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IRAQ'S BUDGET SURPLUS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, DC, SEPTEMBER 16, 2008

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IRAQ'S BUDGET SURPLUS

TUESDAY, SEPTEMBER 16, 2008

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to call, at 9:35 a.m., in Room 210, Cannon House Office Building, Hon. John M. Spratt presiding.

Present: Representatives Spratt, Edwards, Schwartz, Kaptur, Becerra, Doggett, Berry, McGovern, Scott, Etheridge, Baird, Moore of Kansas, Bishop, Ryan, Conaway, Tiberi, Porter, Alexander, Smith, and Jordan.

Chairman SPRATT. I call the Committee hearing to order, and first of all thank everyone for attending today's hearing on Iraq's Budget Surplus, and especially our witnesses.

This hearing will be the first opportunity for the Congress to receive testimony on this report, the GAO Report, since the Government Accountability Office released it several weeks ago. GAO reports that Iraq is now running a substantial budget surplus. It may reach $79 billion. At the same time the CBO reported last week that in contrast to Iraq's growing surplus, the budget deficit for the United States is expected to be $400 billion for the current fiscal year. That is the second largest deficit in our history. Even bigger deficits are projected next year.

This hearing will give the Budget Committee the chance to develop some insight into Iraq's fiscal situation and its ability to help pay for its own reconstruction. So far the United States has provided more than $650 billion for our efforts in Iraq, $50 billion of which is for reconstruction and security forces training. We are spending today at the rate of more than $10 billion a month, which is by anybody's calculus a significant sum of money.

Given our budget deficits here at home, some find it difficult to understand why American taxpayers are still funding Iraqi reconstruction and security training. In funding the Gulf War, the first President was able to secure much greater cost sharing from our allies which greatly reduced the bill that the taxpayers ultimately had to pay.

Let me say at the outset that this hearing is not a debate on the war, not a debate on the surge, or the plans for redeploying any troops we may have. In fact, even the strictly budgetary issues of the total cost of the war, military and reconstruction, is larger than today's topic.

We invited the Department of Defense to address the broader budgetary issue in a hearing this fall, but they declined to appear. Thus today's hearing is called to examine the issue of the Iraqi

budget surplus. We on the Budget Committee want to assess for the purpose of projecting the bottom line whether the burden of Iraq's reconstruction can finally begin to shift from the United States to Iraq itself given the surplus they are currently enjoying.

To help us understand the budget surplus we have two panels. On the first is Mr. Joseph Christoff, the Director of International Affairs and Trade at the Government Accountability Office. Mr. Christoff is joining us to present GAO's latest information on Iraq's budget surplus. Mr. Christoff, thank you for coming and we look forward to your testimony. On the second panel we have Mr. Christopher Blanchard from CRS, Dr. Larry Korb from the Center for American Progress, Dr. Fred Kagan from the American Enterprise Institute. The second panel will continue the discussion on this topic by giving us their expert opinions. On behalf of the Committee I also welcome Mr. Blanchard, Mr. Korb, and Mr. Kagan. We will come to you as soon as we finish with this panel.

But before turning to the testimony of the witnesses let me turn to my colleague Mr. Ryan from Wisconsin for any comments he may care to make. Mr. Ryan?

[The prepared statement of John Spratt follows:]

PREPARED STATEMENT OF HON. JOHN M. SPRATT, JR., CHAIRMAN, HOUSE COMMITTEE ON THE BUDGET

I would like to thank everyone for coming to today's hearing on "Iraq's Budget Surplus," particularly our witnesses. This hearing will be the first opportunity for Congress to receive testimony on this report since the Government Accountability Office released it.

GAO reports that Iraq is now running a substantial budget surplus that may reach $79 billion. At the same time, the Congressional Budget Office reported last week that in contrast to Iraq's growing budget surplus, the budget deficit for the United States is expected to exceed $400 billion for the current fiscal year—the second largest deficit in U.S. history—with even bigger deficits projected for next year.

This hearing will give the Budget Committee the chance to develop some insight into Iraq's fiscal situation and its ability to help pay for its own reconstruction. So far, the United States has provided more than $650 billion for our efforts in Iraq, $50 billion of which is for reconstruction and security forces training. We are spending at a rate of $10 billion a month—a significant sum of money. Given our budget deficits here at home, some find it difficult to understand why American taxpayers—rather than Iraqis—are still funding Iraq reconstruction projects and security training. In funding the Gulf War, the first President Bush was able to secure much greater cost-sharing from our allies, greatly reducing the bill that the American taxpayers had to fund.

Let me say at the outset that today's hearing is not a forum to debate the war or the surge or the plans for redeploying our troops. In fact, even the strictly budgetary issue of the total costs of the war—military and reconstruction—is broader than today's topic. We invited the Department of Defense to address that broader budgetary issue in a hearing this fall, but they have declined to appear.

Thus, today's hearing is called to examine the issue of Iraq's budget surplus. We on the Budget Committee want to assess, for the purpose of projecting the bottom-line, whether the burden of Iraq's reconstruction can finally shift from the U.S. to Iraq, given the current budgetary surplus in Iraq.

To help us understand Iraq's budget surplus, we have two panels. On the first panel we have Mr. Joseph Christoff, the Director of International Affairs and Trade at GAO. Mr. Christoff is joining us to present GAO's latest information on Iraq's budget surplus. Mr. Christoff, I thank you for coming and join my colleagues in welcoming you here.

On the second panel we have Mr. Christopher Blanchard from CRS, Dr. Lawrence Korb from the Center for American Progress, and Dr. Frederick Kagan from the American Enterprise Institute. The second panel will continue the discussion on this topic by giving us their expert opinions. On behalf of the Committee, I also welcome Mr. Blanchard, Dr. Korb and Dr. Kagan. We appreciate their willingness to participate and look forward to their testimony.

I now turn to my colleague, the ranking Member from Wisconsin, Mr. Ryan for any statement that he may have.

Mr. RYAN. Thank you, Mr. Chairman. Also, Mr. Chairman thank you for holding this hearing on an issue that is of particular importance to this Committee. That is, how do we budget for the War on Terrorism, and particularly the war in Iraq? But while talking about this is important, with only two weeks left before funding for our troops expires it would be wise for this Congress to put forward a similar effort into actually completing the Defense Appropriations Bill.

A month or so ago GAO estimated that Iraq will be generating significant oil revenues in 2008 and will be running a budget surplus. I am very interested to hear from Dr. Christoff today on whether or not he believes that that is still the case today with the volatility in oil prices such as it is today. Clearly our success in Iraq depends largely on the establishment of a stable security environment that is necessary for a civil society and a growing economy in that nation. This report suggests that Iraq is making progress on getting its oil industry operating and developing a functioning government.

I view this as progress. I was there a year ago and you had black market trucks coming into the biggest refinery at night, stealing the oil. And we had to send the 82nd Airborne in just to secure an oil refinery. So we are seeing progress going in the right direction. And I believe that that progress is due largely to the fact that the surge has worked. American troops have made remarkable progress in improving ground conditions in Iraq. And by most accounts, it appears that we have clearly turned a corner.

I was among those who supported the surge, and many of you are here as well. Which I will note that Senator Obama recently stated that he believes that it, "has succeeded beyond our wildest dreams." And while I have certainly heard the arguments of those who insist that now is the right time to simply pull out, I would argue the opposite. Now is the time to take those incredibly hard fought gains, build upon them, and finish the job so our troops can come home with a victory.

On a final note, if there is one thing I would ask my colleagues to keep in mind it is that regardless of which side of the aisle you are on none of us wants to be at war. At the same time, every one of us wants to ensure the safety and security for our nation. In short, I believe we all genuinely want to do what is right for our country and for the security of our people.

This hearing offers the Committee an opportunity to look forward. Forward to how we budget for finishing the job in Iraq, forward to ensuring the security environment in Iraq continues to foster a growing economy, and forward to the day that the Iraq government has the capability to stand on its own two feet. I look forward to hearing from Mr. Christoff and from our other witnesses who I would like to thank for coming here today. Thank you, Chairman. I yield.

PROTESTOR. [Inaudible].

Chairman SPRATT. I'm sorry you are out of order and you will be removed from the room if you persist in doing what you're doing.

PROTESTOR. [Inaudible].

Chairman SPRATT. Mr. Christoff, the floor is yours. Your statement will be made a part of the record so that you can summarize it, but we welcome you to expand on it as well and explain, number one, how this mission came about, and number two how it was conducted as well as the findings of it. I would ask before we get started that there be unanimous consent so that all members can submit an opening statement, or any who care to, which will be entered into the record at this point. Without objection, so ordered.

Mr. Christoff, the floor is yours. Thank you again for coming. We look forward to your testimony.

STATEMENT OF JOSEPH CHRISTOFF, DIRECTOR OF INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE

Mr. CHRISTOFF. I thank you, sir. Thank you Mr. Chairman, Mr. Ryan, for inviting me to this important hearing. Iraq has an estimated 115 billion barrels of crude oil reserves. It is the third largest in the world. And oil revenues are critical to Iraq's economy, accounting for over half of the country's GDP and over 90 percent of its revenues. My statement today is based on the report we issued last month on Iraq's revenues, expenditures, and surpluses from 2005 to 2008. To complete our work we received revenue data from the Central Bank of Iraq and the IMF, and expenditure data from Iraq's Ministry of Finance.

And let me summarize the findings in our report. First, from 2005 to 2007 Iraq generated $96 billion in revenues. Oil revenues accounted for over 90 percent of that total. For 2008 we estimate that Iraq could generate between $73 billion and $86 billion in total revenues, nearly as much as it generated in the prior three years.

Second, from 2005 to 2007 Iraq spent $67 billion on operating expenses and investments. Operating expenses, such as salaries and goods and services, consumed 90 percent of that total. The remaining 10 percent was spent on investments, such as structures, and vehicles. In general, Iraq has spent less on investments than operating expenses. For example, in 2007 the government spent only 28 percent of its $12 billion investment budget. In contrast, Iraq spent 80 percent of its $29 billion operating budget.

We also found that Iraq spent 1 percent of total expenditures on maintaining Iraq and U.S. funded investments. These investments included bridges, roads, weapons, and water and electricity facilities. Iraq has not spent all of its budgeted funds, resulting in a growing surplus, our third key finding. We estimate that Iraq will accumulate a budget surplus of between $67 billion and $79 billion by the end of this year. This includes $29 billion accumulated through the end of 2007 and between $38 billion and $50 billion projected for 2008.

This surplus could be reduced if the government spends the $22.3 billion supplemental budget it passed last month. The government of Iraq projects it will spend its entire budget, including the supplemental, and end 2008 with a $5 billion deficit. Iraq made similar assertions in its 2005 through 2007 budgets, projecting deficits of between $3.5 and $8.1 billion. However, Iraq ended each of these years with budget surpluses. Accordingly, it is unlikely the

government will spend its entire budget for 2008. Moreover, as of June 2008 the Iraqi government had spent only 38 percent of its $50 billion regular budget.

Several factors affect Iraq's ability to spend its budget, particularly its investment budget. Iraq has weak budgetary, procurement, and accounting systems. In addition, it has a shortage of trained staff with experience in preparing budgets, soliciting awards, and overseeing capital projects. And finally, violence has decreased the number of workers available and increased the time needed to plan and complete capital projects. Violence has also hindered U.S. efforts to help build capacity in Iraq's central ministries.

In reviewing our report the Treasury Department agreed with our findings. The Department stated that with more revenues the Iraqi government is in a stronger position to shoulder the burden of developing, rebuilding, and securing the country. To date, the United States has largely shouldered that burden. For example, in four key sectors, security, oil, water, and electricity, the United States has spent 70 percent of the $33 billion it allocated. In comparison, the Iraqi government spent 14 percent of the $30 billion it allocated for these same sectors.

So in conclusion, Iraq's large surplus and growing oil revenues offer it the potential to contribute to the country's reconstruction and provide more services to its people. Mr. Chairman, that concludes my statement. I would be happy to answer your questions.

[The prepared statement of Joseph Christoff follows:]

United States Government Accountability Office

GAO

Testimony

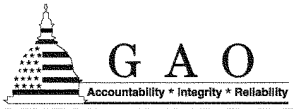
Before the Committee on the Budget, House of Representatives

For Release on Delivery
Expected at 9:30 a.m. EDT
Tuesday, September 16, 2008

STABILIZING AND REBUILDING IRAQ

Iraqi Revenues, Expenditures, and Surplus

Statement of Joseph A. Christoff, Director
International Affairs and Trade



GAO-08-1144T

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Highlights

Highlights of GAO-08-1144T, a testimony before the Committee on the Budget, House of Representatives

September 16, 2008

STABILIZING AND REBUILDING IRAQ

Iraqi Revenues, Expenditures, and Surplus

Why GAO Did This Study

Iraq has an estimated 115 billion barrels of crude oil reserves—the third largest in the world. Oil export revenues are critical to Iraq's economy, accounting for over half of the country's gross domestic product and over 90 percent of revenues.

This testimony discusses (1) Iraq's estimated revenues from 2005 through 2008, (2) Iraq's estimated expenditures from 2005 through 2008, (3) Iraq's financial deposits through 2007 and budget surpluses, and (4) U.S. cumulative expenditures on stabilization and reconstruction activities in Iraq since 2003.

GAO analyzed relevant data and reviewed documents such as Central Bank of Iraq (CBI) export oil receipts data and the International Monetary Fund's (IMF) stand-by arrangement for Iraq. GAO worked with officials from the Department of Treasury and interviewed officials from the Departments of State, Defense, Energy's Energy Information Administration (EIA), and the IMF. GAO also reviewed translated copies of Iraqi documents, including budget and capital spending reports.

Treasury agreed with GAO's findings and stated that Iraq has adequate funds to make and maintain capital investments that deliver service and foster economic growth.

To view the full product, including the scope and methodology, click on GAO-08-1144T. For more information, contact Joseph A. Christoff at 202-512-8979 or christoffj@gao.gov.

What GAO Found

From 2005 through 2007, the Iraqi government generated an estimated $96 billion in cumulative revenues, of which crude oil export sales accounted for about $90.2 billion or 94 percent. For 2008, Iraq could generate an estimated $73.5 billion to $86.2 billion in revenues, with oil exports accounting for $66.5 billion to $79.2 billion. Projected 2008 oil revenues could be more than twice the average annual amount Iraq generated from 2005 through 2007.

Iraqi Revenues, Expenditures, and Surpluses, 2005-2007, with Projections for 2008

(Billions of U.S. dollars)						
					2008 Projections	
	2005	2006	2007	Total, 2005-2007	Low	High
Total Revenues	**24.1**	**32.0**	**39.9**	**96.0**	**73.5**	**86.2**
MoF Expenditures	17.6	22.8	26.6	67.0	35.3	35.9
Surplus	6.5	9.2	13.3	29.0	38.2	50.3

Source: GAO analysis of data from the Central Bank of Iraq, International Monetary Fund, and Iraqi Ministry of Finance (MoF) Budget.

From 2005 through 2007, the Iraqi government spent an estimated $67 billion on operating and investment activities. Ninety percent was spent on operating expenses, such as salaries and goods and services, and the remaining 10 percent on investments, such as structures and vehicles. The Iraqi government spent only 1 percent of total expenditures to maintain Iraq- and U.S.-funded investments, such as electricity installations and weapons.

From 2005 through 2007, Iraq had an estimated cumulative budget surplus of about $29 billion. For 2008, we estimate that Iraq will have an additional surplus of between $38.2 billion to $50.3 billion, which could result in a cumulative budget surplus of $67 billion to $79 billion. Iraq's 2008 budget surplus could be reduced by expenditures from its $22.3 billion supplemental budget, which Iraq's Council of Representative passed in August 2008. However, based on Iraq's past expenditure performance, the government may not be able to spend all that it has budgeted for 2008.

Since fiscal year 2003, the United States has appropriated about $48 billion for stabilization and reconstruction efforts in Iraq; it had obligated about $42 billion of that amount, as of June 2008. U.S. agencies spent about $23.2 billion on four critical sectors—security, oil, electricity, and water. As of June 2008, the United States had spent 70 percent of the amount it allocated for these four sectors from fiscal year 2003 through June 2008. Iraq spent 14 percent, or $4.3 billion, of the $30 billion it allocated for similar activities in these sectors from 2005 through June 2008.

Iraq's large oil reserves coupled with higher oil prices offer the government of Iraq the potential to increase its contributions to the country's reconstruction efforts and thereby enhance essential services to the Iraqi people.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the report GAO issued last month on the revenues, expenditures, and surpluses Iraq has generated since 2005.[1] This report discussed (1) Iraq's estimated revenues from 2005 through 2008, (2) Iraq's estimated expenditures from 2005 through 2008, (3) Iraq's financial deposits through 2007 and budget surpluses, (4) U.S. cumulative expenditures on stabilization and reconstruction activities in Iraq since 2003, and (5) factors affecting Iraq's efforts to accelerate spending.

Iraq has an estimated 115 billion barrels of crude oil reserves—the third largest in the world. Oil export revenues are critical to Iraq's economy, accounting for over half of the country's gross domestic product and over 90 percent of revenues. Iraq's large oil reserves coupled with higher oil prices offer the government of Iraq the potential to contribute to the country's reconstruction efforts and thereby enhance essential services to the Iraqi people.

To address the report's objectives, we analyzed relevant data and reviewed documents such as Central Bank of Iraq (CBI) export oil receipts data and the International Monetary Fund's (IMF) stand-by arrangement for Iraq. We worked extensively with officials from the Department of Treasury and interviewed officials from the Departments of State, Defense, Energy's Energy Information Administration (EIA), and the IMF. We also reviewed translated copies of Iraqi documents, including budget and capital spending reports.

We conducted this performance audit from May to August 2008, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our report builds upon GAO's extensive body of work on Iraq, also conducted according to generally accepted government auditing standards. These reports include our May 2007 report on Iraq's energy sector, our January 2008 report assessing Iraq's efforts to

[1] GAO, *Stabilizing and Rebuilding Iraq: Iraqi Revenues, Expenditures, and Surplus*, GAO-08-1031 (Washington, D.C.: Aug. 5, 2008).

spend its budget, and our June 2008 report assessing progress in meeting key goals of The New Way Forward.[2]

Summary

From 2005 through 2007, the Iraqi government generated an estimated $96 billion in cumulative revenues, of which crude oil export sales accounted for about $90.2 billion or 94 percent. For 2008, we estimate that Iraq could generate between $73.5 billion and $86.2 billion in total revenues, with oil exports accounting for between $66.5 billion to $79.2 billion. Projected 2008 oil revenues could be more than twice the average annual amount Iraq generated from 2005 through 2007. Iraq revenues, expenditures, and budget surpluses are displayed in table 1.

Table 1: Iraqi Revenues, Expenditures, and Surpluses, 2005-2007, with Projections for 2008

(Billions of U.S. dollars)

					2008 Projections	
	2005	2006	2007	Total, 2005-2007	Low	High
Total Revenues	24.1	32	39.9	**96.0**	73.5	86.2
MoF Expenditures	17.6	22.8	26.6	**67.0**	35.3	35.9
Surplus	6.5	9.2	13.3	**29.0**	38.2	50.3

Source: GAO analysis of data from the Central Bank of Iraq, International Monetary Fund, and Iraqi Ministry of Finance (MoF) Budget.

Note: GAO projections for 2008 are based on actual prices and volume of crude oil exports over the first 6 months of 2008 and varied price and export volume for the last 6 months of 2008.

From 2005 through 2007, the Iraqi government spent an estimated $67 billion on operating and investment activities. Ninety percent was spent on operating expenses, such as salaries and goods and services, and the remaining 10 percent on investments, such as structures and vehicles. The Iraqi government spent only 1 percent of total expenditures to maintain Iraq- and U.S.-funded investments, such as buildings, water and electricity installations, and weapons. While total expenditures grew from 2005 through 2007, Iraq was unable to spend all of its budgeted funds. For

[2]See GAO, *Rebuilding Iraq: Integrated Strategic Plan Needed to Help Restore Iraq's Oil and Electricity Sectors*, GAO-07-677 (Washington, D.C.: May 15, 2007); *Iraq Reconstruction: Better Data Needed to Assess Iraq's Budget Execution*, GAO-08-153 (Washington, D.C.: Jan. 15, 2008); and *Securing, Stabilizing, and Rebuilding Iraq: Progress Report: Some Gains Made, Updated Strategy Needed*, GAO-08-837 (Washington, D.C.: June 23, 2008).

example, in 2007, Iraq spent 80 percent of its $29 billion operating budget and 28 percent of its $12 billion investment budget.

