi Government?

AMBASSADOR RIES: I'm not sure of the exact status of the civil register or direct deposit of salaries. I believe that that is what's happening now.

On FMIS, you may be aware that the FMIS contractors working in the Finance Ministry last June were kidnapped. And the Finance Ministry is in a bad section of town and there was very questionable security anyway. They and their bodyguards were taken. And at that point it was just right before I arrived. After I got to Baghdad we decided to suspend FMIS Program pending a resolution of the security issues in the first instance, but more -- but also we needed to have high level buy-in by the Ministry of Finance. Is this something that they want?

And I told the Minister of Finance Jabr that we needed to have not only sort of rhetorical buy-in, I needed to

have an agreement in which they are committed to share the costs of this enterprise, they are committed to providing a secure location for the servers, and to pay the license fees for the various software packages and so forth. And I should say for everyone else, this FMIS was a project to improve the information -- it's a financial management information system -- to improve the Ministry of Finance's tracking of its own budget data between the Ministry accounts and the accounts of the spending units, ministries and provinces.

Anyway, so some months went by with the project suspended. And in November they came back to us and said, you know, that -- the project was actually in pilot phase. And some of the spending units who were using the hardware and the software missed it when it was turned off, and they came to the Ministry of Finance and asked whatever happened to this? And the Ministry of Finance had to say well, the Americans suspended it pending their desire to change it. And it was kind of bottom up pressure and the clear need as the budget numbers got bigger and bigger, they clearly needed to move away from a ledger based system -- paper ledger based system on which they were operating.

They came back to us and said, you know, okay we're ready to do that. And we signed an agreement between USAID and the Ministry of Finance in January. And on that basis it's once again full speed ahead and the servers are turned on and we're deploying the equipment to the spending units. And at some point later this year it will be fully operational.

And we've also taken steps -- one of the problems with the FMIS is -- this may be a little bit of inside baseball, but one of the problems with this particular project was it was unilaterally designed and implemented by the United States without reference to anything else, and it was basically an adaptation of something we had done for Afghanistan. And as part of this process of working with the Ministry, we have both taken into account what they wanted it to do, and also we have worked with The World Bank, which has its own public finance accounting process going, to make sure that it doesn't duplicate what it is that The World Bank is working on and serves the broader needs of improving public finance control.

I think so. I'd have to check on that one. My understanding is it's still not pending and that what happens is public employees get paid at Rafidain and Rasheed branches not from the Ministry.

QUESTION: Gerald Kerrey with Platts. There's a term -- I can't think of it -- but when you approach something but never quite get there. In context of the oil and gas law, I mean the U.S. has been urging passage of this for several years now. What are the problems? How close are they? When do you expect to see it?

AMBASSADOR RIES: The problem -- the oil and gas law, from a technical standpoint, is largely done. It was drafted in February of 2007, and the basic framework and the legislative language is largely done.

The problem relates to the distribution of power and autonomy in the federal structure. And the Kurdish Regional Government's strong feelings that it needed to be unencumbered by common policies and/or the nature of how the strategy would be formulated. And the -- what is required now is a high level engagement between the Kurdish Regional Government and the federal government in Baghdad to give impetus to find solutions on those power sharing issues. And if that political engagement were to happen, the technical part of the bill could be resolved quite quickly.

There's a counterpart piece of legislation that provides for sharing of hydrocarbon revenues, and that is also largely finished and could be -- and the two of them could be packaged together and put to the Council of Representatives.

QUESTION: So it sounds like the hard part still has to happen. But the way you -- but the way you phrased it, it sounds like the political engagement is not happening. Is it about to happen? What will make it happen?

AMBASSADOR RIES: It's one of those things that's best kept out of the public eye.

QUESTION: So you would not venture an expectation of when we might see it?

AMBASSADOR RIES: Yogi Berra says "Predictions are dangerous, especially about the future." No, I'm not

trying to be too cute, I just --.

QUESTION: Being diplomatic.

AMBASSADOR RIES: Well, it's not even diplomatic, it's -- I have -- I am reluctant to make firm predictions because I'm not sure enough of the prospects. I think it could be done relatively quickly, but whether it will be done or not depends on things that are outside of my control. So that's why I'm reluctant to give a hostage (inaudible).

QUESTION: When it is done, if it is done, whether it were done quickly, I guess, what would that mean for overall production, oil production, which you said was at, what, you said 2.9 now?

AMBASSADOR RIES: Overall production is 2.4. Exports are 1.9 more or less. Well, there are several things that are happening. The federal Ministry of Oil is negotiating technical service agreements with a number of international oil companies, the majors, for enhanced recovery and engineering and investment support for the Ministry's management of Iraq's super giant fields, Rumaila, Majnoon, West Qurna, Kirkuk, and they hope to finish those -- the Ministry hopes to finish these agreements in the coming weeks. And those agreements would -- under those agreements the majors would help the Ministry make its investments in those fields. And the Minister predicts that he could get maybe another 400,000 barrels a day out of those five super giant fields by the end of those two-year agreements, so into next year at some point.

And there is increased production coming every day. With high oil prices there's every incentive to do well head workovers and to de-bottleneck some of the transportation infrastructure problems.

To make sustained increases of 400,000 barrels a day, though, you have to do more than just tackle the production problems; you also have to deal with some of the transport bottlenecks. And they are working on that as well.

QUESTION: Hi. I'm Elizabeth Rosenberg with Argus Media. I have a question about what you were talking about before, about financing for reconstruction. And I'm wondering how much of reconstruction needs are paid for with Iraq's oil revenues versus U.S. contributions?

And further to that, how will financing for expansion in crude capacity, as you've just mentioned, be paid for? Is it possible for Iraq to even raise the necessary financing itself for expansion in crude capacity?

AMBASSADOR RIES: Yes. Well, the Iraqi capital budget, the capital investment budget in 2007 was \$10 billion. In 2008 it's \$13.2 I think. In that budget is about \$3 billion for oil and gas capital investment for increasing production. The -- in these technical service agreements that I mentioned before, they are budgeting or they are planning to spend \$2½ billion over a two year period on these large fields.

So with oil revenues growing the way they are and actually the Iraqis are maintaining pretty tight control over the operating budgets -- the sort of salaries and expenses budgets -- in order to preserve funds to make these reconstruction investments. How much we are paying -- they are paying several orders of magnitude more of the cost of reconstruction now than we are. We have -- we are ending the Iraq Reconstruction and Recovery Act, the IRRF -- but I don't remember what the second R is -- Reconstruction and Recovery I think it is, IRRF funding. It was a total of \$20 billion appropriated in 2003 and 2004. Some \$7 billion was diverted to security expenditures, and of the remaining roughly \$13, 20 or 30 percent of that is spent on security for us in a period of radically -- deteriorating security. But you can see that over the four year period of the IRRF we had less money to spend on reconstruction -- these kinds of big "bricks and mortar" reconstruction projects -- than Iraq has in any one year now through their budgetary process.

QUESTION: Just to follow up on that, you said several orders of magnitude more. Can you give more context here, a percentage or -- and also not just for Iraq's oil sector -- so that's one part. And also reconstruction more broadly, what percentage of Iraq's oil revenues is coming to pay for those?

AMBASSADOR RIES: Well, Iraq's oil revenues are all being spent on the Iraqi Government, both operating expenditures and reconstruction. They're not saving any of it. There are balances that build up and go down

at the Federal Reserve in New York. All of their oil revenues, all of their crude oil export revenues are deposited in the Federal Reserve in New York, something called The Development Fund for Iraq, and those balances go up and down. But basically all of the funds are being spent by the Iraqi Government on current needs, both operating and capital, and being distributed to the provinces, including the Kurdish region.

The problem is in order to compare, you have to -- the question is figuring out exactly how much money we are presently spending on reconstruction. One indicator is we have a request for assistance -- our assistance budget presently on the Hill is \$1 billion against the \$13 billion -- we're asking for a supplemental for Fiscal Year 08 of \$1 billion to spend largely on capacity development, PRT support, democracy programs, anti-corruption programs. So we're doing more technical assistance and really no big bricks and mortar projects of the old kind. But even the four year program of old style bricks and mortar was nowhere close to what it is that they are spending on an annual basis.