From 2005 through 2007, Iraq had an estimated cumulative budget surplus of about $29 billion. For 2008, we estimate that Iraq will have an additional surplus of between $38.2 billion to $50.3 billion, which could result in a cumulative budget surplus of $67 billion to $79 billion for 2005 through 2008. Iraq's 2008 budget surplus could be reduced as a result of expenditures from the $22.3 billion supplemental budget Iraq's Council of Representative passed in August 2008. However, based on Iraq's past expenditure performance, the government may not be able to spend all that it has budgeted for 2008.

Since fiscal year 2003, the United States has appropriated about $48 billion for stabilization and reconstruction efforts in Iraq; it had obligated about $42 billion of that amount, as of June 2008.[3] U.S. agencies spent about $23.2 billion on four critical sectors—security, oil, electricity, and water. As of June 2008, the United States spent 70 percent of the amount it allocated for these four sectors from fiscal year 2003 through June 2008. Iraq spent 14 percent, or $4.3 billion, of the $30 billion it allocated for similar activities in these sectors from 2005 through June 2008.

U.S. government, coalition, and international officials have identified a number of factors that have affected the Iraqi government's ability to spend more of its revenues on capital investments. These factors included the shortage of trained staff; weak procurement and budgeting systems; and violence and sectarian strife. The United States has funded activities to help build the capacity of key civilian and security ministries to improve Iraq's ability to execute its capital project budget.

The Department of the Treasury agreed with the findings of our report and stated that the report accurately highlights the substantial growth of Iraq's revenues in recent years. Treasury also stated that the increase in Iraqi revenues places the government of Iraq in a stronger position to shoulder the full burden of its development, reconstruction, and security programs.

[3]This amount includes $2 billion appropriated in June 2008 for reconstruction and stabilization activities in Iraq in the Supplemental Appropriations Act, 2008, P.L. 110-252 (June 30, 2008). This amount does not include $1.1 billion appropriated in the same Act for similar activities in Iraq after October 1, 2008.

Background

Iraq possesses the third largest crude oil reserve in the world, estimated at a total of 115 billion barrels. Only Saudi Arabia and Iran have larger proved[4] world oil reserves. Iraq's oil infrastructure has deteriorated over several decades due to war damage, inadequate maintenance, and the limited availability of spare parts, equipment, new technology, and financing. This situation was further affected by looting after Operation Iraqi Freedom and continued attacks on crude oil and refined product pipelines.

Iraq's crude oil production and exports have recovered since 2003. As of June 2008, Iraq's crude oil exports averaged 2.01 million barrels per day (mbpd), according to Iraqi oil export receipt data. Iraq generally receives a discounted export price for its crude oil, in part due to its relatively lower quality compared with key crude oils such as the U.S. West Texas Intermediate (WTI) and Brent—benchmarks for world oil prices. According to CBI data, for January through June 2008, Iraqi crude oil was priced at an average of $96.88 per barrel. During the same period, WTI and Brent's prices averaged $110.95 and $109.17 per barrel, respectively.

Iraq's Estimated Revenues from 2005 through 2008

From 2005 through 2007, the Iraqi government generated an estimated $96 billion in cumulative revenues.[5] This estimate is based on actual crude oil export sales of about $90.2 billion as reported by the CBI and Iraqi taxes, interest, and other revenues of about $5.7 billion, as estimated by the IMF. Crude oil export revenues increased an average of about 30 percent each year from 2005 to 2007, due to increases in oil exports and price.

For 2008, we estimate that Iraq could generate between $73.5 billion to $86.2 billion in total revenues. Table 2 displays the projected total revenues, based on six scenarios projecting oil export revenues by varying price and volume of exports.

[4]Proved reserves are estimated quantities that analysis of geologic and engineering data demonstrates with reasonable certainty are recoverable under existing economic and operating conditions.

[5]We are reporting Iraqi revenues as estimates because we use IMF-reported estimates of $5.7 billion for net domestic revenues from oil-related public enterprises, taxes, and other revenues, which is about 6 percent of Iraq's estimated total revenues for 2005 through 2007.

Table 2: Projections for 2008 Iraqi Total Revenues

(Billions of U.S. dollars)						
Revenues	**1**	**2**	**3**	**4**	**5**	**6**
Export oil revenues	$66.5	$68.7	$73.3	$75.9	$76.4	$79.2
Tax and other revenues	6.9	6.9	6.9	6.9	6.9	6.9
Total	**$73.5**	**$75.7**	**$80.2**	**$82.8**	**$83.3**	**$86.2**

Source: GAO analysis of CBI and IMF data.

Note: Totals may not add due to rounding.

These scenarios assume that tax and other revenues (a small portion of total revenues) will be $6.9 billion for 2008 but that export oil revenues will vary based on the price Iraq receives for its oil and the volume it exports.[6] As a result, we project that Iraq could generate between $66.5 billion and $79.2 billion in oil revenues in 2008, more than twice the average annual amount Iraq generated from 2005 through 2007. These scenarios use the actual prices and volume of crude oil exports over the first 6 months of 2008, as reported by the CBI. For the last 6 months of 2008, we varied the volume exported from 1.89 to 2.01 mbpd and the price received from $96.88 to $125.29 per barrel.

Iraq's Estimated Expenditures from 2005 through 2008

From 2005 through 2007, the Iraqi government spent an estimated $67 billion on a variety of operating and investment activities, as reported by the Ministry of Finance. As displayed in table 3, Iraq spent 90 percent of the $67 billion on operating expenses, including salaries and pensions, and 10 percent on investment expenses, such as structures, machinery, and vehicles.[7]

[6]The IMF reported estimates of $6.9 billion in tax and other revenues for Iraq in 2008.

[7]We use "investment expenditures" here to refer to expenses for capital goods and capital projects. Capital projects represent almost 90 percent of the Iraqi investment budget.

Table 3: Government of Iraq Expenditures and Annual Growth Rates, 2005 through 2008

(Millions of U.S. dollars)

Types of Expenditures	2005	2006	2007	Total 2005-07	Jan.- June 2008	Percentage share of total 2005-07	Annual average growth rate 2005-07 dollars	Annual average growth rate 2005-07 Iraqi dinars
Total expenditures	**$17,583**	**$22,788**	**$26,599**	**$66,970**	**$19,127**	**100**	**23**	**13**
I. Operating expenditures	16,151	21,173	23,164	**60,489**	16,528	90	20	10
A. Employee compensation	6,062	7,087	9,936	**23,085**	7,534	34	28	17
B. Goods and services	1,195	1,445	3,327	**5,967**	1,912	9	67	53
1. Goods	565	663	1,794	**3,021**	1,048	5	78	63
2. Services	392	433	1,174	**1,998**	594	3	73	59
3. Maintenance	238	349	360	**947**	269	1	23	13
C. Other operating expenditures[a]	8,894	12,642	9,901	**31,437**	7,082	47	6	-3
II. Investment[b]	1,432	1,615	3,434	**6,482**	2,599	10	55	42

Source: GAO analysis of Iraqi Ministry of Finance budget expenditure data.

Notes: The 2005 through 2007 time frame represents fiscal year spending for January through December.

The government of Iraq adopted a new chart of accounts in 2007. To make comparisons over time, we combine various budget categories to make them comparable over time.

[a]Other operating expenses include interest payments, grants and transfers, subsidies to public and private enterprises, war reparations, and social benefits.

[b]Investment includes grants for reconstruction activities primarily for provinces and regions for 2007 and 2008.

Our analysis of Ministry of Finance expenditure data found:

- Iraq's dollar expenditures grew by about 23 percent per year, from $17.6 billion to $26.6 billion, largely due to increased spending on Iraqi security personnel. However, annual average growth rates computed in Iraqi dinars were 13 percent per year. Growth rates in dinars may be more informative since Iraq spends its budget in dinars. Using dollar-denominated expenditures inflates growth rates because the dinar appreciated 19 percent against the dollar in 2007.[8]

[8]The Iraq dinar-U.S. dollar exchange rate was 1,500 per dollar in 2005 and 2006; 1,260 per dollar in 2007; and 1,200 per dollar in 2008.

- The Iraqi government spent about $947 million, or 1 percent of its total expenditures for the maintenance of Iraqi- and U.S.-funded investments. These expenses included maintenance of roads, bridges, vehicles, buildings, water and electricity installations, and weapons.

- Investment expenditures increased at an annual rate of 42 percent in Iraqi dinars. However, most of this increase occurred in 2007 and was due primarily to the increase in investment by the Kurdistan Regional Government (KRG), not by the central ministries responsible for providing critical services such as oil, water, electricity, and security to the Iraqi people. For example, of the $1.8 billion increase in investment expenditures in 2007, $1.3 billion, or more than 70 percent was due to a reported increase in KRG investment.

For 2008, we estimate that the Iraqi government could spend between $35.3 billion and $35.9 billion of its $49.9 billion 2008 budget. This estimate is based on the assumption that the expenditure ratio in 2008 will be the same as the average expenditure ratios from 2005 to 2007. This assumption results in a more than 21-percent increase in dinar expenditures in 2008, compared with the annual average of 13 percent over the past 3 years.

Iraq's Financial Deposits through 2007 and Budget Surpluses

As of December 31, 2007, the Iraqi government had financial deposits of $29.4 billion held in the Development Fund for Iraq (DFI) at the New York Federal Reserve Bank,[9] central government deposits at the CBI, and central government deposits in Iraq's commercial banks, which includes state-owned banks such as Rafidain and Rasheed (see table 4).

[9]DFI deposits consist of cash balances of $2.5 billion in U.S. dollars and $7.4 billion in U.S. Treasury bills that the Iraqi government has purchased. As a U.S. creditor, Iraq has received $435.6 million in interest on those bills since 2003. Iraq central government deposits in the CBI consist of U.S. dollar- and dinar-denominated accounts.

Table 4: Financial Deposits of the Iraqi Government, as of December 31, 2007

(Billions of U.S. dollars)

Location	Amount (as of Dec. 31, 2007)
Development Fund for Iraq	$9.9
Central government deposits at the CBI	5.7
Central government deposits in the banking sector	13.8
Total	**$29.4**

Source: GAO analysis of Ernst & Young International Advisory and Monitoring Board audit and IMF's International Financial Statistics.

The balance of these deposits is, in part, the result of an estimated budget surplus of about $29 billion from 2005 to 2007. For 2008, we estimate that Iraq's budget surplus could range from $38.2 billion to $50.3 billion, based on the six scenarios we used to project export oil revenues and assuming Iraq's expenditure ratio will be the same as the average expenditure ratios from 2005 to 2007. (see table 5). This estimate is based on Iraq's regular budget of $49.9 billion for 2008. As of the end of May 2008, Iraq spent $14.5 billion, or 29.1 percent, of the regular 2008 budget of $49.9 billion.

Table 5: Estimated Total Revenues, Expenditures, and Surplus, 2005 through 2008

(Billions of U.S. dollars)

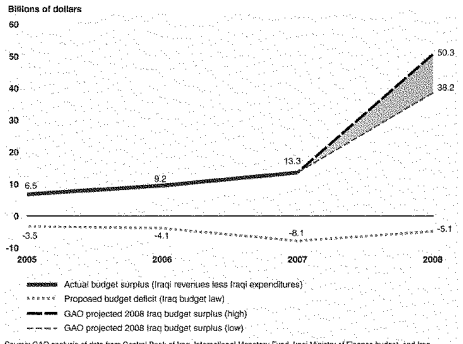
	2005-2007	2008	2008	2008	2008	2008	2008
		1	2	3	4	5	6
Estimated total revenues	$96.0	$73.5	$75.7	$80.2	$82.8	$83.3	$86.2
Estimated total expenditures	67.0	35.3	35.4	35.6	35.8	35.8	35.9
Estimated budget surplus	29.0	38.2	40.3	44.6	47.1	47.6	50.3

Source: GAO analysis of EIA, IMF, Ministry of Finance, and Central Bank of Iraq data.

Iraq may accumulate a budget surplus of $67 billion to $79 billion by the end of 2008. This surplus could be reduced as a result of its expenditures of the $22.3 billion supplemental budget that Iraq's Council of Representatives passed in August 2008. The government allocated $14.3 billion of the total supplemental budget for operating expenditures and $8 billion for investment. Iraq's amended budget projects that the government will spend the entire supplemental and regular budget and end 2008 with a $5.1 billion deficit. Iraq made similar assertions in 2005 through 2007, projecting budget deficits of $3.5 billion in 2005, $4.1 billion in 2006, and $8.1 billion in 2007. (see fig. 1). However, as we previously displayed, Iraq ended each of these years with budget surpluses of $6.5 billion in 2005,

$9.2 billion in 2006, and $13.3 billion in 2007 because it was unable to spend its entire budget. Accordingly, the government may not be able to spend its entire 2008 budget.

Figure 1: Comparison of Iraq's Proposed and Actual Budget Balances for 2005 through 2007 and Projected 2008 Balance



Source: GAO analysis of data from Central Bank of Iraq, International Monetary Fund, Iraqi Ministry of Finance budget, and Iraq budget law.

U.S. Cumulative Expenditures on Stabilization and Reconstruction Activities in Iraq Since 2003

Since fiscal year 2003, Congress has appropriated about $48 billion to U.S. agencies to finance stabilization and reconstruction efforts in Iraq, including developing Iraq's security forces, enhancing Iraq's capacity to govern, and rebuilding Iraq's oil, electricity, and water sectors, among others.[10] As of June 2008, about $42 billion (88 percent) had been obligated and about $32 billion (68 percent) had been spent.[11]

Over two-thirds of the $32 billion spent, or $23.2 billion, have supported reconstruction and stabilization activities in four critical sectors—security, oil, water, and electricity. Table 6 compares the allocations and spending of comparable activities by the United States and Iraq in these sectors.[12] The Iraqi government developed its first annual budget in 2005.

Table 6: Comparison of Iraq and U.S. Allocations and Spending for Selected Sectors

(Billions of U.S. dollars)

	Government of Iraq		U.S. Government	
	2005-2008[a]	2005-June 2008	Fiscal year 2003-June 2008	Fiscal year 2003-June 2008
Sectors	**Allocated**	**Spent[b]**	**Allocated**	**Spent[b]**
Security[c]	$12.8	$3.1	$22.5	$13.7
Oil[d]	10.8	0.4	2.7	2.5
Water resources[e]	1.3	0.4	2.9	2.2
Electricity[f]	5.2	0.4	5.3	4.8
Total	**$30.0**	**$4.3**	**$33.4**	**$23.2**

Source: GAO analysis of Iraq Ministry of Finance budgets and expenditures and State, DOD, USAID, and Treasury data.

Note: Totals may not sum due to rounding.

[10]This includes Iraq-specific appropriations for the Iraq Reconstruction and Relief Fund, Iraq Security Forces fund, Economic Support Fund, Commander's Emergency Response Program, Iraq Freedom Fund, Democracy Fund, other agency program funds used for Iraq activities, and operating expenses for the Coalition Provisional Authority. This amount includes $2 billion appropriated in June 2008 for reconstruction and stabilization activities in Iraq in the Supplemental Appropriations Act, 2008, P.L. 110-252 (June 30, 2008). This amount does not include $1.1 billion appropriated in the same Act for similar activities in Iraq after October 1, 2008.

[11]For U.S. funds, we use the term "spent" for funds that have been disbursed.

[12]Allocations are a portion of appropriated funds provided to U.S. agencies.

[12]These amounts include $2.1 billion that has been allocated for investments in these four sectors as part of Iraq's $22.3 billion supplemental budget that Iraq's Council of Representatives passed in August 2008.

[13]This refers to funds disbursed by U.S. agencies and funds expended by the respective Iraqi ministries.

[14]For security ministries, the Iraq figures for allocated and spent exclude employee compensation.

[15]For oil, water, and electricity ministries, the Iraq figures refer to investment.

As of June 2008, the United States had spent 70 percent of the amount it allocated for these four sectors from fiscal year 2003 through June 2008. In contrast, as of June 2008, Iraq had spent 14 percent of the $30 billion it allocated from 2005 through 2008.

Factors Affecting Iraq's Efforts to Accelerate Spending

U.S. government, coalition, and international officials have identified a number of factors that have affected the Iraqi government's ability to spend more of its revenues on the capital investments needed to rebuild its infrastructure. First, Iraq has a shortage of trained staff with budgetary experience to prepare and execute budgets and a shortage of staff with procurement expertise to solicit, award, and oversee capital projects. Second, Iraq has weak procurement, budgetary, and accounting systems. These systems must balance efficient execution of capital projects while protecting against reported corruption. Third, violence has contributed to a decrease in the number of workers available, increased the amount of time needed to plan and complete capital projects, and has hindered U.S. advisors' ability to provide the ministries with assistance and monitor capital project performance.

As we previously reported,[13] since 2005, the United States has funded activities to help build the capacity of key civilian and security ministries and thereby improve the Iraqi government's ability to execute its budget for capital projects. However, we found multiple U.S. agencies leading individual efforts and recommended that Congress consider conditioning future appropriations on the completion of an integrated strategy for U.S. capacity development efforts.

[13]See GAO, *Stabilizing and Rebuilding Iraq: U.S. Ministry Capacity Development Efforts Need An Overall Integrated Strategy To Guide Efforts and Manage Risk* GAO-08-117 (Washington, D.C.: Oct. 1, 2007).

Conclusion	Iraq, with the third largest oil reserve in the world, has benefited from the recent rise in oil prices and generated billions of dollars in revenues. In 2008, Iraq will likely earn between $67 billion and $79 billion in oil sales—at least twice the average annual amount Iraq generated from 2005 through 2007. This substantial increase in revenues offers the Iraqi government the potential to better finance its own security and economic needs. Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members may have at this time.
GAO Contact and Acknowledgments	For questions regarding this testimony, please call Joseph A. Christoff at (202) 512-8979. Key contributors to this testimony include Godwin Agbara, Assistant Director; Bruce Kutnick, Assistant Director; Pedro Almoguera; Monica Brym; Lynn Cothern; Gergana Danailova-Trainor; Justin Monroe; and Beth Hoffman-Leon.

Chairman SPRATT. Mr. Christoff, thank you very much, sir. Would you explain to us just briefly, did you head up this audit team yourself?

Mr. CHRISTOFF. Yes.

Chairman SPRATT. Did you go to Iraq?

Mr. CHRISTOFF. Yes, our teams did go to Iraq. We had a team that was in Iraq from January to March that we relied on heavily to collect some of this information. More importantly, we worked with the Treasury Department who gave us the actual oil receipts from the Central Bank of Iraq that we used to validate the revenues projections in our report.

Chairman SPRATT. Are you satisfied that you saw what you needed to see to reach the conclusions you——

Mr. CHRISTOFF. Yes.

Chairman SPRATT. And the Iraqi government cooperated with you?

Mr. CHRISTOFF. Yes.

Chairman SPRATT. Did you find any instances that might have warranted further investigation as to misappropriation or misexpenditure of money, or——

Mr. CHRISTOFF. On this particular engagement, sir, we were just focusing on trying to answer the questions that Senators Levin and Warner asked us to do some projections about the surplus, the revenues, and the expenditures.

Chairman SPRATT. Does the fact that Iraq has been so slow to spend this money for infrastructure in particular and for investment in capital goods, does that arise from some concern that it might be misspent, it might be misused?

Mr. CHRISTOFF. Well, the reasons that were cited for Iraq not being able to spend its investment budget were the weaknesses in its accounting, its procurement, its budgeting systems. The U.S. government has had for the past two years a very strong capacity building kind of program, spending about $500 million to try to teach the Iraqis how to do a better job of budgeting and procurement and contracting.

Chairman SPRATT. Well, that is the reality of it. If you look at June 2008, with a big surplus building up in the current year, the General Accounting Office, the Government Accountability Office, reported low expenditure rates by Iraq. Whereas we have spent about 70 percent, Iraq has spent about 14 percent.

Mr. CHRISTOFF. That is correct.

Chairman SPRATT. And this is a attributable to the fact that they do not have the civil service, the sort of disbursing and procurement bureau to handle the expenditures?

Mr. CHRISTOFF. Well, I mean that certainly is part of the reasons. We certainly have heard the fact that we have been generous in the reconstruction dollars. There has been less of an incentive on the part of the Iraqi government to spend their own dollars as well.

Chairman SPRATT. So they are able to spend. If the will was there they could be spending at a faster rate than they are?

Mr. CHRISTOFF. Well, they can spend it on their operating budget with no difficulties. They spent a large percent, almost 80 percent of their operating budget. They can pay salaries. They can buy certain operating goods and services. But when it comes to the actual investment side, to reconstruct bridges, roads, electricity, and water facilities, they fall short.

Chairman SPRATT. Well, if you spend some of that money on oil does it not come back to you in dividends?

Mr. CHRISTOFF. Well, all the oil revenues are required to go into the Development Fund for Iraq. So all of those are captured in a single fund that the Iraqi government can tap into.

Chairman SPRATT. And that money is at the New York Fed, I understand?

Mr. CHRISTOFF. Yes. The DFI is at the New York Fed, correct.

Chairman SPRATT. Is there a reason for putting it at the New York Fed?

Mr. CHRISTOFF. That was the agreement that was established back in 2003 when the DFI was established. And at that time the Coalition of Provisional Authority was responsible for spending the funds in the first year.

Chairman SPRATT. So is the Iraq government at will free to draw from the $29 billion surplus at the New York Fed?

Mr. CHRISTOFF. Yes.

Chairman SPRATT. Without our approval or approbation or oversight?

Mr. CHRISTOFF. Once the transition occurred in June of 2004 Iraq was allowed to tap into the DFI.

Chairman SPRATT. Do you see any movement towards their, how long does it take to establish a civil service that can handle the disbursement of money, the procurement of goods and services, and things of this nature?

Mr. CHRISTOFF. Well, you know building capacity in any ministries is not a short term effort. It is a long term effort. I think when you look at the programs that USAID and State Department have established, they have a longer term perspective.

You know, one of the, we are also looking at Iraqi refugees, for example, and in meeting a lot of the Iraqi refugees in Syria and Jordan over the past month, I encountered a lot of the civil servants that they need who have had the technical expertise in budgeting and accounting and procurement that have left the country. So some of the concerns, and some of their problems, are the result of brain drain that among the 2 million Iraqis that have left the country, many of them were the Sunni technocrats that had the kinds of skills and capabilities.

Chairman SPRATT. They were Sunnis, too, probably?

Mr. CHRISTOFF. Yes, many of them are Sunnis in terms of the ones that have left the country.

Chairman SPRATT. Well, notwithstanding that, the United States government has appropriated about $48 billion——

Mr. CHRISTOFF. Correct.

Chairman SPRATT [continuing]. And spent about $40 billion plus or minus.

Mr. CHRISTOFF. Correct.

Chairman SPRATT. A substantial share of what we have provided and allocated. Is that sufficient for our share? Do we have ongoing projects that we seek to complete that require the appropriation of additional money? Or can we now turn to Iraq and say, "From here on, the obligation to undertake these capital projects is your responsibility to fund?"

Mr. CHRISTOFF. Well, first in terms of the $48 billion that we have appropriated, about 87 percent of that has been fully obligated. So it is covering projects that we have agreed to do. There still is money that has not been disbursed that has been set aside for projects. Some of these projects are going to continue for several years in terms of actually completing them.

Now, you asked the question about at what point do we turn over the responsibility for the reconstruction to Iraq? I think that Congress has been moving in that direction. When you passed the supplemental in June and you provided money for the Economic Support Fund, you established a cost sharing formula, a dollar for dol-

lar match on the part of the Iraq government. So you have begun the process of at least requiring the Iraqis to put up a share dollar for dollar on those smaller reconstruction projects that are funded under the ESF.

Chairman SPRATT. Two final questions. What level of surplus do you expect to be generated this year, 2008? And with this year's surplus, what will the total accumulated surplus be, including the $29 billion on deposit at the New York Fed?

Mr. CHRISTOFF. When we did our projections, first of all we projected that just from total revenues would be between $73 billion and $86 billion. And that would then result in a potential surplus at the end of this year of between $67 billion and $79 billion.

Chairman SPRATT. To be added to the $29 billion?

Mr. CHRISTOFF. No, that is inclusive of the $29 billion.

Chairman SPRATT. Including? Okay.

Mr. CHRISTOFF. Yes.

Chairman SPRATT. Thank you very much. Before you get started, there is a person with a sign in the middle of the room. You will have to remove that sign. We cannot allow you to have the kind of display in this hearing room. You can either remove the sign and leave the room, or we will have you removed. Okay. Mr. Ryan?

Mr. RYAN. Let me try and pick up where the Chairman left off. While the numbers that we see in the press are kind of treated as definitive, in actually reading your report and testimony I see there is a bit of a variance and uncertainty in these numbers. You use phrases like, "for 2008 Iraq could generate an estimated $73.5 billion to $86.2 billion in revenues." Based on the fact that the conditions in the world oil markets have changed dramatically since this report was published, you know the price of oil has gone down very significantly, and based on the fact that Iraq did pass the supplemental, the $22.3 billion supplemental, do you still think they are going to have a surplus in 2008 since this report was published? And if so, what kind of number do you think we are going to see, since these things have taken place since this report was published?

Mr. CHRISTOFF. Yes, we still believe that there is going to be a surplus. But it will probably be more towards the middle of our range. And remember, keep in mind that we have a range that we are projecting. I realize that the media has taken the higher end of the range.

Mr. RYAN. Right.

Mr. CHRISTOFF. But it is still a range. We went back and we did just some checking, trying to take into consideration the recent drops in the oil prices. And if you go to page five of my statement, and if you look at what our ranges are for the amount of oil revenues that would be generated, when we——

Mr. RYAN. And these are based on different prices per barrel of oil, correct?

Mr. CHRISTOFF. Exactly. And when we did some of the checking we think that the actual export oil revenues for the end of the year would be closer to the range between scenarios two and three, now.

Mr. RYAN. Yes.

Mr. CHRISTOFF. So the high end of the budget surplus will not be $79 billion. It will probably go down to about $72 billion. But there still will be a surplus.

Mr. RYAN. Now, you use the term cumulative surplus.

Mr. CHRISTOFF. Correct.

Mr. RYAN. As a budget person that is not a concept that we are typically familiar with, or that we use here. When we look at a surplus or deficit, we measure them in the year in which they take place.

Mr. CHRISTOFF. Yes.

Mr. RYAN. I notice in your report you kind of roll up the years 2005 through 2007, and add them to the projected numbers for 2008 which, you know, as we see has some variable. Why do you use cumulative surplus numbers like that, which is contrary to the way we do budgeting here?

Mr. CHRISTOFF. Well, we do list the surplus at the end of each year. It is on the highlights page, the first page. So that you do see that in 2005 Iraq had a surplus of $6.5 billion rising to $13.3 billion in that year alone. So when we went and looked at the actual financial deposits that Iraq had at the end of 2007 and we calculated where it was, it had a $29 billion surplus, cumulative, up to that point in time.

Mr. RYAN. I know. But why are you using the cumulative number?

Mr. CHRISTOFF. Cumulative is a term also that the IMF uses in terms of trying to determine exactly what Iraq's surpluses and projections might be.

Mr. RYAN. Okay. Now, so the key to this is budget execution, obviously.

Mr. CHRISTOFF. Right.

Mr. RYAN. And they have done a better job. Obviously, they are increasing their expenditures. And the whole point of all of this is we train their troops along with them, so we can get our troops out and they can take over their government and stand on their own two feet. So we all understand that. Let me ask you about the, we had the SIGIR here, Bowen I think was his name, and Ambassador Saloom, who is sort of in charge of budget execution for the State Department last year, just chronicling all of these problems that Iraq had in executing their budget. To the point where I think we had to deposit some money in the New York Fed, make interest on it to buy some equipment. Give me a better sense, I know you went into this with the Chairman a little bit, about budget execution. That is question number one. Question number two, is oil security. How is oil security improving? In stemming the black market, in controlling what is going on in the refineries, and in pipeline security? How are those two things——

Mr. CHRISTOFF. Yeah, let us talk about the latter point. Because you brought up the Baiji incident of last year.

Mr. RYAN. Right.

Mr. CHRISTOFF. Where even the DOD was reporting losses of $2 billion through the black market, just from the Baiji refinery. That and security for the Baiji refinery has improved significantly. I do not have actual numbers of what might be the potential losses, but I know it has gone down dramatically. Coupled with the fact that

there have been these oil protection forces that have been along the oil pipelines. Now there are still interdictions, they are still occurring, particularly the pipelines in the north. But we are doing a better job of protecting the actual infrastructure so that you are reducing the diversions that might occur, or the losses.

Mr. RYAN. Okay, budget execution then?

Mr. CHRISTOFF. Budget execution. Budget execution is a very interesting term. It is a term, quite frankly, that was developed by the State Department to try to give some idea of what Iraq might spend. Not what it actually spends, but what it might spend in terms of commitments. And Iraq through its Minister of Planning puts out what are called these informal or unofficial reports to try to tabulate projects that they are thinking about spending. And the, both DOD and State report budget execution rates that are higher than the actual expenditure rates, because they are trying to capture intentions.

We sat down with Treasury, went through those reports. And both Treasury and GAO reached the conclusion that they are unreliable. The information does not contain reliable——

Mr. RYAN. You mean, you cannot measure intent very accurately, right?

Mr. CHRISTOFF. Exactly. It is difficult to measure intent.

Mr. RYAN. Yeah.

Mr. CHRISTOFF. Plus, when you just read the reports, things do not add up, either.

Mr. RYAN. So, looking forward to 2009 and watching how the Iraqi government is functioning, are they getting that? It was sort of, what we found was, you know, the top level was able to put together a good budget. We assist them with that.

Mr. CHRISTOFF. Right.

Mr. RYAN. And then it is down in the mid-levels of government where you had that gray area, and you were not allowed to apply or execute a budget. I do not mean execute from the term you are using it. What is your sense of things at that mid-level in government, where they are able to actually get, you know, projects moving? Actually get funding to employees and actually deliver on executing their budget? Executing their budget in the term that I am using.

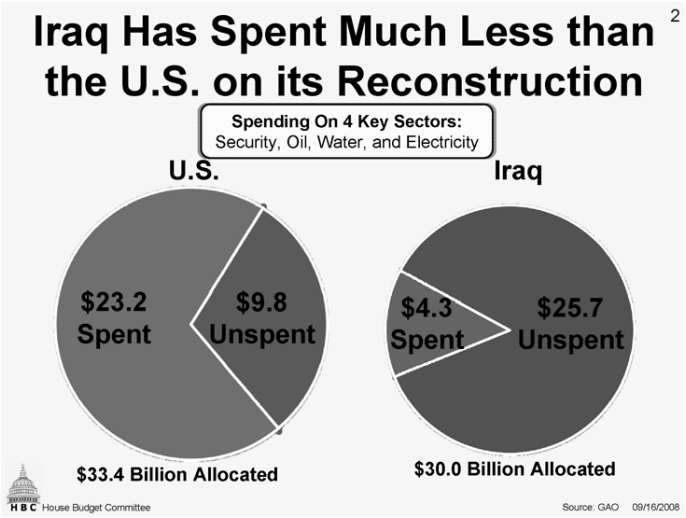
Mr. CHRISTOFF. You know, one thing that the Iraqi government did which was positive was to try to begin decentralizing some of the decisions about the threshold for contracts, the dollar value of contracts, in terms of who can approve them. A year ago they had an incredibly low threshold. $10 million for a contract. If a contract exceeded $10 million the decision to actually let that contract had to go all the way up to the prime minister's level. So they have begun to increase those thresholds, to $50 million at a minimum, and to allow some of the decision making to occur more in the ministries rather at the prime minister's level.

Mr. RYAN. Okay. Well, that is good to see progress on that front. Thank you.

Chairman SPRATT. Mr. Edwards?

Mr. EDWARDS. Mr. Christoff, thank you for being here and for your report. Could I ask the staff to put up the chart, Mr. Wolfowitz's statement from 2003?

Mr. EDWARDS. One of the administration's chief architects of the Iraq War was Paul Wolfowitz, President Bush's appointee as Deputy Secretary of Defense under Secretary Rumsfeld. This is a statement he made to members on March 27, 2003 before the House Appropriations Defense Subcommittee. "We are dealing with a country that can really finance its own reconstruction, and relatively soon." Given the GAO report I guess I rank that administration prediction right up there with some of the predictions that we would be greeted as liberators, the war would be short-lived, it would cost the American taxpayers less than $100 billion, and we are turning the corner. We have turned so many corners in Iraq I think we are all dizzy from that. And every time we turn one corner we find another roadblock down the way. I would like to ask you just again to get the facts on the table. In fact, let me ask staff to put up the chart on how much Iraq has spent and how much less it has spent than the U.S.



Mr. EDWARDS. I just want to verify, Mr. Christoff, that according to this chart the United States taxpayers that are now facing historic deficits of over $400 billion this coming year, U.S. taxpayers have spent $23.2 billion on Iraq reconstruction. Is that correct, Mr. Christoff?

Mr. CHRISTOFF. That is for four sectors that we look at.

Mr. EDWARDS. Okay.

Mr. CHRISTOFF. Security, oil, electricity, and water.

Mr. EDWARDS. So, reconstruction in those four sectors. And the Iraqi government, which now I think has up to a, what, approximately $79 billion surplus has spent only $4.3 billion. Is that fact——

Mr. CHRISTOFF. That is correct.

Mr. EDWARDS [continuing]. Correct?

Mr. CHRISTOFF. Yes, sir.

Mr. EDWARDS. So the U.S. taxpayers, in addition to giving something you cannot put a dollar value on, we have sacrificed over 4,000 of our young men and women in combat there, we have then also spent five times what the Iraqis have spent on reconstruction. Despite Secretary Wolfowitz' prediction that Iraq would very quickly be able to pay for its own reconstruction.

Let me ask you about this. Am I correct in understanding from your report that the same Iraq for which we have sacrificed over 4,000 American lives has just signed a $3 billion agreement with the communist Chinese National Petroleum Corporation to develop the Ahdab oil field? Is that correct?

Mr. CHRISTOFF. I do not have any firsthand information on it, sir. It is just what I have read in the papers, as perhaps you have as well.

Mr. EDWARDS. Okay. Well I, for the record, I think that is, Mr. Chairman, correct. That the Iraqi government, the same one that is building up a $79 billion surplus while American taxpayers are paying for most of their reconstruction efforts, has just signed a $3 billion agreement with the communist Chinese National Petroleum

Corporation. And Mr. Chairman, it just boggles my mind to think that there would be any evidence that the communist Chinese ability to develop oil fields is better than U.S. corporations' ability to do so. So once again, we turn a corner and we are hit in the face with something that I consider to be insulting.

Mr. Christoff, in the minute and a half we have remaining, in terms of the 10 to 30 percent of Iraq's refined fuels that were believed to have been diverted to the black market or smuggled out of Iraq in 2006, that is just an astounding number to me. Tell me the first, second, and third most important reasons, again, as to why that massive amount of fraud occurred?

Mr. CHRISTOFF. Well those were projections that occurred a couple years ago. And it was based upon what was then an imbalance in the price that Iraqis were paying for their fuel. For example, two years ago Iraqis were paying four cents per gallon. That has now been increased and subsidies have been reduced. So quite frankly, the 10 to 30 percent that was projected a couple of years ago probably is less than that. Because a lot of the oil and gasoline was diverted because you could get a better price outside of Iraq because of the heavy subsidies within Iraq.

Mr. EDWARDS. Okay. Mr. Christoff, thank you very much. I appreciate your report and your testimony. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Conaway?

Mr. CONAWAY. Thank you, Mr. Chairman. Mr. Christoff, thank you for being with us today. In your testimony you were talking about the reasons why they have not been able to spend the money. When we talk about whether they execute, or whatever, but spending the money, was given in no small part or in large part to weak accounting staff, weak accounting systems, internal controls, and all those kinds of things. What impact did that have on the numbers that you are working with?

Mr. CHRISTOFF. Well, the standards that we were using was the Ministry of Finance expenditure reports that have been vetted in terms of, by the Treasury Department and others. So we went through a vetting process. We actually excluded an entire year's worth of expenditure data because we found, and Treasury did, found the numbers unreliable. But for 2005 through 2007 we found that the expenditure data was sufficiently reliable to show the trends.

Mr. CONAWAY. Okay. So you are confident, what is the definition of surplus? That is just not the cash in the bank at the Fed. What——

Mr. CHRISTOFF. No, not at all. I mean——

Mr. CONAWAY. I mean, how confident are you in the fact that commitments and money that has been committed to spend and has not been spent has been accurately accounted for in the numbers?

Mr. CHRISTOFF. We are confident in terms of the actual expenditure data that comes from the Minister of Finance. The areas where I talked about where we did not feel that the information was reliable is when you try to add up and put a dollar value to projects that you might commit to. And those are separate reports that come from the Minister of Planning that we, when we looked

at them, we could not even add up columns and rows. But you can do that with the Minister of Finance data.

Mr. CONAWAY. So——

Mr. CHRISTOFF. On expenditures.

Mr. CONAWAY. Sure. But the bills that are due, or payables, or commitments that have been made, you are not confident that accurately, that all of those numbers have been folded into what the net surplus would be?

Mr. CHRISTOFF. Well, no, they should not be folded in that surplus.

Mr. CONAWAY. So if you have signed a commitment to build something and you have signed a contract to do that, that is, that would not reduce that surplus?

Mr. CHRISTOFF. No, let me explain. If you did sign a contract, Iraq has what are called letters of credit, in which Iraq will set aside a certain amount of money that would be reserved to cover that letter of credit. When we calculated the surplus for the end of 2007 we excluded those letters of credit so that the surplus that we tabulate for the end of 2007 is net letters of credit.

Mr. CONAWAY. Okay. Okay. You are not suggesting, I hope, that Iraq would be better off spending the money willy-nilly without the proper controls and ways to do it-

Mr. CHRISTOFF. Oh, absolutely not.

Mr. CONAWAY [continuing]. Than leaving it in the bank so that when they do develop the right infrastructure to be able to let contracts and move forward on these infrastructure projects that that money would then be available. So you are not suggesting they squander the money, are you?

Mr. CHRISTOFF. No, not at all. And in fact the $22.3 billion supplemental that was just passed, the IMF issued a report yesterday in which they expressed even some concerns about Iraq spending all of that because of the inflationary effect that it could have.

Mr. CONAWAY. Oh, okay, the fact that if they were to spend it now——

Mr. CHRISTOFF. Right.

Mr. CONAWAY [continuing]. That it would push prices up unnecessarily. So, okay.

Mr. CHRISTOFF. Right.

Mr. CONAWAY. But given, and one final question about the accuracy stuff, you said your teams were there January through March. Is that a recent enough, that is not a stale——

Mr. CHRISTOFF. Oh, no, not at all.

Mr. CONAWAY. Given how dynamic the circumstances are in Iraq, in terms of their building capacity and the things that are going on at the provincial level, to allow them to quote, unquote execute their budgets better?

Mr. CHRISTOFF. No. In fact, we have actual oil receipt data through the end of July that we received from the Treasury Department that gets it from the Central Bank of Iraq. So, and in fact, that statement that you have we updated even the expenditure data. Because between when we issued the report and today we received the updated expenditure data through the end of June. So we have very current data in this statement.

Mr. CONAWAY. Okay. So the fact that Iraq is, may not be spending it as quickly as we would like them to, you are confident that the controls are in place to protect the money so that when they do develop the right, Sunni technocrats get back into place where they are supposed to be, and all the folks are in line to spend money at least as responsibly as we do here in this federal government, that the money is going to be there to spend?

Mr. CHRISTOFF. Well, there are lots of external auditors that are involved in terms of keeping track of Iraq's expenditures. The Development Fund for Iraq, where the oil revenues go into. There was an international advisory and monitoring board that was established in 2004. Ernst and Young audits that on a semiannual basis to keep track of it. The one concern that I would have is, though, the DFI at the end of this year, the oversight of that is going to end because the UN Security Counsel resolution that covered the DFI is going to expire. So the future auditing of that is going to left to a new counsel of financial experts that the Iraqi government has to set up. So I think there might be some concerns about the continuing oversight after the end of 2008.

Mr. CONAWAY. Okay. Well, thank you, Mr. Christoff. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Doggett?