I mean our -- I always hesitate to put numbers out that -- on the basis of memory, but we spent somewhere between \$4 and \$5 billion on the oil sector in five years total, and they're spending \$3.5 every year now. So it's -- as they should. I mean they have lots of money. So we are basically not doing that anymore at all.

QUESTION: I'm so sorry, but just to clarify, \$3 to \$5 billion every year for how many years?

AMBASSADOR RIES: Who?

QUESTION: Sorry. You said Iraq is now spending three to five --

AMBASSADOR RIES: The Iraqi capital budget is \$13 billion -- \$13.2 billion this year.

QUESTION: Right.

AMBASSADOR RIES: It was \$10 billion last year. In that budget is an allocation to the Ministry of Oil that is \$2.3 billion.

QUESTION: Okay.

AMBASSADOR RIES: Okay?

QUESTION: And when you said that no more bricks and mortar projects, does this mean that the U.S. is no longer contributing to oil sector reconstruction?

AMBASSADOR RIES: That's correct.

QUESTION: Thank you.

QUESTION: Looking ahead to a year from now, you are going to have a different situation with Congress and certainly a different President. What will be our, in the economic side, our strategic goals for the next five or six years in Iraq? Looking at it in the broader context of what the administration is doing and be supported on Iran, all of the regional parts -- what -- where -- and certainly less influence as we begin to draw down things, what do we want to do in the next years in Iraq on the economic side and how does that fit in with the security situation?

AMBASSADOR RIES: Well, I think that what we're trying to do in Iraq on the economic side is to foster the development of a diversified and successful economy working within the confines of what Iraq has, and I don't think that that goal would change no matter who is elected President of the United States.

The United States believes that a prosperous and growing Iraq would be a force for stability in an uncertain part of the world. And I think that that is a broadly shared goal, at least in my consultations on Capitol Hill and with the many people who come to visit us in Baghdad; I think that's fairly broadly shared effort.

Also, as we shift out of bricks and mortar towards technical assistance and trying to support the development of the private sector and to help de-bottleneck problems like agriculture, I think that those are also broadly shared objectives and not sort of specific to this administration at this point in time.

What it means is our security relationship changes with Iraq based on the changing situation on the ground or whatever policy changes may be agreed here in Washington sort of beyond my responsibilities. But I would say that no matter what, I can't imagine an American administration that wouldn't support continued economic growth and development in this country that has suffered so much.

QUESTION: Good seeing you again, Mr. Ambassador. I appreciate all the hard work you're doing. You're probably in the most unenviable of positions in the middle of this hydrocarbons law legislation. So I doubt that there are too many people in Washington trying to vie for your job right now.

You touched on something in your --

MR. BARTON: Please introduce yourself.

QUESTION: Sorry, Qubad Talibani representing the Kurdistan Regional Government in the United States. You mentioned that your goal is to work on developing a self-sustaining economy for and by the Iraqi people. And you mentioned some critical pillars of that which was security, moving beyond state-run enterprises, a private banking system, and efforts to attract investment. I'd also add, you know, the ability to bring investors into and out of Iraq. Now a lot of those four or five pillars are actually developing after some progress in Iraq's Kurdistan region. And I was hoping you could touch on a little bit of the economic activity that's going on there and the benefits that could possibly have for the rest of the country as the country begins to stabilize.

AMBASSADOR RIES: Indeed. I mean the situation in the Kurdish Regional Government's area is very, very heartening. It's very exciting every time I go to visit. There's a lot of new construction. There's a lot of private investment, foreign investment. In many ways it demonstrates what security can do. It is a much more stable and secure area, and it also has investment friendly economic policies, and the market has responded. And in many ways what we'd like to see in the rest of the country is a similar combination of better security, better economic policy leading to greater investment, and stabilizing employment and so forth.

So I mean the KRG is part of Iraq. And when you tell the story of Iraq, part of the story is what's going on in the KRG, and so it's quite a heartening story.

QUESTION: Ben Lando with United Press International and the Iraq Oil Report. First, I wondered if you'd clarify -- you mentioned the U.S. is helping Iraq in moving a lot of their state industries into the private sector. Does that include the oil and gas sector and electricity sector for that matter or not?