Mr. DOGGETT. Mr. Christoff, has the GAO not found that on more than one occasion the American taxpayers' money was squandered in Iraq and spent willy-nilly?

Mr. CHRISTOFF. Well, I think there have been, when we have look at reconstruction efforts in the waters after three years ago we found that we made some, quite frankly, some poor decisions about turning over reconstruction projects to the Iraqis before they were capable of maintaining them. And it has been a concern.

Mr. DOGGETT. Right. Do I understand from your testimony to Mr. Edwards a moment ago that at the time when we were squandering our money and the Iraqis were saving theirs, that Iraqi citizens were paying about four cents per gallon in gasoline?

Mr. CHRISTOFF. Two years ago, that is correct.

Mr. DOGGETT. It has risen some since then?

Mr. CHRISTOFF. It is up to about $1.18 per gallon.

Mr. DOGGETT. I think there are probably a lot of Americans who are paying for this so-called reconstruction in Iraq that would be mighty glad if they could get $1.18 a gallon gasoline.

Did you play a role in the analysis of the benchmarks that the Government Accountability Office provided last year?

Mr. CHRISTOFF. Yes, sir.

Mr. DOGGETT. What was that role?

Mr. CHRISTOFF. I was the Director in charge of that report.

Mr. DOGGETT. And have you also played the same role in responding to questions about the benchmark from Chairman Skelton this year with the report that you just did within the last few weeks?

Mr. CHRISTOFF. Yes. I was the Director on the progress report as well.

Mr. DOGGETT. All of us remember, except maybe President Bush, that in January of 2007 he selected the benchmarks, the guidelines, by which to measure success, by which to measure victory in

Iraq. And when we sought an analysis so we would have some objective information instead of just the propaganda from the administration about whether those benchmarks have been met the Congress turned to the Government Accountability Office. And my recollection is that when you came out with your report on August 30th of last year that you determined that eleven of the eighteen benchmarks that President Bush had set were not met. Is that correct?

Mr. CHRISTOFF. Based upon that prior report, correct.

Mr. DOGGETT. Yes, sir. And you found that of the eighteen benchmarks that the President set himself to measure success in Iraq that only three had been met as of August 30, 2007. Now, in this year, a year later, you did some evaluation again. You did not evaluated every single benchmark. But you really found that there had been very little progress in the year. We know that fortunately fewer Americans are being killed there. But in terms of the objective of the Bush policy in Iraq you had a grand amount of success in that they met one more benchmark than they had the year before. Isn't that correct?

Mr. CHRISTOFF. Well, we did not go through a benchmark by benchmark analysis. But we did provide a report that talked about progress on the security front, the legislative front, and the economic front in our June report.

Mr. DOGGETT. Right. And I believe you found one more benchmark met than the year before?

Mr. CHRISTOFF. Again, we did not do a benchmark by benchmark analysis, sir.

Mr. DOGGETT. Well, if you look at, it may not have been called a benchmark by benchmark analysis. But you looked at some of the same factors that you had the year before. And just to begin to go through them, on the Constitutional Review Committee you found that they had formed the Committee but the Committee had not done anything. Right?

Mr. CHRISTOFF. And that is still true.

Mr. DOGGETT. So they had not met that. On enacting and implementing legislation on debaathification, you found that they had enacted the legislation but they had not implemented any of it, right?

Mr. CHRISTOFF. That is correct.

Mr. DOGGETT. So they had not met the second benchmark. On the question of enacting the hydrocarbon or oil legislation, you concluded that they had not met that again this year, did you not?

Mr. CHRISTOFF. Correct. And no progress this year, either.

Mr. DOGGETT. On enacting and implementing legislation on procedures to form semiautonomous regions, that was the fourth benchmark President Bush had. You found that that was only partially met. Again, they passed a law to allow the provinces to act but it had not been implemented.

Mr. CHRISTOFF. Well, on that one it will be implemented when provinces come together to form regions. So that is an open——

Mr. DOGGETT. Right. But we are not there yet.

Mr. CHRISTOFF. Well, no provinces have voted to form regions other than the KRG originally.

Mr. DOGGETT. On enacting and implementing legislation for an independent high electoral commission you found only partially meeting it. Again, they passed a law but had not implemented it.

Mr. CHRISTOFF. The Commission is established. The provincial election law was, the date was established for October 1. But the implementing laws have not been enacted.

Mr. DOGGETT. Right. And they will not have the elections that they have been promising us for a year they would have in October?

Mr. CHRISTOFF. October 1, they will not meet that date.

Mr. DOGGETT. On the enacting and implementing legislation for a strong militia disarmament program?

Mr. CHRISTOFF. That is not met.

Mr. DOGGETT. That is not met. And I see my time is up, but Mr. Chairman we can keep going down the objectives that President Bush set himself for success for victory in Iraq. And you will find that it continues to fail. That this policy has been a failure. American taxpayers are having to fund the failure while the Iraqis pay a fraction of the price we pay for a gallon of gasoline. Thank you.

Chairman SPRATT. The gentleman's point is well taken. Mr. Porter? Mr. Porter is not here. Mr. McGovern?

Mr. MCGOVERN. Thank you, Mr. Chairman. Thank you, Mr. Christoff for being here. And like my colleague from Texas, Mr. Doggett, I have a great deal of frustration over our policy toward Iraq. I believe the War in Iraq was a mistake. I still believe that. And I honor the men and women in uniform who have served there with great distinction, and they have sacrificed an awful lot. And many of them have sacrificed their lives. And listening to your testimony, as powerful as it is, only adds to my frustration over the way U.S. policy makers have conducted this war.

You know, I believe we need to find a way out. And I believe that policy makers, Republicans and Democrats, and the administration, need to be talking about how we extricate ourselves from the mess in Iraq. And you know, we are spending $10 billion a month for Iraq. $10 billion a month. And, you know, you tell us that there may be budget surpluses that may reach over $70 billion. And, you know, I think that is a difficult thing to explain to the American people. Why we are sacrificing so much and yet they have these incredible surpluses.

Adding to the frustration is the fact that, you know, those in this Congress, you know, who have cheered on this war, including this administration, have done so and not asked that the money that we spend on Iraq is budgeted. The vast majority of dollars that we spend on Iraq is put on our credit card. No one has been asked to sacrifice. No one has been asked to account for that money. And yet we are told that Iraq has these incredible surpluses. Why, you know, and the government of Iraq, the Maliki government, I know you did not look at the issue of corruption, but it is corrupt. I mean, I would not trust them to tell me the correct time. And these people are, you know, and here we are hearing people kind of rationalizing and explaining away why they do not need to spend their surplus. You know, why we need to continue to shoulder the burden. Why would the Iraqi government want to change this sweet deal that they have with the U.S. government? I mean, we

are a cheap date in this whole matter. I mean, we are giving and giving and giving, and sacrificing and sacrificing and sacrificing, and yet they have this incredible surplus.

So what are the incentives? And what should we be doing? What should this administration be doing, what should Congress be doing, you know, to kind of force this issue? You have obviously talked to the people in the administration and people in the departments, what is the plan? What is the plan to kind of transition? To kind of force the Iraqi government's hand, you know, to take more responsibility so that we can get out, we can end our occupation. We can end our involvement here, and stop sacrificing so much of our resources in this effort?

Mr. CHRISTOFF. I do not know that I have seen a plan that would actually talk about transitioning so that the Iraqis begin spending more money. But I think you all have begun that debate within the Congress. As I mentioned before, when you passed a portion of the supplemental in June you had about $3 billion for what is called the Economic Support Fund. That was the first time that there was legislation that called for Iraq to have a dollar for dollar cost share for these small reconstruction projects that this ESF Fund supports. I also know that in part of the NDAA discussion there is discussion about also extending that type of cost sharing to what we provide for the continued training and equipping of Iraqi security forces. That area alone, we have appropriated, you have appropriated $20 billion.

Mr. MCGOVERN. Well, you know, I realize that that is a step in the right direction. But quite frankly, it is kind of a modest, or less than modest, step in the right direction. I mean, we have been doing this for years, now. We have been involved in this war for many years. Nothing, absolutely nothing about this war has turned out as advertised by the proponents of this war. And it just seems to me that, you know, given the nature of the Iraqi government, given the problem of corruption in that government, and given what I believe is an unwillingness for them to kind of take more responsibility, and in light of the fact that they do not need to. I mean, we are spending $10 billion a month, $10 billion a month, in Iraq. And, you know, they have these surpluses.

I guess my frustration is that there is not more frustration by those who are proponents of this war to force the Iraqi government's hand to take more responsibility. But I appreciate your testimony. I think it is very helpful. And I hope that it will urge, I mean, if not this administration, I mean, Mr. Ryan invoked Senator Obama's name. I mean, you know, Senator McCain has said we will be there for a hundred years. I think we will go bankrupt if we follow that policy. So I appreciate very much you being here.

Chairman SPRATT. Mr. Porter? Mr. Porter is not here. Mr. Scott? I beg your pardon, Mr. Scott. Mr. Etheridge?

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. Christoff, thank you for being here and thank you for your report. I am, I guess as I look at that and think of the numbers, and where we are, I happen to have, represent a lot of men and women at Fort Bragg and Pope who spend an awful lot of time overseas. At the same time, their children attend the public schools here in the United States. And my question I think sort of fits in a little different area from

what we have heard, so I will, you know, as you mentioned we are spending about $10 billion a month of U.S. revenues in Iraq. And your report tells us that the Iraqi government is not spending its own funds to maintain these reconstruction projects at a level they should. Actually, only about 14 percent of the 28 that is allocated for security, water, oil, electricity, etcetera. And we have a myriad of spending needs here at home. I will not even go through the list. I just want to talk about one of them.

Because we need to be building some school buildings in and around my district, where we have got children in trailers, and we have got one school that has 50 percent of our military children in buildings that ought to, have modern buildings. My question to you I guess is what factors are keeping the Iraqis from taking more responsibility for its own reconstruction? And how can we address that problem? Or how should we address it?

Mr. CHRISTOFF. Well, the factors that were cited in terms of their low expenditure rates for investment, that is for reconstruction, were the fact, again, that they have weak procurement, budgeting, contracting procedures in place. They have low thresholds in terms of the approving authorities. They have to go to the highest levels to get actual approving authority for the contracting. They have a brain drain in terms of the many technocrats that left the country that were responsible for many of these budgeting procurement issues. I have spoken with DOD advisors to the Iraqi Ministries of Defense and Interior. They have difficulties just teaching basic accounting and spreadsheet technology to some of the Iraqis. And also, keep in mind, this is a cash based economy. Things are done by cash. They have hand ledgers to keep track. There is not, there is not an automated financial management system in place within Iraq.

Mr. ETHERIDGE. I think the thing that bothers me, and I think a lot of folks who remember, you know, the U.S. taxpayers have financed nearly $50 billion in Iraqi reconstruction in addition to all the other funds we have put in place. And now we are spending about $10 billion a month. And at the same time we see almost $80 billion in surplus.

Mr. CHRISTOFF. Yes.

Mr. ETHERIDGE. And then I am reminded, and I think most folks are, that Deputy Secretary of Defense Paul Wolfowitz said in 2003 that the Iraqis could pay for reconstruction themselves and relatively soon. And I think we have a chart here, Chart 1, that shows that. And it is quite obvious that he was wrong. Or overstated it, or something, because we paid twice. We have paid a $50 billion reconstruction bill and now we are spending $10 billion a month. And we are paying billions of dollars at the pump, for gasoline. Is this a fair assessment?

I mean, I just this weekend had people just climb on my shoulders and I do not disagree with them. They are paying a ridiculous price for gasoline, and at the same time in Iraq they are subsidizing their citizens. And we are paying more for it, over there, to keep our troops in Iraq.

Mr. CHRISTOFF. Well, I think in terms of the Secretary's original statement, Iraq does have now the capabilities to begin financing its reconstruction. It did not have it, you know, at the early part

of 2003 or 2004. When you are talking about paying at the pump, now I mentioned the $1.18 per gallon, but quite frankly that is the typical price in the region. That is what Kuwaitis pay, Saudis pay. So the IMF goal was to try to get them to raise their prices to at least the regional level. And they have dramatically reduced their subsidies for gasoline, kerosene, and diesel, trying to give them a little bit of credit for their achievement.

Mr. ETHERIDGE. But my concern is that our troops are not getting that benefit over there, and we are not getting it in terms of paying for it by the American citizens buying that fuel to help protect them.

Mr. CHRISTOFF. Yeah, I think in fact when we looked at, you know, we have the receipts where Iraq actually sold its oil. And about a third of the oil did come to the United States.

Mr. ETHERIDGE. Thank you. I see my time has expired, Mr. Chairman, I yield back.

Chairman SPRATT. Thank you, Mr. Etheridge. Mr. Moore?

Mr. MOORE OF KANSAS. Thank you, Mr. Chairman. Mr. Christoff, do you know the projected United States deficit for this year?

Mr. CHRISTOFF. Well, the latest CBO was approaching over $400 billion.

Mr. MOORE OF KANSAS. So we are approaching, according to the CBO projection, a $400 billion deficit as a nation to add to our $9.6 trillion national debt now, is that correct?

Mr. CHRISTOFF. Based upon what I have read in the CBO projections, that is correct.

Mr. MOORE OF KANSAS. And Iraq has a projected surplus for this year of $79 billion?

Mr. CHRISTOFF. Up to $79 billion.

Mr. MOORE OF KANSAS. Up to $79 billion. What is wrong with this picture? That we have a huge projected deficit, they have a good projected surplus, and they are asking us, basically, to pay for reconstruction in Iraq. I guess I am asking a rhetorical question because I think you have already answered that. What incentive from your perspective does the Iraqi government have to step up and assume responsibility for this if they have got us paying for everything right now. And not only money, but 4,000 American lives?

Mr. CHRISTOFF. Well, I think that remains a concern in terms of how you incentivize the Iraqi government to begin spending of its own money. The incentives are also going to have to come on the part of the Iraqi people. They still are only getting about ten hours of electricity a day. They are still not getting potable water. Only a third of the children in Iraq have clean water, even despite our reconstruction efforts. So there has to be some incentivizing on the Iraqi people to demand more from their own government.

Mr. MOORE OF KANSAS. And the Iraqi people have to step up to the plate and support their own government, do they not?

Mr. CHRISTOFF. Yes.

Mr. MOORE OF KANSAS. If anything is going to change here?

Mr. CHRISTOFF. Yes.

Mr. MOORE OF KANSAS. But they do have gasoline for $1.18 a gallon, and we have gasoline for $3.50 a gallon in this country. Is that about right?

Mr. CHRISTOFF. Yes, I have got a diesel car so I pay a little bit more.

Mr. MOORE OF KANSAS. Good. Good. And so basically right now what we are doing, and this is the last question I have, we are just charging the reconstruction costs to our national charge card and passing the bill on to our children and grandchildren, and future generations of this country. Is that not correct?

Mr. CHRISTOFF. Well, we have spent, you have appropriated $48 billion for reconstruction and stabilization.

Mr. MOORE OF KANSAS. Yes, sir.

Mr. CHRISTOFF. The big reconstruction projects are tapering off. So the additional money that you have been providing through the Economic Support Fund is for smaller reconstruction projects. But we still have spent a chunk of change in terms of trying to rebuild that country.

Mr. MOORE OF KANSAS. Yes, sir. Thank you very much, Mr. Christoff.

Chairman SPRATT. Thank you, Mr. Moore. Mr. Bishop of New York?

Mr. BISHOP. Thank you, Mr. Chairman, and thank you very much, Mr. Christoff, for being here. I have a couple of questions. My understanding, the first Iraq War, the total cost was about $61 billion. The net cost to the United States was about $2.1 billion. And the diffence between gross cost and net cost was in some cases in kind contributions from some of our coalition partners, and in other cases our coalition partners simply reimbursed us for monies that we laid out. Does that comport with your understanding?

Mr. CHRISTOFF. I do not know, sir. I know we did reports back in 1991 and 1992 in which we saw that there are actually, we made a bit of a profit on the last war.

Mr. BISHOP. I will not comment. What structural and/or legal impediments exist right now, if any, that would prevent Iraq from simply reimbursing us from their surplus for some portion of what we have already laid out?

Mr. CHRISTOFF. I do not know. I would have to look into that and perhaps get back to you for the record.

Mr. BISHOP. Does that not represent a reasonable course of action for this country, to try to recoup some of the enormous amounts that we have laid out while Iraq is sitting on this very substantial surplus?

Mr. CHRISTOFF. Sir, I would think that is a policy decision that I would reserve to the Congress. I do not think it is appropriate for GAO to comment.

Mr. BISHOP. Secondly, if I understand your summary correctly, Iraq has spent approximately $4.3 billion over a three-year period on its reconstruction and on provision of services. Is that about right?

Mr. CHRISTOFF. The $4.3 billion is for the four critical sectors that we looked at.

Mr. BISHOP. And we have spent about $42 billion?

Mr. CHRISTOFF. Well, that is $42 billion in total for all of our reconstruction.

Mr. BISHOP. For reconstruction and——

Mr. CHRISTOFF. Beyond those four sectors.

Mr. BISHOP. So if I have done my math correctly, $42 billion, every dime of which has been borrowed, is, the annual interest on that is about $2 billion or thereabouts, if I have done my math correctly. And Iraq is spending less than that on an annual basis for the four critical areas. So we are spending more on interest on the amount we have borrowed to rebuild their country than they are spending in total to rebuild their country on an annual basis?

Mr. CHRISTOFF. I am for an accountability organization. I would have to take your numbers and go back and check them——

Mr. BISHOP. Okay.

Mr. CHRISTOFF [continuing]. Before I could comment on that.

Mr. BISHOP. I am, these are back of the envelope numbers.

Mr. CHRISTOFF. Yes.

Mr. BISHOP. I would acknowledge. But they appear to be consistent with what you have reported. One last thing. You and Ranking Member Ryan were engaged in a bit of a discussion about budget execution.

Mr. CHRISTOFF. Yes.

Mr. BISHOP. To what extent do you believe that the decision to debaathify, which deprived the Iraqi government of in effect a professional civil servant class, to what extent do you believe that decision has contributed to their inability to execute their budget plan?

Mr. CHRISTOFF. Debaathify—were you going to interject?

Mr. RYAN. Yes. I just wanted to tack onto that, because I think it is an excellent question. Mr. Bishop, do you mind if I just tack onto the end of that question?

Mr. BISHOP. No, I just would like to hear——

Mr. RYAN. No, it is a good question. And I, and the question is, are any of these technocrats coming back now that the debaathification reforms have passed, I would like to know if you track that as well.

Mr. CHRISTOFF. Sure. Debaathification certainly was a factor in terms of the brain drain that has resulted in the lack of the kind of technocrats that Iraq needs for the administrative capacity, for good budgeting, procurement, and contracting. Those types of Sunni technocrats are part of the over 2 million refugees in Syria and Jordan. The extent to which they are coming back, it is a very small amount. Ambassador Foley two days ago said that only about 16,000 of the 2 million refugees have actually returned to Iraq. I know, I met some doctors when I was in Syria who wanted to return, but they have no intentions of returning until they believe that the security situation has improved and they have got a house.

Mr. BISHOP. One final question. You presided over the report that assessed performance on the benchmarks.

Mr. CHRISTOFF. Yes, sir.

Mr. BISHOP. And one of those benchmarks was moving away from debaathification and restoring people to their jobs.

Mr. CHRISTOFF. Correct.

Mr. BISHOP. In Mr. Korb's testimony, I do not know if you have had the opportunity to see it, he makes the point that the current effort to address debaathification may well result in fewer Baath party members working in the government under the new law than

under the old law. To what extent did you address that point in your assessment of the benchmarks?

Mr. CHRISTOFF. Two parts in answering that question. First of all, Iraq did pass the Debaathification Law, which they passed in February.

Mr. BISHOP. The point of my question is, what is the impact or efficacy of that law?

Mr. CHRISTOFF. When we issued our progress report in June we had classified information that discussed that very issue that I could provide later for the record but I could not provide in an open session.

Mr. BISHOP. Thank you very much. I appreciate it.

Chairman SPRATT. Mr. Becerra? Mr. Berry?

Mr. BERRY. Thank you, Mr. Chairman. And thank you, Mr. Christoff for being here. You have just had the pleasure of experiencing the discomfort and pain that is inflicted on the messenger. And I regret that that has had to be the case. I also think anytime we have a hearing like this we should first and foremost recognize the contribution and sacrifice that our men and women in uniform and their families have made, and we should never, ever fail to be appreciative of that.

Mr. CHRISTOFF. Absolutely.

Mr. BERRY. And show that appreciation in every possible way. As I have listened to this testimony, and we can talk about numbers, we can talk about policy, and all of those things. It seems to me that we are in a situation where, it reminds me of a bumper sticker you see from time to time. "Don't follow me, I'm lost." You just said a while ago that there is not a plan. I do not know who does not have a plan. It seems to me to be pretty obvious that nobody does. I cannot imagine a more ridiculous situation than we are in right now.

I would like to think from some of the things you said that we actually may have a reasonable expectation that it will get a little better. But at the same time, we do not have any reason to think that it is going to be cleared up and everything is going to be in really good shape over there in the next few years, depending on how you define few. I would say anything under five years. But I just, I do not see any, I am like Mr. McGovern, I do not see any way to end this. We just keep pouring money into that place. We continue to make deals that no responsible person would enter into, it seems to me. And we thank you for bringing us this information, at least letting us know what really is going on as best as you are able to determine it. And I am confident that you have done that. And we appreciate all that. Beyond that, I think it is time for the Congress, the American people, the administration, and anyone else in a position of responsibility to begin to start figuring out how we are going to get out of there, and how we are going to bring this to a conclusion. Because the American people cannot stand much more of it. And I thank you for the work that you have done. Thank you, Mr. Chairman.

Chairman SPRATT. Ms. Schwartz?

Ms. SCHWARTZ. Thank you, Mr. Chairman. And I also thank you for the information. And it is important for us to be having this hearing today and I thank the Chairman for doing it, because we,

actually in some ways you are offering a suggestion of how we can see our way out of some of this if we actually just look at things really quite differently. Which is that, as has been pointed out, you pointed out and many of the speakers before me have pointed out, that we have, we are looking at working with the Iraqis to make sure that they use their almost $80 billion surplus to start spending their money on reconstruction. And you know, I was particularly struck that recently there was, I guess it was back in August, you know, some discussion about rebuilding police stations in Iraq. And our spending American dollars to do that. I have to say as representing the City of Philadelphia and the suburbs, I go to police stations and fire stations all across my district. And they need reconstruction. And so instead of our President saying, "We are going to spend our dollars on reconstructing our police stations and helping our first responders," we are spending American dollars on reconstruction in Iraq when the Iraqis actually are sitting on $79 billion.

Now you talked about the politics of why it has not happened. But my question really is how can we, is there a way for us to, one, start to say, and we have tried to in Congress, to say that Iraqis should start paying for reconstruction. I believe the last bill we passed actually had the condition of their spending 50 percent——

Mr. CHRISTOFF. Right.

Ms. SCHWARTZ [continuing]. Of going forward on that. Is there any way that you would actually, that we could insist upon that happening? Is there a way that we could maybe get back some of these dollars that we are spending now, that are committed into the future? You know, we were led to believe seven years ago that we would not have to pay for this war at all, and that has been pointed out as well. And yet, we are right now spending billions of American taxpayer dollars to reconstruct Iraq when Iraq has the money. And so adding insult to injury we are spending a whole lot, every American family, on the price of gasoline that we are buying from the Iraqis. I mean, something about this picture just is not right no matter how you feel about this war, or going into it.

And I have been asked, just recently, this weekend, was asked about how we could, why we are not doing enough to make sure that we get the Iraqis to spend their money on reconstruction. And I understand the politics of it, and I understand even the difficulty and some of the bureaucrats. But even if we lend expertise, even if we help them figure out how to do this, why, is there more that we could be doing to make sure that going forward the Iraqis are spending their money, particularly the surplus, $80 billion surplus, rather than American taxpayers on reconstruction of basic infrastructure for the Iraqi people? Which we all agree needs to get done. But why not the Iraqis? And why are, why is this administration, that is political. But what more could we be doing, from even your perspective, to make sure that going forward this is really a changed world, that we are not spending American taxpayers' dollars on reconstruction, the Iraqis are?

Mr. CHRISTOFF. Well, let us just talk about this concept of trying to get repayment for perhaps what we did? I think we began in 2004 with good intentions. With good intentions to the fact that the Iraqis at that time did not have the resources. And so when you

appropriated the $18.4 billion in IRRF 2. It was quote, unquote, to jump start the reconstruction process under two premises that generally did not pan out. One, that it would be a benign environment where you could do reconstruction without violence. Secondly, the Iraqis would step up to the plate. And third, the international community would begin to contribute. Those premises never really panned out until, quite frankly, recently where we see the Iraqis now have a substantial amount of money. I should not say recently. They had surpluses in 2005, 2006, and 2007 as well because they did not spend on the investments.

Ms. SCHWARTZ. But you are making a good point, because things are more secure, the issues around violence, allows them to do some of this reconstruction without spending so many dollars on security. Can we actually get them to both repay us and actually begin to pay going forward?

Mr. CHRISTOFF. Yeah, I do not know if we want to take back our generous contributions to try to jump start, because I thought they were good intentions back in 2004. But again, going forward I think you should have the healthy debate about cost sharing. And you began it with the roughly $3 billion that you put, and the restrictions you put on the Economic Support Fund. That it should be a dollar for dollar cost sharing. The State Department in two weeks has to send a report to the Congress certifying that the Iraqis are engaged in cost sharing on the ESF. So it will be interesting to see exactly how the State Department can confirm that that is actually occurring.

Ms. SCHWARTZ. Okay. Actually, not just interesting but really important to both our own financial security here at home and to respond to the American people that we have actually said they have to be cost sharing dollar for dollar. And it will be important for us to see that that is actually happening going forward. And of course we would like to see at some point the Iraqis pick up much more of the reconstruction, if not all of it.

Mr. CHRISTOFF. Yeah, and I think the security situation, I mean, that has been a noticeable improvement. I mean, violence is down 80 percent from, if you compare the June data of 2007 to the June data of 2008 there has been an 80 percent drop in the number of enemy initiated attacks. So that benign environment, it is still not a benign environment——

Ms. SCHWARTZ. I was going to say, very generous——

Mr. CHRISTOFF [continuing]. It is still a very difficult environment. But the improvement in the security situation has been noticeable.

Ms. SCHWARTZ. But having been in Iraq twice I can say certainly what all of our generals said, as well as our Ambassador said, and unless Iraqis start to see their own government, there is another reason for the Iraqis to be spending their own dollars. They need to have confidence that their own government is actually supporting the, the services and, you know, the economy there that is actually creating some confidence in the Iraqi government for the Iraqi people. So their allegiance, their willingness to maintain the security is only as great as their confidence and their working together as a government. It certainly starts with their also pro-

viding these goods and services and support and infrastructure for their people with their own dollars.

Mr. CHRISTOFF. I think General Petraeus would agree with that statement as well.

Ms. SCHWARTZ. And that is what he said, and what we pushed him to do. Thank you.

Chairman SPRATT. Ms. Kaptur?

Ms. KAPTUR. Thank you, Mr. Chairman. Sorry, I had a little trouble there with the microphone. Welcome, Mr. Christoff, it is really good to have you this morning. I have been looking over one of the charts that we have been provided that essentially shows the increase in spending by the people of the United States on the war in Iraq. And I think everyone knows that every year it gets larger. I remember Secretary Wolfowitz coming up before our Defense Committee and saying that we did not have to worry about this because it would all be paid for. Well, where is he now? I have no idea where he is. But he certainly was not correct in those statements which I think influenced a lot of members of this Congress to vote in the way that they did.

But one of the bits of information that I have here, that I want you to clarify for me, deals with what appears to me to be two structures operating in Iraq. One by the United States, and one by the government of Iraq. It says, "While the United States has spent 70 percent of the $33 billion that it has allocated for key security, oil, water, and electricity sectors," in other words, we are spending down the money that the American people have allocated for this. Iraq has only spent 14 percent of the $28 billion it allocated to those sectors, or less than 3 percent of the $10 billion that it had programmed from the year 2005 to 2008.

So as I read these numbers, and I am looking at the expenditure of our dollars, and we look at how much we have spent versus how much they have spent, it seems to me then that there may be two structures operating in Iraq. The American paid for structure, and then the Iraqi structure. Because how can the Iraqis be doing such a poor job? Is my perception correct? That in fact there are two separate structures operating there?

Mr. CHRISTOFF. Well in terms of——

Ms. KAPTUR. For electricity, for water, for oil, and security?

Mr. CHRISTOFF. Well, in terms of how things are spent. Obviously, when the U.S. spent its money the majority of that is being spent through the Corps of Engineers. They have been the big builder using U.S. appropriated dollars. So they are using Corps of Engineers contracting, procurement, budgeting procedures. When you look at how the Iraqi government is spending its resources, it is going through its own ministries. Oil and electricity, water, to try to do the types of contracting and procurement. So yes, there are separate procedures because there are separate pots of money.

Ms. KAPTUR. I appreciate that. Because if in fact oil production has gone up it has been because of U.S. expenditures. Because obviously the Iraqi expenditures are not locking in.

Mr. CHRISTOFF. Right. Most of the money on oil infrastructure investment has been the U.S. funding.

Ms. KAPTUR. Then why would Iraq sign its first contract with China? Do you have any——

Mr. CHRISTOFF. I do not know.

Ms. KAPTUR [continuing]. Clarity on that?

Mr. CHRISTOFF. No.

Ms. KAPTUR. And Royal Dutch Petroleum, Royal Dutch Shell is the next one they signed a deal with. I just find all of this very, very strange. Could you also tell me, in terms of the sabotage and the smuggling?

Mr. CHRISTOFF. Yes.

Ms. KAPTUR. It is estimated by some that at least a third of what is occurring in the oil sector, and again it is unclear to me who is really managing the oil sector. Is it the U.S. dollars that have been allocated? Or is it the Iraqi dollars that really have a handle on what is happening in the oil sector? But regardless, if you have any comments on that I would appreciate it. Of the dollars being expended, why is so much being smuggled out of there? Who does not have control of what is happening in the oil fields?

Mr. CHRISTOFF. Well, I think actually the smuggling and the diversions have declined over the past couple years. The biggest problem that occurred back in 2006 was the massive smuggling of, estimates of up to $2 billion out of the Baiji Refinery because there was not sufficient protection forces around it. The U.S. and the Iraqi government have responded by putting more protection forces around the major refinery within Iraq, at Baiji. And also trying to set up these oil facility police forces that are trying to manage and protect the oil pipelines and the infrastructures, particularly in the north. But it still, there are still interdictions that are occurring, because you cannot cover everything. And I have not seen——

Ms. KAPTUR. Who, may I ask you, sir, who hires those security officers for those oil installations?

Mr. CHRISTOFF. Yeah, right now it is the Ministry of Oil. But it is supposed to eventually be subsumed within the Ministry of Interior's police forces.

Ms. KAPTUR. But if we look at the expenditure of Iraqi dollars to do all of this, it looks like the U.S. contracted operations are spending their dollars down. Without them, Iraq would not be able to function. Am I correct? If you just pulled the U.S. contracting, let them fly on their own?

Mr. CHRISTOFF. Well, we have lots of reconstruction projects in all of the critical sectors, including the oil sector. So we have been investing, over the past several years, in trying to build pipelines, trying to improve the refinery capacity, a lot of individual projects that have added up to billions of dollars. The Iraqis are trying to spend more money in terms of the oil sector. One of the problems with the Ministry of Oil is that unlike the Ministry of Electricity it has not developed any type of a plan to determine what its needs are, its priorities, and exactly where it should be spending its future resources. And the Minister of Electricity has got a pretty good plan. The Minister of Oil does not yet have a plan to try to set its own priorities. And he himself has estimated that he needs $30 billion to try to improve the oil infrastructure in Iraq.

Ms. KAPTUR. I know my time has expired. If I wanted to read one clear report on what is really going on inside the Iraqi oil sector, what would I read?

Mr. CHRISTOFF. Inside the Iraqi oil sector? I think in——

Ms. KAPTUR. Whose security officers, who is paying for it, how much has been smuggled, who did the smuggling, was anybody apprehended, where do I find that?

Mr. CHRISTOFF. Well, I probably have to go back to some of the CIA reports that I read that you would not be able to read in the public domain.

Ms. KAPTUR. Thank you. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Christoff, thank you for your good work and your excellent testimony. We very much appreciate your being here today, and we have learned a great deal from what you had to tell us.

Mr. CHRISTOFF. Thank you, sir.

Chairman SPRATT. Thank you very much indeed. Now let us bring forth the second panel, which consists of Christopher Blanchard, who is an analyst in Middle Eastern Affairs for the Congressional Research Service; Frederick Kagan, who is a Resident Scholar at the American Enterprise Institute; and Dr. Lawrence Korb who is a Senior Fellow at the Center for American Progress.

All of you have testimony which we will take and make part of the record so that you can summarize it as you see fit. If there is no objection, your testimony will be included in its entirety in the record. Let us proceed with Dr. Kagan.

STATEMENTS OF CHRISTOPHER M. BLANCHARD, ANALYST IN MIDDLE EASTERN AFFAIRS, CONGRESSIONAL RESEARCH SERVICE; FREDERICK W. KAGAN, PH.D., RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE; AND LAWRENCE J. KORB, PH.D., SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS

STATEMENT OF FREDERICK W. KAGAN

Mr. KAGAN. Mr. Chairman, members of this Committee, it is an honor to be appearing before you speaking about this very important issue that concerns us all. It is a particularly interesting day to be holding this hearing. This is the day that General David Petraeus relinquished command in Baghdad to General Raymond Odierno. And General Petraeus will be heading on to take command of CENTCOM in November, I believe. And this marks the end of General Petraeus' nineteen-month tenure as Commander of Multinational Forces in Iraq. And I think it is worth noting not only the sacrifices that our men and women in uniform have made, but also the remarkable successes that have been achieved in that period, beginning with the reversal of the sectarian civil war that looked as if it was about to engulf the country completely, the defeat of an Al Qaeda in Iraq organization that was in the process of declaring victory, and even rather surprisingly the defeat of Shia militias and the Iranian backed special groups this year, primarily by the Iraqi government itself and the Iraqi security forces.

All of these accomplishments were the result of joint efforts between Iraqis and Americans. The Iraqis stood up, fought hard, met all of the security benchmarks that were put in front of them, and surpassed them. Iraqis have been taking casualties at the rate of about three times what American forces have been taking and they have been fighting very well.

I am a little bit puzzled by some of the testimony that I have heard, or some of the conversation that I have heard previously which suggest that no one is making a serious effort to get the Iraqis to spend their money. And I find that odd. I have made five trips to Iraq since last April and one of the things that has consistently been the case is that not only is the American Embassy in Iraq working very hard and very diligently to get the Iraqis to spend their money and to help the Iraqis to spend their money, but American soldiers on the ground, soldiers and Marines every day, are working with the Iraqis to overcome some of the very significant problems that they have as they attempt to spend their money. So I would like to take issue with any notion that it has not been a priority of multinational forces in Iraq and U.S. Embassy in Iraq to get the Iraqis to spend their money. On the contrary, it has been.

And I think that as we think about the problems that have prevented the Iraqis from spending their money, one thing that has not been mentioned is that we are not just dealing with a country that was wracked by sectarian civil war at the end of 2006, although that was not mentioned. It is a little bit odd to talk about budget execution figures in 2005, 2006, 2007 without recognizing that there was an extremely intense war going on which tends to play havoc with anybody's budget execution processes however well conceived they might be when it is an internal war. And now we have got that under control and the question will be what does it look like going forward? In addition to the brain drain which occurred, and some of the problems with debaathification. We have to remember that Iraq was also making the transition from a very poorly managed, centralized, command economy that had been under sanctions for more than a decade, to a market economy that had to rebuild a lot of decrepit infrastructure that had not been invested in properly for a very long time.

We also have to recognize that in the process of transitioning that command economy to a market economy we were helping the Iraqis to replace an entirely centralized Baghdad driven budget development and execution process with a process that included decentralized budget development, decentralized budget execution. We have had to help Iraqi provincial governments stand up and learn what it is to make a budget and learn how to execute funds. We have had to help local Iraqi organs understand how to do that. And we have had to help them all understand how to link up with the traditional ministerial structures, which remain focused on directors general that come from the Iraqi ministries.

This is all rather difficult to do, and it is not something that can happen in a few months. And it is particularly not something that can happen in the context of the sort of violence that we saw, frankly, through the end of last year and into the beginning of this year. It is something that I think we can expect to see accelerating. But we have to have realistic expectations about this. And measuring from 2003 on is frankly not very informative.

We were losing the war from 2003 to 2006, unquestionably. I have said it many times. I am not here to defend the administration. I do not speak for anyone but myself. In the context of losing the war we did a lot of, made a lot of decisions that were wrong

decisions. Now the question is, we have turned the situation around in Iraq on the ground. We have seen very significant progress in the Iraqi political system and also in budget execution measures and so forth. But we have not seen the complete accomplishment of all our objectives, which is not surprising because the war is not over.

The question is, what do we do? I think everyone agrees that it is desirable to have the Iraqis spend their money, and it is much more desirable for the Iraqis to be spending their money than for us to be spending our money. I do not think anyone disputes that. I think the argument that we can have, or the discussion that we can have that would be helpful is really to focus on what are the problems that actually hinder the Iraqis from doing this? I think we need to get past the notion that the Iraqis are lazy freeloaders, which has been booted about not in this Committee, which has had an intelligent, respectful discussion, but in the press, and recognize that there are some actual problems.

And there are incentives for the Iraqis to spend their own money because the Iraqis are going into an election period, whenever these elections precisely are going to be held. Within the next year, not only are all provincial leaders going to have to be reelected but the Parliament will have to be reelected as well. And let me tell you, Iraqi politicians are very cognizant of the fact, as American congressmen are, that spending in their districts translates into electoral success at the end of the day in many respects. And they understand that American spending in their districts does not help them get elected. So the more we have the transition to a political process in Iraq the more we see pressure on Iraq's elected officials to spend their budget, which they have been trying to do. And we have been helping with.

And I think one of the last questioners made the excellent point. If we simply pulled all of our stuff out and stopped doing anything for the Iraqis would the country collapse? I do not know if it would collapse. But I know that it would set back any kind of progress in Iraq very, very dramatically. Because the role that we are playing at this point is a guarantor, it is a peacekeeping role, in some places a peace enforcement role, and an assistance role in helping the Iraqis plan and execute budgets. In other words, we are now currently engaged in a process of trying to accomplish the very objectives, asking about which I think this hearing was called for. Thank you.

[The prepared statement of Frederick Kagan follows:]

PREPARED STATEMENT OF FREDERICK W. KAGAN, KIMBERLY KAGAN, AND JACK KEANE

On September 16, General Raymond Odierno will succeed General David Petraeus as commander of U.S. and coalition forces in Iraq. The surge strategy Petraeus and Odierno developed and executed in 2007 achieved its objectives: reducing violence in Iraq enough to allow political processes to restart, economic development to move forward, and reconciliation to begin. Violence has remained at historic lows even after the withdrawal of all surge forces and the handover of many areas to Iraqi control. Accordingly, President Bush has approved the withdrawal of 8,000 additional troops by February 2009.

With Barack Obama's recent declaration that the surge in Iraq has succeeded, it should now be possible to move beyond that debate and squarely address the current situation in Iraq and the future. Reductions in violence permitting political

change were the goal of the surge, but they are not the sole measure of success in Iraq.

We must see Iraq through the upcoming two elections, pressing the government to conduct them fairly and inclusively as well as ensuring that enemy groups do not disrupt them with violence.

The United States seeks a free, stable, independent Iraq, with a legitimately elected representative government that can govern and defend its territory, is at peace with its neighbors, and is an ally of the United States in the war on terror. The Iraqi leadership has made important strides toward developing a new and inclusive political system that addresses the concerns of all Iraq's ethnic and sectarian groups. But it has also taken steps in the wrong direction. An understandable desire to seize on the reduction in violence to justify overly hasty force reductions and premature transfer of authority to Iraqis puts the hard-won gains of 2007 and 2008 at risk. Thus, the president's announcement of new troop withdrawals has come before we even know when Iraq's provincial elections will occur.