AMBASSADOR RIES: Iraq is -- does not have a formal privatization program. The cement plant production sharing arrangements that I mentioned are production sharing arrangements in which private consortia will taken on individual plants, make investments in those plants and share the output in-kind. And they are an effort by the Iraqi Ministry of Industry to find ways to attract foreign investment and technology into state-owned enterprises that need help but without tackling the difficult political problems of a formal privatization program and presumably are stop gaps. I mean it may be that privatization of these kinds of facilities may come later, but that would be an Iraqi decision and it would be based on more active productive facilities after the influx of this kind of capital and technical help.

In the hydrocarbons sector, actually all parties, with a few exceptions of parties that are not in government, agree that the way ahead is for Iraq to follow the lead of many other OPEC countries and to do production sharing agreements for new acreage, acreage that is not actually productive at the moment. And under the PSA model, companies will invest in exploration. And if they find commercial quantities of oil, production of oil, and again the foreign company does not own the oil in the ground, it only acquires a right to a specified percentage of the oil on production and to sell that oil for its own account. But that model has been used by many countries, Libya, Indonesia, and even neighboring Syria, to good effect to get international companies to invest their own money and technology in finding oil.

That is the likely course for the upstream industry in Iraq. They have passed legislation -- the Iraqi Government has passed legislation to allow for private investment in refining, but thus far there has not been a major private investment proposal in refining. It's a little tough to work the economics if the upstream is in the hands of the public sector and the downstream is price controlled. So it may be a while before that happens, but it's at least theoretically possible.

QUESTION: Is there any word going into rebuilding the Iraqi oil industry capacity, which was kind of demolished under Saddam Hussein? A lot of the people who --

AMBASSADOR RIES: Yes. I mean, yes. Yes, the --

QUESTION: What part of that --

AMBASSADOR RIES: The Ministry has a very active training program. And there are several hundred Iraqi operating companies, North Oil Company and South Oil Company, they're two principal operating companies under the Ministry of Oil. And there are several hundred technical people from the Iraqi state-owned oil companies that are under -- they are doing training programs abroad, including some in the United States, funded from a variety of different directions. And the Iraqis are interested in finding out what's going on in the international oil and gas world from which they have been isolated during the period of sanctions under Saddam Hussein.

That said, I've heard oil company people tell me that the Iraqi engineers, petroleum, hydrocarbon, oil and gas engineers are among the best in the region, that they are very good at making sort of an old under capitalized system work. And I think the proof is in 2.4 million barrels a day. And they have also been improving the speed with which they have been able to recover from insurgent attacks on facilities, which is, you know, a sort of separate competency in and of itself. One hopes that they won't need that so much longer but in principle also is an engineering problem.

QUESTION: And last, can you just talk about the situation in Basra? It's obviously a key province and city for Iraq's economy, not only the oil sector. But is the increasing level of insecurity there, but there's also a refocus also from both the U.K. and United States and Iraq on developing the economy. So can you just talk about what's happening in Basra?

MR. BARTON: Let me also give you a -- can you handle two questions back-to-back here? Let's make sure we get your question in -- okay, all right.

AMBASSADOR RIES: All right.

MR. BARTON: I will start figuring out how to shorten them up.

AMBASSADOR RIES: Because I actually have to go up on the Hill in a few minutes. But let me -- on Basra, I'm not a great expert on Basra's security, but there are obviously serious security problems in Basra and struggles between political parties and groups in Basra. It is not -- the interesting thing about Basra is that thus far many of the violent acts have not been focused on the oil and gas infrastructure. The oil and gas infrastructure by and large has -- in Basra has been relatively untouched.

The attacks that have happened have been mainly theft. There would be pipelines cutting across the desert and groups would bust in, open up a pipeline and steal -- or open up a pipeline, there's a pool of crude, they shut down the pipeline; they fix the pipeline, and then the bad guys come back and scoop up the crude and go off and sell it. That's more of what's happening in Basra.

The British are taking the lead in trying to invigorate investment particularly in the industrial sector in Basra, and they've gotten the head of KPMG U.K., Michael Wearing, to chair a Basra Development Commission with a lot of very good creative ideas to try and stimulate investment in the region.