Reducing our troop strength solely on the basis of trends in violence also misses the critical point that the mission of American forces in Iraq is shifting rapidly from counterinsurgency to peace enforcement. The counter-insurgency fight that characterized 2007 continues mainly in areas of northern Iraq. The ability of organized enemy groups, either Sunni or Shia, to conduct large-scale military or terrorist operations and to threaten the existence of the Iraqi government is gone for now. No area of Iraq today requires the massive, violent, and dangerous military operations that American and Iraqi forces had to conduct over the last 18 months in order to pacify various places or restore them to government control. Although enemy networks and organizations have survived and are regrouping, they will likely need considerable time to rebuild their capabilities to levels that pose more than a local challenge—and intelligent political, economic, military, and police efforts can prevent them from rebuilding at all.

American troops continue to conduct counterterrorism operations against Al Qaeda in Iraq, which has not given up, and against Iranian-backed Special Groups, which are also reconstituting. U.S. forces support Iraqi forces conducting counterinsurgency operations in the handful of areas where any significant insurgent capability remains. But mostly our troops are enforcing the peace.

In ethnically mixed areas, American troops are seen as impartial arbiters and mediators. In predominantly Shia or Sunni areas, they are seen as guarantors of continued safety, destroying the justification for illegal militias. American brigades also play critical roles in economic reconstruction, not by spending American money but by helping Iraqis spend their own money. American staffs help local Iraqi leaders develop prioritized lists of their needs, budgets to match those priorities, and plans for executing those budgets. American troops support the Provincial Reconstruction Teams that mentor Iraqi provincial leaders and help local communities communicate their needs to the central government. American soldiers provide essential support to Iraqi soldiers and police working hard to develop their ability to function on their own.

Indeed, American combat brigades have become the principal enablers of economic and political development in Iraq. When an American brigade is withdrawn from an area, there is nothing to take its place—all of these functions go unperformed. Clearly, then, the number of brigades needed in Iraq should be tied not to the level of violence but to the roles the Americans perform and the importance of those roles to the further development of Iraq as a stable and peaceful state.

But American brigades do more than that. They also give us leverage at every level to restrain malign actors within the Iraqi government and to insist that Iraqi leaders make concessions and take political risks they would rather avoid. The notion, popular in some American political discussions, that withdrawing our forces increases our leverage is nonsensical. The presence of 140,000 American troops on the ground in Iraq requires the Iraqi leadership to pay attention to America's suggestions in a way that nothing else can. Every brigade that leaves reduces our leverage just when we need it most.

For all the progress made to date, the next president will face significant challenges in Iraq. In recent testimony, Secretary of Defense Robert Gates enumerated them: "the prospect of violence in the lead-up to elections, worrisome reports about sectarian efforts to slow the assimilation of the Sons of Iraq into the Iraqi security forces, Iranian influence, the very real threat that al Qaeda continues to pose, and the possibility that Jaysh al-Mahdi could return."

The existence of malign sectarian actors in the Iraqi parliament and in the prime minister's inner circle is not news. Nor is it news that Iraqi politicians, elected under a closed-list system that emphasized ethnosectarian identity at the expense of political interest, have weak electoral bases and much reason to fear the results

of open and honest elections. It is similarly well known that Iran seeks to drive the United States out of Iraq and has been putting tremendous pressure on Iraq's leaders to obey Tehran and reject Washington. These three factors help explain the development of significant negative trends in Iraq in recent months: the downward spiral of negotiations over the Strategic Framework Agreement, delays in the passage of an electoral law, escalating tensions along the Arab-Kurd border, and Iraqi government attacks on certain Sons of Iraq groups in and around Baghdad.

American errors have contributed to these developments. At the outset of negotiations over the Strategic Framework Agreement, for instance, we should have offered Iraq a security guarantee. Iraq's signing a Strategic Framework Agreement would have openly and publicly committed themselves to the United States—and against Iran, in the zero-sum thinking of Tehran. It was only reasonable that Maliki and others in the Iraqi government should have expected an American commitment to match their own, and we should have given it to them. But American domestic politics made that impossible.

Leading congressmen and senators insisted that a security guarantee would raise the Strategic Framework Agreement to the level of a treaty requiring Senate ratification—which is true. They also made clear that no such ratification would be forthcoming if the document bound the next administration. The Bush administration therefore had to tell Baghdad at the outset that America would not match the commitment we were asking the Iraqis to make with an equal commitment of our own. American domestic politics also prevented the administration from placing the security agreement in the larger context of a U.S.-Iraqi strategic partnership, since that concept was ridiculed by those who refused to accept the possibility of success in Iraq.

The Iranians sensed an opportunity and responded with a massive public information campaign in Iraq and a virulent private campaign to put pressure on Iraq's leaders. America's refusal to offer a long-term security guarantee gave weight to the constant Iranian refrain that Iran will always be there, while America will ultimately leave Iraq to its fate. Shrewdly refusing to admit the degree of direct Iranian pressure, Maliki and his associates used the cloak of "Iraqi sovereignty" to conceal their uneasiness at taking responsibility for making a deal with the United States—uneasiness not before their own people, but before Tehran. As a result, the negotiations have dragged on, Iraqi demands have increased, and it is possible that Maliki will now wait until after the American election to see who wins—all because domestic political constraints prevented the Bush administration from making the necessary opening bid.

Maliki has been using "Iraqi sovereignty" to do more than delay those negotiations, however. He has also used it to insist on the accelerated transfer of Iraq's cities, especially Baghdad, to Iraqi control and the withdrawal of American forces from those cities. As a result, the problems that premature transition can cause are on display in the city of Baquba, the capital of Diyala Province northeast of Baghdad.

Diyala has always been one of the most challenging provinces in Iraq because of its swirling mix of Kurds with Sunni and Shia Arabs and its proximity to Baghdad. It served in the past as a staging area for Shia militias and al Qaeda terrorists launching attacks in Baghdad. It was pacified in 2007 with a great deal of hard fighting that resulted in the defeat of illegal Shia militias and the capitulation of the local Sunni insurgent groups, many of whom joined the Sons of Iraq, volunteer security forces organized and initially paid by the United States. More remained to be done in Diyala as the surge ended, however. Surge operations had cleared Baquba and areas further east, but not the rim of the province from Khanaqin along the Iranian border and then through Balad Ruz toward Baghdad. The end of the surge meant the withdrawal of significant American forces from Diyala, so U.S. troops largely turned responsibility for the city of Baquba over to the Iraqis and moved out to clear the peripheral areas of the province.

Rumors began circulating that the Iraqi government believed it would have to reclear Baquba, even though violence remained low and American leaders did not agree. In August 2008, the Iraqi security forces, with limited support from American troops, did re-clear the city—but their targets were primarily leaders in the Sons of Iraq movement and members of the local government and community that had supported them. This action—which could not have taken place if American forces had continued to patrol the city—was part of a larger effort by Maliki to weaken the urban Sons of Iraq. It appears that the current Iraqi leadership has recognized that it must allow the Sunni tribal movements, particularly in Anbar, to organize and gain power in their own communities, but it sees the urban Sons of Iraq movements as political threats to its power.

The return of the Sunni Iraq Islamic party (IIP) to the government appears to have created an unholy alliance between Maliki and IIP leader (and Iraqi vice president) Tariq al-Hashimi aimed at weakening grassroots Sunni political movements in and around Baghdad and ensuring that the unpopular and unrepresentative IIP continues to wield power after provincial elections. A similar alliance is operating in Ninewa Province, where Kurdish leaders appear to have joined with the IIP to ensure that they will continue to have influence in the largely Arab province when provincial elections eliminate the current disproportionate Kurdish sway in the provincial government. This Kurdish-IIP alliance helps explain why there are virtually no Sons of Iraq in Ninewa. The extremely limited American presence in Ninewa, as in Baquba, has enabled these developments, which may call into question the legitimacy of the upcoming provincial elections in some areas.

Maliki's actions may reflect the continued powerful influence of malign sectarian actors among his advisers, or it may reflect the determination of a temporarily strong political leader confronting elections that are likely to weaken his base. The specter of Iranian power combines with the enormous question mark hanging over the future of American support to make Maliki look to his own resources to stabilize his position. Again, contrary to conventional wisdom, the threat of American withdrawal and America's refusal to guarantee the security of Iraq and its constitutional processes presses Iraq's leaders to make bad decisions, not good ones.

Whatever Maliki's motivations, however, the bottom line is clear. Although a dramatic increase in violence or the rebirth of a large-scale Sunni insurgency in the next six months is unlikely, it is possible that American policies are combining with Iraqi mistakes to undermine the long-term prospects for success. These trends can be reversed, with care, over the coming months if the United States can summon some strategic patience.

There is no question that we should be able to start withdrawing significant numbers of American forces from Iraq in 2009 and accelerating our withdrawal in 2010. Assuming that Iraqi provincial elections in 2008 or early 2009, and parliamentary elections in 2009 or 2010, are accepted as legitimate by the Iraqi people and the international community, it is also highly likely that we can continue to withdraw from Iraq's cities, including Baghdad, and move from a patrolling role to an advisory and support role in the same period. But the timing of force reductions and withdrawals from urban areas is critical, and the current pace is too fast.

It appears from media reports that General Petraeus initially proposed no reduction in the number of U.S. brigades below the pre-surge levels, and that was certainly the right recommendation. Current force levels may, in fact, already be too low. At all events, we must see Iraq through the upcoming two elections, pressing the government to conduct them fairly and inclusively as well as ensuring that enemy groups do not disrupt them with violence. Doing so requires a significant American presence on the ground in Iraq's population centers, where, in addition to all the other key non-combat roles they play, American soldiers are the canaries in the mine shaft. They know before anyone else when Iraqi leaders at any level are starting to play games that can undermine mission success.

We should therefore not withdraw any brigades from Iraq before the provincial elections have occurred and the results have been certified and accepted. We should not accept timelines for the departure of American troops from Iraq's cities, particularly Baghdad, before the parliamentary elections of 2009. We should continually press the Iraqi government not simply to pay the Sons of Iraq (as it has announced it will do beginning in October), but to bring most of them into the political process. Some of the Sons of Iraq were leaders of the insurgency and should have no place in Iraqi politics, but in its Baquba operation, the Iraqi government was not sufficiently discriminating in whom it sought to exclude (much less detain). We must also support the Iraqi government in its efforts to push Kurdish militias out of Diyala and Ninewa provinces.

This is not a matter of Iraqi sovereignty. American troops will not stay anywhere in Iraq if ordered by the Iraqi government to leave. We are not going to depose Maliki or retake control of Baghdad. We are not going to force the Iraqis to do anything. And, above all, we are not going to maintain a large military presence in Iraq indefinitely. But we are engaged in continual negotiations with the Iraqi government about what our forces will do and what Iraqi forces will do, and we have tremendous leverage in those negotiations.

For too long, we have allowed domestic American political considerations to reduce our leverage and weaken our bargaining position, and we have refused to recognize the critical role the presence of our combat forces plays in keeping us in the game at all. When America provides combat forces to maintain internal or external security in a foreign state, it acquires the right to bargain hard for what it thinks is best for the common interest, even when the host state's government does not

agree. We have engaged in such hard bargaining in South Korea and in Europe, and it is a normal part of alliance relationships. We must bargain harder in Iraq and give ourselves the tools and leverage we need to succeed.

Above all, we must recognize that there is never a glide path in war. As long as the outcome remains in doubt, we must never imagine that the situation is under control and we can put it on autopilot and ignore it. The relief of getting Iraqi violence under control and American casualties down turns naturally into a desire to declare victory and withdraw. That is a danger to be avoided at all costs. This administration must ensure that it hands its successor not only a relatively peaceful Iraq, but an Iraq that is headed in the right direction.

STATEMENT OF LAWRENCE J. KORB

Chairman SPRATT. Thank you, Mr. Kagan. Mr. Korb?

Mr. KORB. Thank you very much, Mr. Chairman.

Chairman SPRATT. Thank you.

Mr. KORB. It is a privilege to be here with you today. I think in terms of looking at the surplus you have to put it in the context of the horrendous costs of this war. As has been pointed out several times already, we were told that the Iraqis would pay for their own reconstruction, this war would be quick and easy, and would not cost the taxpayer very much. And I think had we known then what the costs would be we never would have gone to war. It is clear basically from the opinion polls of the American people.

And there is no doubt about the fact that violence today is lower than the horrendous levels that it reached in June 2007. However, remember the purpose of our military operations there are to bring about political reconciliation. And if you take a close look at it you will find that the Iraqis are still not making the tough choices that they need to bring about meaningful reconciliation. And I think the budget is one of those areas where they are not doing what they need to do. They are generating the revenues but they are really not executing them. And as I think has been pointed out here, until they do that the Maliki government is not going to get the support from its own people. So it is not only in our interest that we relieve the burden on the U.S. taxpayer but I think it is also in the interests of the Iraqi government.

Now if you take a look at the trends they are not helpful. The revenues are up, there is no doubt about it. But the percentage each year that they spend is down. If you take a look at where they spend the money, the percentage spent on investment is down. In other words, they are spending much more on overhead than actually improving the lives of the Iraqi people.

Now we talked a lot about the capacity of the government. There is no doubt about the fact that the debaathification policy undermined the capacity of the Iraqis to actually perform effectively in government. But the fact of the matter is, you have had a debaathification law. And while I have not seen the classified report, just from the open reports in the press it is clear there are less Baathists back in the government now than there were before the debaathification law was passed. Similarly, there is an awful lot of corruption. In fact, if you, they rank countries according to corruption and Iraq, there is only two countries more corrupt than Iraq according to the rankings, Myanmar and Somalia. We also know that a lot of the money in the Iraqi government is ending up in the hands of insurgents, people who do not wish us well or the Iraqi people.

So the question becomes basically what do we do about it? And let me make a couple of recommendations. The first, and it has been alluded to here but I do not think it has been focused on enough, we need to provide a soft landing for the Sunni militias. Remember that in the fall of 2006, as General Allen the commander of the Marines in Anbar Province and now General McFarland said, once the Iraqis saw what was happening in this country, particularly with the election, the Sunnis in Anbar Province began to come over to us. And there we made a big mistake. Why were we paying them? Why did the Iraqi government not pay them then? We have now come 1 October the Iraqi government is taking over that, and I think that is a good thing.

But if you take a look at some of the things that the Maliki government is doing in terms of integrating them into the security forces, giving them government jobs, or actually turning on them. Because, remember, we could have had this deal as early as 2005. But the National Security Council turned it down because these insurgents would not pledge loyalty to the Iraqi government. And there are press reports that the Maliki government is going after some of these people who have been working with us.

Second, we have got to fully implement debaathification. Again, as of June 2008 the government of Iraq has not yet appointed members to the committee slated to replace the old debaathification apparatus. And the current committee has received conflicting instructions from the Iraqi government about whether to proceed with the reinstatement petitions. We have got to make this happen.

Number three, we have got to pursue anticorruption within the Iraqi government. The Special Inspector General for Iraqi Reconstruction, appointed by President Bush, calls corruption the second insurgency. And you have got to be able to deal with that.

There is a joint task force on capacity development that was set up to correct these shortfalls. However, the Inspector General found that it has, and I quote, "limited authority to coordinate the various activities and to establish an overall capacity development agenda.

And then finally, we have got to set a timetable to get out. Until you do, the Iraqi government is not going to seriously do what they need to do. We are asking them to do difficult things. And they keep kicking the can down the road. They will say one thing, but then when you look at the fine print things do not get carried out. And I am absolutely convinced that until you do that they are not going to do, whether it is spend their budget on investment, or meet all of the other benchmarks that the administration has laid down, until you give them a timetable to get out.

Now in conclusion let me say that this budget problem is a symptom of a much larger problem with the way the war was justified and conducted. And although we cannot undo the damage to our national security, our reputation in the world, and the sacrifices of our military men and women and their families, and the cost to the American taxpayer, we can take a small step by demanding that the Maliki government begin now to pay for its own reconstruction and stabilization. Thank you.

[The prepared statement of Lawrence Korb follows:]

Testimony of Lawrence J. Korb
Senior Fellow, Center for American Progress Action Fund
Before the House Budget Committee September 16, 2008

Introduction

Chairman Spratt, Ranking Member Ryan, and other members of the committee, I appreciate the opportunity to testify before you today to discuss the Iraqi government's huge and growing budget surplus and to place it in the context of the horrendous costs of the war in Iraq to our troops, their families, the Iraqi people, and the American taxpayer. I commend the committee for holding this hearing at such a critical moment in America's long and unanticipated involvement in Iraq.

Violence in Iraq is at its lowest levels since 2004. By almost every measure, ethno-sectarian violence in the country has declined from the horrific levels of a year ago. Shiite militias, such as Muqtada Al-Sadr's Mahdi Army, have been weakened because Sunni insurgents began cooperating with us against Al Qaeda in Iraq, or AQI, as a result of the U.S. midterm elections in 2006 and the horrible practices of AQI. AQI, which was only supported by some Iraqis because of their fear of an indefinite American occupation, has lost that support and is no longer able to operate in many parts of the country. And General James Dubik, the American general in charge of training the Iraqi Security Forces, has stated that the Iraqi army and police will be able to assume full responsibility for internal security as early as April 2009.

But while the reduction in violence has produced tenuous security gains in Iraq, it has not yet resulted in a sustainable political equilibrium that is able to lock in what progress has been made. Rather than creating breathing room for the Iraqi government to undertake meaningful political reconciliation between Iraq's competing ethnic and sectarian groups—the objective of the increase in American combat troops—the continued large-scale American troop presence has allowed the Iraqi government to stall on making the tough choices that a timetable for an American withdrawal would force them to confront.

While there has been apparent progress on some uncontroversial legislation, the Iraqi government has yet to set a date for much-needed provincial elections originally scheduled for October, pass an oil-sharing law, meaningfully implement de-Baathification reform and the amnesty law, and finalize the legal status of the disputed city of Kirkuk.

Nowhere is this failure to govern responsibly more apparent than in the implementation of the budget by the government of Prime Minister Nuri al-Maliki. While Iraq's ability to generate revenue continues to grow, its capability and willingness to effectively and efficiently execute its budget is virtually non-existent. As I will note below, Iraqi budgets have been passed but only a fraction of Iraq's revenue has been spent. After more than five years of having the American taxpayer bear the full cost of Iraq's reconstruction and stabilization, it is time for the Iraqi government to take budgetary responsibility, especially since the Bush administration is forced to borrow money from abroad to pay these bills.

As Mr. Christoff noted, Iraq's revenues and its budget surplus are large and growing. Transferring more of Iraq's financial burden to the Iraqis is not only a fiscal necessity for the United States; it is also a way for the Maliki government to gain the trust of the Iraqi

people. By assuming a greater role in Iraq's reconstruction, providing essential services, and creating much-needed jobs, the government can provide an impetus for political reconciliation. Former Afghan Finance Minister Ashraf Ghani put it well when he recently said, "the budget is where social rights meet social obligations." The United States must begin transferring financial responsibilities to the Iraqi government immediately in order to give the Maliki government the incentive to take responsibility for the well-being of ordinary Iraqi people.

But in doing so, the United States must exercise strict oversight, offer guidance, share best practices, and provide honest criticism of shortcomings as the Iraqis take on more budgetary responsibility. Financial mismanagement, a lack of bureaucratic infrastructure, and widespread corruption all have the potential to derail initiatives to improve the lives of the Iraqi people. Similarly, transferring budgetary authority for security programs such as the "Sons of Iraq"—scheduled for October 1 of this year—to the Iraqi government without ensuring that the Maliki government does not carry out its policy of eliminating these Sunni militias could undermine recent security progress.

Before I outline the steps necessary to rein in corruption and correct budgetary mismanagement, let me put Iraq's budget surplus into context.