QUESTION: (Inaudible). You mentioned agriculture being one of the main hurdles. What state is it in? Plans are in place to --

AMBASSADOR RIES: Yeah, thank you very much for asking that question because I realize I didn't say much about agriculture and it's very important.

Agriculture is about a quarter of the economy now. And just as Iraq has extraordinary resources in hydrocarbons, it also has extraordinary resources in agriculture. It is the Fertile Crescent, between two great rivers, a lot of flat, potentially productive land with water. The sector, though, has been mismanaged for decades. The Saddam Hussein regime undertook huge and almost Stalinist state-driven investment programs and then didn't complete them or changed his mind. There's a problem of salinization of potentially good land. There was never investment in drainage. There is effectively no real price structure for the agriculture sector, for inputs, for outputs. Agribusiness is wanting the sort of associated businesses in agriculture like slaughter houses and feed mills and tractor maintenance and so forth.

We have started a program with the budget of about \$90 million a year over three years, if Congress continues to fund it, to focus specifically on the agriculture sector and developing the private sector in the agriculture sector. The program is called IMMA and it's being undertaken by USAID. And it's looking for those key nodes where we can have an impact.

We also are ramping up our support by the U.S. Department of Agriculture with the Ministry of Agriculture rebuilding or building for the first time networks of agricultural extension services, starting to solve the technical problems that relate to what kinds of crops do you grow on what kind of land and how do you support the farmers with inputs, and how do you price the inputs, and what about mechanization. There are a lot of things that are happening all at once.

We are trying to leverage our present -- widespread presence of our brigade combat teams, many of whom because of the American sort of civilian soldier, a lot of the officers and men in the brigades are actually Reservists and some of them are farmers themselves and we're trying now much more systematically to get them engaged in agriculture programs at the very local level.

And we have our network of PRTs. Every PRT that isn't urban has an agricultural advisor and has a budget to be able to commit funds to small scale agriculture and agribusiness programs. But we do think that, you know, if someday the Tigris and Euphrates support the kind of agriculture we see in the Imperial Valley of California or in other parts of the Middle East, the country could be, in some products, a very substantial supplier, at least in the region.

MR. BARTON: Charlie, just for the last question, could you -- you've served in virtually every kind of U.S. diplomatic post and this is I'm sure the most complex one you've seen. We've been there five years. The leadership structure, the unity of leadership for where the decisions are made, whether there are strategies, has been a constant concern of most of us who have worked on this case. What do you see as the -- as sort of the leadership model that might get us out of these rather slow learning processes that we've gone through here, much more painful than just that?

AMBASSADOR RIES: Well, I don't know. I don't have a whole lot of extra gray cells to think about the bigger model. I think in Baghdad we've made a lot of progress. And we are now set up to better integrate economics, security and political strategy than, at least from my understanding of how we were in the past. And this is not my contribution. I was -- I've come in after the present sort of structure has been established but we have this network of 25 PRTs adequately staffed now after some effort and resource. We have -- in the Embassy I'm in charge of assistance and economic policy with the ability to coordinate our different strands of assistance and to integrate that with the policy dialogue. The agriculture question is a good example.

We've got an AID agriculture policy program and we've got a USDA agricultural assistance program, and we've got the military that is active in this field. Both USDA and USAID work in my area. And I've spent a lot of time with the military to foster a common policy approach. And we are doing that in the field now kind of across the board, in transportation policy, in oil and gas policy, and the various challenges that we face. Budget execution is another kind of total mission commitment.

I chair a group every week of -- which are Americans that have the lead in working with every Ministry, not every Ministry but all the big Ministries in the Iraqi Government. And at the table are the people in the

military that are working with the Ministry of Defense and the people of Department of Agriculture are working in the Ministry of Agriculture and we try and share approaches. So we worked it out.

In terms of what that model means and what kind of preparations should be done broader and outside of Iraq, I leave that to experts like you and institutions like CSIS to figure that out. We're just trying to stay up day to day in Baghdad.

MR. BARTON: Well, there's plenty more to say. Thank you all for coming. And please join me in thanking Charlie.

(Applause.)

# # #

---

This site is managed by the U.S. Department of State.

External links to other Internet sites should not be construed as an endorsement of the views or privacy policies contained therein.