A quick and cheap war

In order to gain support for this unnecessary and unjustified invasion and occupation of Iraq, members of the Bush administration began assuring the American people and Congress in late 2002 that this would be a quick and relatively inexpensive war, both in terms of blood and treasure. In a September 2002 interview with *The Wall Street Journal*, former White House Economic Advisor Larry Lindsey estimated that the price tag for the Iraq war would be between $100 billion and $200 billion. Lindsay astoundingly went on to argue that, while this was an "upper bound" estimate, the successful prosecution of the war would actually "be good for the economy." [1]

The Bush administration quickly sought to distance itself from Lindsay's initial estimate, contending erroneously that it was much too high. When asked about the financial cost of the war, Indiana Governor Mitch Daniels, then Director of the Office of Management and Budget, called Lindsay's estimate, "very, very high" in an interview with *The New York Times*. Daniels then stated that the cost of the war would be in the range of $50 billion to $60 billion.[2]

In order to gain support for the war, even this relatively low-ball estimate was rejected by the White House. Then Deputy Defense Secretary Paul Wolfowitz stated that estimates such as Lindsey and Daniels' were, "so dependent on future, unpredictable circumstances

[1] Bob Davis, "Bush Economic Aide Says Cost Of Iraq War May Top $100 Billion", *Wall Street Journal*, September 16, 2002.
[2] Martin Wolk, "Cost of Iraq war could surpass $1 trillion," MSNBC, http://www.msnbc.msn.com/id/11880954/

as to be of little value." In fact, Wolfowitz and others in the administration assured Congress that the war in Iraq would pay for itself. Referring to the cost of rebuilding Iraq after the American invasion, Wolfowitz testified before the Defense Subcommittee of the House Appropriations Committee that, "there's a lot of money to pay for this that doesn't have to be U.S. taxpayer money, and it starts with the assets of the Iraqi people. ... The oil revenues of that country could bring between $50 billion and $100 billion over the course of the next two to three years....We're dealing with a country that can really finance its own reconstruction, and relatively soon."[3]

The cost of the Iraq war to the American taxpayer

Like every other statement about the war, history has shown the Bush administration's estimates of the financial cost of the war to be wildly off the mark. Since fiscal year 2003, when the Department of Defense (DoD) and other federal agencies began appropriating funds for the initial invasion, Congress has appropriated approximately $653 billion for the war in Iraq. (This sum includes the FY 2008 Supplemental H.R. 2642/ P.L. 110-252. These funds are expected to last through June or July of 2009).

Chart 1[4] (appropriations in billions)

	Fiscal Year 01/02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09 Bridge	Total
Department of Defense	0	50	56.4	83.4	98.1	129.6	145.4	53.4	616.2
Foreign aid and diplomatic operations	0	3	19.5	2	3.2	3.2	2.8	0.8	34.4*
VA Medical	0	0	0	0.2	0.4	0.9	1	0	2.5
Total: Iraq	0	53	75.9	85.5	101.7	133.6	149.2	54.3	653.1

* Note: Foreign aid and diplomatic operations do not include the full range of reconstruction and stabilization funds.

While the vast majority of U.S. expenditures on Iraq have been appropriated through the Department of Defense for security operations (see Chart 1), both DoD and other federal agencies, such as USAID and the Departments of State and Treasury, have contributed significant funds for stabilization and reconstruction activities (see Chart 2).

[3] CNN, "Our leaders are ducking reality on Iraq," http://www.cnn.com/2006/US/12/05/Dobbs.Dec6/index.html
[4] Congressional Research Service, "The Cost of Iraq, Afghanistan, and other Global War on Terror Operations Since 9/11," July 14, 2008

Chart 2[5] (appropriations in $ millions)

	Fiscal Year 2003	2004	2005	2006	2007	2008 Consolidated	Enacted total 2003-2008	Unenacted 2008 Supp. Req.
Total Non-DoD Funds (Sate, USAID, Treasury, etc.) --150 Account	2,944.90	18,440.20	3.6	1,657.70	2,159.90	260.5	25,466.80	986
Total DoD Funds--050 Funds	853.2	140	6,319	3,715.00	6,317.70	1,870.00	19,267.90	1,959.70
Total US Reconstruction Asst.	**3,798.10**	**18,580.20**	**6,322.6**	**5,372.70**	**8,477.60**	**2,130.50**	**44,734.70**	2,945.70

In fact, the funds already authorized for reconstruction and stabilization alone approach estimates by the Bush administration of the war's total cost. According to the Government Accountability Office (GAO), since fiscal year 2003 Congress has appropriated approximately $48 billion to finance stabilization and reconstruction efforts in Iraq through various U.S. agencies (see Chart 2). This figure includes funds dedicated to developing Iraq's security forces and efforts to enhance Iraq's capacity to govern, as well as funds to rebuild the country's oil, electricity, and water sectors, among others.[6]

As of June of this year, approximately 88 percent ($42 billion) of this $48 billion has been obligated, while only 68 percent (about $32 billion) has been spent. Over two-thirds of the funds spent to date (approximately $23 billion) have supported reconstruction and stabilization activities in the security, oil, water, and electricity sectors. This leaves the United States with over $16 billion in unspent funds for stabilization and reconstruction.

The Iraqi government's surplus

Despite miscalculations and misrepresentations by Wolfowitz and other Bush administration officials about how and why to overthrow the regime of Saddam Hussein, Wolfowitz's prediction that Iraq could pay for its own reconstruction has finally come to pass—albeit nearly six years after the fact. While it was certainly not the case that the Iraqi interim government, formed in the aftermath of the invasion, was capable of providing funds for its own reconstruction, Iraq's financial status has improved along with the security situation. Record oil prices, steady investment in Iraq's oil infrastructure, and an improved security situation have all contributed to the government's improved financial situation.

[5] Congressional Research Service, "Iraq: Reconstruction Assistance," May 22, 2008.
[6] Government Accountability Office, "Iraqi Revenues, Expenditures, and Surplus", August 2008.

Testimony of Lawrence J. Korb
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Because Mr. Christoff provided details of the Iraqi government's budget surplus in his opening testimony, I will not spend much time defining the surplus, nor will I go into great detail in regard to how it was accumulated. However, I will analyze several trends in Iraqi government spending, or lack thereof, that demonstrate the unwillingness of that government to spend its large and growing revenues on its own people.

First, while the Iraqi government's revenues and total expenditures are increasing, its expenditure ratio (actual expenditures for a ministry or activity divided by the budgeted amount for this ministry or activity) has actually been decreasing steadily. That is, while the Iraqi government is spending more money every year in absolute terms as the amount of revenue it accrues from oil profits and other tax revenue increases, the actual amount the Maliki government is spending on government salaries and investment projects relative to its budget allocations is decreasing. GAO first noticed this trend in 2005 when the government was spending just 73 percent of its budget allocations. This number dropped to 67 percent in 2006, and continues to decline. In 2007, it spent only 65 percent of the allocated funds.

Second, the Maliki government is not using its growing revenues to invest in its country's future. In every year since 2005, "Iraq spent a greater percentage [of its total budget on] its operating budget, including salaries, than [on] its investment budget. For example, in 2007, the Iraqi government spent 80 percent of its $28.9 billion operating budget and [only] 28 percent of its $12.2 billion investment budget."

This lack of investment is especially evident in the actions of Iraq's central ministries which deal with the electrical, water, oil, and security sectors. These central ministries, which are "responsible for providing essential services to the Iraqi people, spent a smaller share of their investment budgets than the Iraqi government as a whole. Further, their investment expenditure ratios declined from 14 percent in 2005 [to 13 percent in 2006] to 11 percent in 2007. Specifically, while the central ministries budgeted $5.7 billion and $8.1 billion for investments in 2005 and 2007, they [only] spent $825 million and $896 million, respectively."[7]

Overall, while the Maliki government allocated $28.0 billion for investment by its main central ministries from 2005 to 2008, by April 2008 it had spent only 14 percent of it, or $3.9 billion. These spending shortfalls are particularly worrisome given the important services these sectors have to provide to ordinary Iraqi citizens. The lack of these essential services, due in part to the Maliki government's lack of spending on their respective sectors, means that the central government is increasingly irrelevant in the lives of ordinary Iraqis—a situation that does not bode well for Iraq's future stability.

The United States should insist that the Maliki government begin using its increasing budget surplus to fund its own national reconstruction. However, the United States must recognize that the government's ability to do so is still significantly hampered by a lack of administrative capacity.

[7] Government Accountability Office, "Iraqi Revenues, Expenditures, and Surplus", August 2008.

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Addressing Iraqi government capacity

A lack of management skills, a weak bureaucratic infrastructure, and widespread corruption have significantly degraded the Iraqi government's capacity to manage and allocate its large and growing budget surplus.

Human infrastructure deficit and budget mismanagement

Government-wide de-Baathification, enacted by the Bush administration in May 2003, is primarily responsible for Iraq's severe lack of qualified budget and procurement professionals. A report issued by the Special Inspector General for Iraq Reconstruction (SIGIR) demonstrates how successive Iraqi interim governments, "not only purged the remaining skilled ministerial staff, but also replaced them with persons hired more for their ethnic loyalty and/or family relationship than for their qualifications."[8]

The decision by Ambassador L. Paul Bremer—that was supported by President George W. Bush and other political appointees in the administration but opposed by most military and diplomatic officials—to institute aggressive de-Baathification policies undermined Iraq's ability to construct a functioning government significantly. The GAO reported that the Coalition Provisional Authority's de-Baathification program "provided for the investigation and removal of even junior party members from upper-level management in government, universities, and hospitals."[9]

In November 2004, the director of the Supreme National Commission for de-Baathification, Mithal al-Alusi, estimated that as a result of the commission's work, "thirty-five thousand Baath Party members have left their jobs." In total, the director claimed the commission had focused its efforts on a group of about 65,000 former party members.[10]

This sweeping de-Baathification created a severe lack of human infrastructure in Iraq's ministries. In testimony earlier this year before the House Committee on Oversight and Government Reform, former U.S. Comptroller General David Walker cited an Iraq Reconstruction Management Office study, which found that in 11 of 12 surveyed ministries, the majority of staff did not have proper training for their positions. He remarked that "the lack of trained staff has particularly hindered the ability of ministries to develop and execute budgets."[11]

Some progress has been made in reversing the damage done by these policies. Some relatively lower ranking former Baathists have been permitted to appeal their dismissals

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[8] Office of the Special Inspector General for Iraqi Reconstruction, "Status of Ministerial Capacity Development in Iraq" (January 2007), available at http://www.sigir.mil/reports/pdf/audits/06-045.pdf .
[9] GAO, "U.S. Ministry Capacity Development Efforts Need an Overall Integrated Strategy to Guide Efforts and Manage Risk," (October 2007), available at http://www.gao.gov/new.items/d08117.pdf.
[10] Anderson, Jon Lee, "Out on the Street: The United States' de-Baathification program fuelled the insurgency," *The New Yorker*, November 15, 2004.
[11] GAO, "Serious Challenges Confront U.S. Efforts to Build the Capacity of Iraqi Ministries," (October 2007), available at http://www.gao.gov/new.items/d08124t.pdf

and request reinstatement. Finally, in the beginning of 2008, after much foot dragging, the Maliki government finally approved the Accountability and Justice Law, also known as the de-Baathification law, which replaced the old de-Baathification guidelines.

Unfortunately, as the International Center for Transitional Justice discovered, this new law will bring about only small changes. For example, it opens the appeals process to a larger number of Iraqis, and allows most workers fired under the law to collect government pensions. On balance though, it does not significantly change the old system. In fact, the law extends de-Baathification standards "to a number of organizations not previously affected, including the Iraqi judiciary."[12] In effect, there will be fewer former Baath party members in government under the new law than under the old one.

Addressing Iraqi corruption

Even if budget funds can be competently and effectively allocated, the United States must ensure that money allocated for reconstruction and stabilization is stolen by corrupt officials. In Transparency International's 2007 Corruption Perceptions Index, Iraq was ranked 178 out of 180 countries, with only Myanmar and Somalia perceived as more corrupt.[13] In July 2008, SIGIR released an updated assessment of anticorruption efforts in the country. While this document commended the Iraqi government for ratifying the U.N. Convention Against Corruption, or UNCAC, and noted that the U.S. Embassy in Iraq had taken steps toward strengthening its anticorruption programs, the report made clear that there is still a great deal of room for improvement.[14]

In 2006, Stuart Bowen, the head of SIGIR, correctly labeled corruption Iraq's "second insurgency."[15] At that time, the Maliki government estimated that corruption was costing it $4 billion per year.[16] Moreover, in some cases, corruption provided a direct benefit to insurgents. In November 2006, *The New York Times* uncovered a classified U.S. government report, which estimated that Iraqi insurgent groups were taking in between $25 million and $100 million a year "from oil smuggling and other criminal activity involving the state-owned oil industry, aided by 'corrupt and complicit' Iraqi officials."[17] Although the Maliki government claims that it is trying to reign in corruption, it does not yet have an effective system for doing so.

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[12] International Center for Transitional Justice, "Iraq's New 'Accountability and Justice' Law," (January 2008), available at http://www.ictj.org/images/content/7/6/764.pdf
[13] Transparency International, "Corruption Perceptions Index 2007," available at http://www.transparency.org/policy_research/surveys_indices/cpi/2007
[14] Office of the Special Inspector General for Iraq Reconstruction, "Anticorruption Efforts in Iraq," (July 2008), available at http://www.sigir.mil/reports/pdf/audits/08-023.pdf.
15 "Statement of Stuart W. Bowen, Jr, Special Inspector General for Iraq Reconstruction," (June 2006), available at http://www.sigir.mil/reports/pdf/testimony/SIGIR_Testimony_06-003T.pdf.
[16] Borger, Julian, "Corruption: the 'second insurgency' costing $4bn a year," *The Guardian*, December 2, 2006, available at http://www.guardian.co.uk/world/2006/dec/02/usa.iraq.
[17] Burns, John F. and Kirk Semple, "U.S. Finds Iraq Insurgency Has Funds to Sustain Itself," *New York Times*, November 26, 2006, available at http://www.nytimes.com/2006/11/26/world/middleeast/26insurgency.html.

For example, in March 2008, the State Department reported that the Iraqi Commission on Integrity, or CoI, an independent body tasked with investigating corruption, had been able to hear only 214 of 3,100 cases on its docket. State noted that the Maliki government has not provided the necessary infrastructure for handling such a large volume of work. Moreover, in trying to adjudicate corruption cases, the body, "confronted high-level attempts to influence prosecutions of members of the ruling party."[18] In testimony before the House Committee on Oversight and Government Reform in October 2007, the former head of the commission, Judge Radhi al-Radhi, reported receiving death threats before his resignation the previous month, and informed the committee that, "since the establishment of the Commission of Public Integrity, 31 employees have been assassinated…"[19]

Finally, even when the commission has been able to hear cases, the Iraqi legal system presents significant roadblocks for prosecuting those guilty of corruption. SIGIR reported that the Iraqi Criminal Procedure Code contains a provision under which ministers can stop corruption cases from moving forward. In 2007, they did so at least 67 times in order to protect their own employees from prosecution.[20]

Recommendations

To get the Maliki government to spend its budget surplus efficiently and effectively, let me make the following recommendations:

- **Provide a soft landing for Sunni militias.** On October 1 of this year, the Maliki government will assume administrative and operational responsibility for Sons of Iraq militias in and around Baghdad. Sunni militias in other parts of Iraq are slated to be put under the central government's control later this year. Prime Minister Maliki has stated his intention to incorporate only 20 percent of these militiamen into the Iraqi Security Services while promising to provide civilian jobs and training for the other 80 percent.

  If the Iraqi government integrates these militiamen successfully into state institutions, it will be an important step in advancing political accommodation and the elected government's monopoly on the use of force. If, however, Maliki's administration does not provide these fighters with a viable alternative to returning to the insurgency or attempts to arrest them, many of the recent security gains could be undercut relatively quickly.

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[18] Office of the Special Inspector General for Iraq Reconstruction, "Anticorruption Efforts in Iraq," (July 2008), available at http://www.sigir.mil/reports/pdf/audits/08-023.pdf.
[19] "Testimony of Judge Radhi Hamza al-Radhi," (October 2007), available at http://reform.democrats.house.gov/documents/20071004103646.pdf.
[20] Office of the Special Inspector General for Iraq Reconstruction, "Anticorruption Efforts in Iraq," (July 2008), available at http://www.sigir.mil/reports/pdf/audits/08-023.pdf.

As the United States transitions administrative and operational responsibility for the Sons of Iraq to the Maliki government, we must ensure that it does not again take actions that could alienate tens of thousands of armed and experienced fighters. The United States must ensure that Sons of Iraq members are paid their normal salaries until fully integrated into the security forces, government jobs, or training programs. If the Maliki government drags its feet, the United States must pressure the Iraqi government to implement a full integration program for these militiamen.

- **Fully implement de-Baathification**. Although the Accountability and Justice Law may not be inclusive enough to repair the damage done by the extensive de-Baathification of 2003, it is an opportunity for many qualified professionals to re-enter the civil service. The United States should pressure the Iraqi government to ensure that this moderate advance is implemented fully. As of June 2008, the government of Iraq had not yet appointed members to the committee slated to replace the old de-Baathification apparatus, and the current committee has received conflicting instructions from the Iraqi government about whether to proceed with reinstatement petitions.[21]

  Not only does this represent a failure to meet one of the benchmarks agreed to by the Congress and the administration (which require the government to both enact *and* implement a de-Baathification law), but it slows down the process of rebuilding a competent bureaucracy. The United States must pressure the Iraqi government to make progress on this important issue.

- **Pursue anticorruption within the Iraqi government**. In addition to pushing for the reinstatement of competent workers, the United States must be prepared to make a sustained commitment to reduce corruption in the government of Iraq. In January 2007, SIGIR reported that U.S. government agencies working with Iraqi ministries did not have clearly defined shared goals or consistent methods for information sharing. The Joint Task Force on Capacity Development was created to correct these shortfalls. However, SIGIR found it had "limited authority to coordinate the various activities and to establish an overall capacity-development agenda."[22]

- **Set a timetable for withdrawal and institute a diplomatic surge.** Until we set a specific timetable for withdrawal, the Iraqi government will not have the incentive to get its act together and take responsibility for its own destiny and begin spending its own funds. Moreover, until it is clear that we are leaving, other countries in the region will not have the incentive to work with the Iraqi government to ensure that Iraq does not become a failed state.

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[21] Rashee Ahmed, "Iraq Law on Baathists not being implemented," *Reuters*, June 17, 2008, available at http://www.reuters.com/article/latestCrisis/idUSYAT251579..

[22] Special Inspector General for Iraq Reconstruction, "Memorandum for U.S. Ambassador to Iraq," (January 2007), available at http://www.sigir.mil/reports/pdf/audits/06-045.pdf.

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Conclusion

The failures of the Bush administration to ensure that the Maliki government spends its increasingly large budget surpluses on its own reconstruction and stabilization is a symptom of a much larger problem with the way that this war was justified and conducted. Although we cannot undo the damage that has been done to our military personnel and their families, the American taxpayer, military readiness, our overall financial situation, and the harm to our reputation in the world, we can take a small step by demanding that the Maliki government pay for its own reconstruction and stabilization.

STATEMENT OF CHRISTOPHER BLANCHARD

Chairman SPRATT. Dr. Korb, thank you very much. Mr. Blanchard?

Mr. BLANCHARD. Thank you, Chairman Spratt, Ranking Member Ryan, and members of the Committee. Thank you for inviting me to testify before you today on Iraq's budget surplus. My name is Christopher Blanchard. I am an analyst in Middle Eastern Affairs with the Congressional Research Service. In the time allotted I would like to summarize the main points from my written testimony by discussing four factors that may affect the Iraqi oil sector's ability to fund Iraq's reconstruction. Those factors are security, Iraqi politics, market conditions, and revenue management.

The U.S. Department of the Treasury and the International Monetary Fund have expressed confidence that Iraq's oil revenues are likely to be sufficient to meet the country's development needs if underlying conditions remain favorable for the expansion of oil production and if Iraqis manage their oil revenues effectively. The prevailing level of security in Iraq has a direct effect on oil production and exports. Infrastructure attacks and persistent violence have hindered efforts to develop the oil sector since 2003. In turn, corruption in the oil sector has helped fund insurgent violence and criminal activity. U.S. and Iraqi investments in infrastructure security have contributed to increased oil exports over the last year. In turn, the improvement in the overall level of security in the country has reduced some threats to oil output.

Looking forward, U.S. military leaders have made clear statements about the potential reversibility of recent security gains. The establishment of an overall level of security in the country that could allow U.S. forces to draw down may still leave the Iraqi government with internal security challenges that could complicate oil operations.

Since 2003 Iraqis have struggled to reach political consensus about decision making powers in the energy sector and the terms of a national energy policy. This includes debates over revenues sharing, and the degree and terms of potential foreign participation in oil development. To date, Iraq's Council of Representatives has not taken up draft energy framework legislation because of continuing disagreement between the national government and the Kurdistan regional government over their respective decision making powers. Parallel disputes over the status of the City of Kirkuk, its large Kurdish population, and nearby oil resources further complicate these matters. Nevertheless, both the National Ministry of Oil and the Kurdistan Regional Government have moved forward with oil and natural gas development by signing service and production contracts with several foreign companies. The Ministry of Oil is now planning to conduct an international bidding round, the development of six major oil fields, with contract awards expected some time in 2009.

Fluid global market conditions will ultimately determine the demand for Iraq's energy exports, the revenue potential of those exports, and the availability of investment capital. An IMF report released yesterday referred to by Mr. Christoff earlier highlighted the "fiscal opportunity" that higher global oil prices have granted Iraq in 2008. The report, however, builds on the IMF's January 2008 warning that the Iraqi government has "little room for fiscal slippage" until its oil output increases. Recent declines in global oil prices, if sustained with steady exports, will likely lower Iraq's 2008 surplus revenue projections.

According to U.S. and international auditors, as we have heard, the Iraqi government has proven unable to spend budgeted funds effectively, to maintain current or planned investment programs. According to observers, the factors that have prevented effective Iraqi spending thus far may continue to hinder reconstruction if left unaddressed. Midway through the so called year of transition, the U.S. Department of Defense warned in a June 2008 report to Congress that the Iraqi government "lacks the ability to execute

programs on the scale required." Administration officials recently created a public financial management assistance group to better coordinate interagency budget assistance programs in Iraq. The Iraqi government also has amended its contracting procedures to facilitate spending at all levels of government. However, officials report that much remains to be done. And Iraqi willingness to continue to accept U.S. advice and assistance on revenue management and in other areas may prove limited.

In Congress legislative proposals pending in both houses reflect the broad sentiment that seeks to require the Iraqi government to pay more of its own reconstruction and security costs. As the confidence of the Iraqi government increases and nationalist sentiment among some Iraqis grows more vocal, contract bases assistance from U.S. or other international partners may emerge as a politically viable solution to Iraq's administrative and reconstruction challenges.

Again, thank you for the opportunity to present this testimony. I look forward to your questions.

[The prepared statement of Christopher Blanchard follows:]

PREPARED STATEMENT OF CHRISTOPHER M. BLANCHARD, ANALYST IN MIDDLE EASTERN AFFAIRS, CONGRESSIONAL RESEARCH SERVICE

Iraq holds the world's third-largest proven oil reserves, and revenues from the sale of oil resources are the engine of Iraq's national economy and the lifeblood of its national budget. Iraq's state-owned oil production and marketing system ensures that revenue from the export and sale of Iraqi oil accrues to the Iraqi government, and the Iraqi people's elected representatives are now responsible for administering that revenue to meet the country's considerable development needs. Iraq's energy resources and potential export revenues offer the country an undeniable opportunity for economic growth, if conditions prevail that allow those resources to be developed efficiently and if Iraqi leaders manage export revenues effectively. This statement analyzes the recent U.S. policy debate over Iraq's current budget surplus, reviews relevant recent developments in Iraq's oil and natural gas sector, and discusses factors that may affect the oil sector's ability to continue to serve as an engine of economic growth and public revenue for Iraqis.

CURRENT REVENUE ARRANGEMENTS

Iraq's State Oil Marketing Organization (SOMO) is responsible for the sale and export of Iraqi crude oil. Under the terms of United Nations Security Council resolution (UNSCR) 1483 (and renewed through subsequent Security Council resolutions), revenue from Iraq's oil exports is deposited into an Iraq-controlled account at the Federal Reserve Bank of New York (FRBNY). Five percent of the funds are reserved for a United Nations Compensation Fund for reparations to the victims of the 1990 Iraqi invasion and occupation of Kuwait. The remaining 95% is deposited into the Development Fund for Iraq (DFI) account at the FRBNY and is then transferred to an Iraqi Ministry of Finance account at the Central Bank of Iraq for further distribution to Iraqi government ministries.

Under the terms of UNSCR1546 (and renewed by subsequent resolutions), the DFI is monitored by an International Advisory and Monitoring Board (IAMB), which provides periodic reports on Iraq's oil export revenue, Iraq's use of its oil revenues, and its oil production practices. According to the IAMB, as of December 31, 2007, $23.43 billion had been disbursed from the United Nations Compensation Fund; Iraq owes $28.95 billion to the Fund. The IAMB estimates that "at the present rate of Iraqi oil sales, it would take approximately 17 years for the compensation award to be fully paid."[1] As of June 2008, the balance in the DFI was approximately $17 billion.

UNSCR 1790 of December 18, 2007, extended the IAMB monitoring of the DFI until December 31, 2008. In October 2006, the Iraqi cabinet approved the creation of an oversight body known as the Committee of Financial Experts (COFE) to monitor oil revenue collection and administration. The president of the COFE inaugurated its activities in April 2007, and the committee currently is working alongside the IAMB on audit procedures. When the mandate of the IAMB expires in Decem-

ber, the COFE will assume its duties. Immunity provisions contained in standing UN Security Council resolutions prevent Iraqi funds deposited in the DFI from being subject to property attachment motions in lieu of legal judgments rendered against the former Iraqi regime. Many observers expect those immunity provisions to be renewed in a new UN resolution, and the IAMB has encouraged the Iraqi government to pursue continued immunity protection.

IRAQ'S BUDGET SURPLUS: SOURCES AND MANAGEMENT

Revenue projections for governments that rely on oil exports are based on variables such as price and export volume, which may be subject to significant or rapid changes in domestic or global market conditions. Iraq's recent surpluses have accumulated based in large part on rapid increases in oil prices over the last year and higher levels of oil production and exports attributable to improved security. The August 2008 Government Accountability Office (GAO) report on Iraq's budget surplus illustrates these relationships by laying out several revenue projections for Iraq's potential 2008 surplus based on variable price and export levels.[2]

At present, Iraq's steady oil export levels and a relative decline in world oil prices from recent highs have moved revenue projections closer to the more pessimistic assumptions outlined in the GAO report: The GAO's lower estimate for Iraq's 2008 budget surplus assumed Iraq would export an average of 1.89 million barrels per day and that the average price received would be $96.88 per barrel. As of September 10, 2008, the U.S. State Department reported that Iraq's Basra Light Crude was priced at $100.15 per barrel and that Iraq was exporting 1.93 million barrels of oil per day. Coupled with Iraq's recently adopted Supplemental Budget of $22 billion, these market trends suggest that Iraq's 2008 budget surplus may remain well below the upper limit projected in the August 2008 GAO report, pending the result of expenditures through the rest of 2008.

TABLE 1.—IRAQ: KEY OIL INDICATORS

Oil Production (current weekly avg.)	Oil Production (pre-2003)	Oil Exports (current)	Oil Exports (pre-2003)	Oil Revenue (2006)	Oil Revenue (2007)	Oil Revenue (2008, to date)
2.48 million barrels per day (mbd)	2.5 mbd	1.93 mbd	2.2 mbd	$31.3 billion	$41 billion	$50.5 billion

Note: Figures in the table from the U.S. Department of State ''Iraq Weekly Status Report,'' September 10, 2008. 'Oil Revenue' is net of a 5% deduction for reparations to the victims of the 1990 Iraqi invasion and occupation of Kuwait, as provided for in U.N. Security Council Resolution 1483.

The U.S. Department of the Treasury and the International Monetary Fund have expressed confidence that, over time, Iraq's oil revenues are likely to be sufficient to meet the country's development needs, if underlying conditions remain favorable for the expansion of oil production and if revenues are managed effectively. However, the IMF warned in a January 2008 report that Iraq's public finances have been "fragile" in recent years and added that, in light of considerable operations and reconstruction needs, the Iraqi government has "little room for fiscal slippage" until oil output increases. The IMF report explains how higher oil prices have compensated for missed oil production expansion targets that undermined revenue generation and how these factors otherwise would have "depleted" the $9.9 billion balance in the Development Fund for Iraq "by the end of 2007."[3]

While reports about Iraq's current and projected budget surplus have raised questions in Congress about the relative overall size of Iraqi and U.S. expenditures, shortcomings in Iraqi revenue management practices and capabilities also have contributed to the accumulation of surpluses. According to U.S., Iraqi, and international observers, these shortcomings have prevented capital investment budgets from being spent effectively thus far and may continue to hinder reconstruction progress if left unaddressed. The U.S. Department of Defense (DoD) June 2008 Measuring Security and Stability in Iraq report noted "marginal improvement" in the Government of Iraq's ability to spend its resources, although the report concluded that "budget execution rates continue to be relatively low, limiting Iraq's ability to increase economic development and deliver essential services to its citizens."[4] Among the "considerable challenges" facing efforts to improve the performance of Iraq's ministries identified in the report were "cumbersome budgetary approval and complex funding processes", limited experience among available staff, and the "limited availability of resident contractors."

The U.S. State Department made similar assessments in July 2008. According to the Department's latest Section 2207 Report on Iraq Relief and Reconstruction, im-

pediments to effective budgetary expenditure in Iraq "persist at all levels."[5] The report concluded that "continued assistance is needed to address impediments to capital budget execution."[6] The Special Inspector General for Iraq Reconstruction (SIGIR) reported in July 2008 that U.S. funded ministerial capacity development programs had been hindered by "weak coordination" among multiple agencies that "tended to implement their own programs with little prioritization of projects or coordinated planning." The SIGIR concluded that U.S. investments in capacity building are "at risk" unless more integrated programming is implemented.[7]

In light of these assessments, both the U.S. and Iraqi governments have undertaken initiatives in recent months to improve public financial management and the coordination of U.S. assistance programs. Iraq has issued new decrees and reformed administrative bodies to grant greater contracting authority to ministries and provinces.[8] Iraq's 2008 Budget Law allows provinces and government agencies to carry over their unused budget authority into the current fiscal year. The U.S. Embassy in Baghdad and the commanders of Multi-National Forces-Iraq also have reorganized the management of existing U.S and coalition budget assistance programs to improve coordination.

In late June 2008, the interagency Public Finance Management Assistance Group (PFMAG) began its work. The PFMAG's civilian-military Policy and Operations Committees now direct the activities of paired teams of Action Officers and Treasury Technical Assistance Advisors who work alongside Iraqis, collecting and analyzing data and helping to re-engineer and expedite payments and other budgetary processes.[9] These activities build on existing programs such as USAID's National Capacity Development Program (more commonly known by the name Tatweer, the Arabic word for development), the U.S. Embassy Iraq Transition Assistance Office (ITAO) Ministerial Capacity Development Program, and the work of the Multi-National Security Transition Command-Iraq (MNSTC-I) Embedded Advisory and Functional Capability Teams. Coalition partners, such as the United Kingdom's Department for International Development (DFID), participate in PFMAG decision-making, and U.S. officials report that expanded PFMAG coordination with international bodies such as the IMF and World Bank is planned.

RECENT DEVELOPMENTS IN IRAQ'S OIL SECTOR

The concept of federalism has been incorporated into Iraq's constitution and law, and Iraqi attitudes toward the oil sector often correspond with regional differences of opinion about the proper role and power of the national government and regional and governorate authorities to make oil policy and revenue decisions. However, the constitution's ambiguity about the roles and powers of federal, regional, and governorate authorities has contributed significantly to the ongoing impasse over these issues. Articles 111 and 112 of the Iraqi constitution state that Iraq's natural resources are the property of "all the people of Iraq in all regions and governorates," and that "the federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields (italics added)." These provisions were included as a means of ensuring consensus among Iraqis and the adoption of the constitution.

Further complicating matters are Article 115, which provides regional authorities the power to override federal law in the event of conflicts with regional legislation, and Article 110, which grants powers to Iraq's federal government to formulate "foreign sovereign economic and trade policy" and regulate "commercial policy across regional and governorate boundaries" similar to those granted to the United States Congress by the commerce clause of the U.S. Constitution. According to the U.S. Department of Defense, Iraq's Constitutional Review Commission "continues to review almost 50 amendments addressing the authority of the federal government and governorates," including provisions addressing "the extent of governorate powers under Article 115" and the "status and management of oil and gas."[10]

To date, draft legislation to establish a new framework for the development of Iraq's hydrocarbon sector has not been placed on the parliament's legislative calendar because of continuing political differences between the national government and the Kurdistan Regional Government (KRG) over their relative powers and other constitutional issues, such as the administrative status of the city of Kirkuk. KRG Prime Minister Nechirvan Barzani and Iraqi Prime Minister Nouri al Maliki met in April and June 2008 to negotiate terms for moving forward on the draft hydrocarbon laws, Kirkuk, and other outstanding issues. According to Barzani, a political committee has been formed to continue negotiations on the framework legislation.[11] The June 2008 Measuring Security and Stability in Iraq report states that the Chairman of the Iraqi Council of Representatives Oil and Gas Committee does not plan to proceed with a first reading of the draft legislation until the federal govern-

ment and the KRG reach a political agreement on the hydrocarbon sector.[12] The previous report in March 2008 observed that the Iraqi government "continues to distribute oil revenues equitably to the provinces in the absence of this comprehensive legislation."[13]

Iraqi, U.S., and other international observers have expressed concern that the potential for renewed violence and the atmosphere of unresolved political tension prevailing in Iraq may not be conducive to careful consideration of hydrocarbon sector legislation or to inclusive decision making about long-term oil development contracts. Nevertheless, in the absence of new oil legislation and regulation, the Ministry of Oil and the KRG have moved forward with hydrocarbon sector investment and development. New national and KRG contracts have contributed to the persistence of an atmosphere of political controversy surrounding the hydrocarbon sector. In turn, several international companies have chosen to pursue investment opportunities is Iraq in an uncertain legal environment. This includes China's National Petroleum Corporation, which recently modified a Saddam-era production contract into a 20-year service contract to improve production in southern Iraq's Al Ahdab oilfield. Similarly, Shell has launched negotiations to develop systems for capturing and marketing associated natural gas in Iraq's southern oilfields; the gas currently is being wasted at a cost estimated by the Iraqi government to be $40 million per day.[14] The KRG has signed over twenty production sharing agreements with international oil companies, but the limited amount of oil currently being produced in KRG territory is not exported.

Overall, the Ministry of Oil has set a goal of nearly doubling current oil production to 4.5 million barrels per day within 5 years, and expanding production thereafter to 6 million barrels per day within 10 years. To reach these goals, the Ministry of Oil is moving forward with plans to conduct an international bidding round for the development of six major oil fields, with contract awards expected some time in 2009. A pre-qualification round held in early 2008 attracted strong interest from U.S. and international bidders: 41 firms were qualified, including six unnamed state-owned firms.[15] However, the recent collapse and cancellation of an interim process to award short-term service contracts for production expansion demonstrates the difficulty Iraq's government and international bidders may have in reaching mutually agreed contract terms and gaining public support in the absence of new legislation and political consensus.

FACTORS AFFECTING IRAQ'S OIL REVENUE POTENTIAL

As Iraq and the United States look to the future, four key factors may affect the Iraqi oil sector's ability to continue to provide adequate financial resources to the Iraqi people. The first and most fundamental of these factors is the security of the country. General insecurity and infrastructure attacks have hindered efforts to rehabilitate and develop Iraq's oil sector since 2003. Oil sector corruption also has contributed to the insecurity of the country, according to U.S. officials. For example, according to DoD, until mid-2007, corruption and siphoning at the refinery at Bayji resulted in "as much as 70% of the fuel processed" being sold on the black market at a value of up to $2 billion a year.[16] U.S. military leaders have made clear statements about the potential reversibility of the recent security gains that have enabled oil output to increase since 2007. During that time, U.S. and Iraqi investments in infrastructure security for oil production facilities and pipelines have contributed to increased export levels, and U.S. and Iraqi officials are expanding existing projects to extend these gains.

Second, Iraqis face the challenge of coming to a greater degree of political consensus about the powers and responsibilities of various levels of government in determining national energy policy and about various issues related to energy development. This includes reaching agreements about the degree and terms of foreign participation and models for revenue sharing. In late 2007, the KRG finalized its own regional oil and gas investment law and signed new production sharing agreements with several international companies, including U.S.-based Hunt Oil.[17] Some analysts believe that the Kurdish moves signal the KRG's intention to begin large scale oil development activities regardless of progress on federal legislation. The KRG has stated its opposition to proposals to require federal approval of its existing or future contracts, but notes that it is committed to revenue sharing as defined in the constitution and the draft revenue sharing law. As noted above, these issues remain the subject of ongoing negotiation.

In September 2007 a State Department spokesman stated the Administration's view that the KRG deals "elevate tensions between the Kurdish regional government and the Government of Iraq," and "aren't particularly helpful" to the extent that they hinder consideration of a national oil law.[18]

Iraqi government officials from other parties have reacted negatively to the impasse and the KRG's recent activities. On September 8, 2007, Iraqi Oil Minister Hussein al Shahristani stated that the national government considers contracts signed by the KRG to have "no standing".[19]

Tensions appeared to escalate further after Minister Al Shahristani warned international oil companies that the national government would not allow the export of oil produced under KRG contracts.[20] The KRG responded by accusing Minister Al Shahristani of mismanaging the Oil Ministry budget and restated its opinion that its contracts were both constitutional and legal.[21] In November 2007, 60 Iraqi oil sector leaders wrote to the Council of Representatives to state that the KRG's unilateral signing of contracts constituted a "deliberate and dangerous action" and had no "legal or political standing whatsoever."[22] At least 120 members of the Council of Representatives from a wide range of political parties endorsed a January 2008 joint statement underscoring their opposition to the KRG contracts.[23] The Ministry of Oil has since refined its position slightly to emphasize its opposition to contracts signed by the KRG after February 2007. Contracts signed before February 2007 with firms currently producing oil for domestic consumption would be considered valid after review and potential amendments.

Third, fluid global market conditions ultimately determine the demand for Iraq's energy resources, the revenue potential of those resources, and the availability of domestic and external investment capital. As noted earlier, recent declines in global oil prices have lowered this year's surplus revenue projections for Iraq. However, the abundance of energy resources in Iraq and their relative ease of production will likely sustain the attractiveness of Iraq's oil sector to international investors over the long-term. The U.S. Embassy's Iraqi Transition Assistance Office estimated in 2007 that Iraq's oil sector could require $100 billion in investment to meet the Iraqi government's production goals.

In light of Iraq's transition from conflict and in light of strong economic growth in the more stable countries of the Persian Gulf region, Iraq may struggle relative to its neighbors in attracting international investment and expertise to assist in its non-energy related reconstruction. DoD has reported that projects for critical ministries require "multi-year, large-scale strategic infrastructure upgrades" that may require the involvement of international firms; those firms could remain reluctant to engage in Iraq.[24]

Lastly, Iraqi leaders are working to address what the U.S. government and international auditors have described as significant weaknesses in Iraq's current public financial management practices. The United States has financial advisory programs in place for many of Iraq's key ministries, including with civilian leaders of security ministries. However, these programs remain limited in scope and funding in spite of their recently reorganized coordination. From Iraq's perspective, the availability of significant oil revenues is fortunate in light of the country's remaining development needs. In addition to planned physical infrastructure investments, investment in human capital and management assistance may prove equally important.

OPTIONS FOR U.S. POLICY

As Iraqi officials and their coalition partners preside over the latter half of the so-called "Year of Transition in Iraq", U.S. spending on large-scale reconstruction projects is coming to a close: the State Department reports that the funds available in the Iraq Relief and Reconstruction Fund have been almost entirely obligated or expended as of early September 2008.

Pending legislative proposals in both houses of Congress reflect broad and growing sentiment that seeks to require the Iraqi government to pay more of the cost of reconstituting Iraq's security forces and providing for reconstruction needs. Proposed defense authorization language in both houses would reduce authorized spending from the Iraq Security Forces Fund (ISFF) relative to the Administration's request ($2 billion) and last year's bridge fund ($1.5 billion).[25] The Appropriation Committees require "equal cost-sharing" for all reconstruction projects above $750,000 in report language as well as prohibiting the use of these funds for salaries for Iraqi military personnel.[26] Senate authorizers would prohibit using ISFF monies for "large-scale" infrastructure above $2 million; House authorizers would prohibit the use of ISFF funds for any facilities construction and argue that "the Iraqi Government is well able to afford to finance its own infrastructure needs at this point."[27]

As noted above, U.S. and international auditors have not expressed doubt about the Iraqi government's ability to afford taking on more of the costs of its reconstruction and security sector development, if oil production expands and export conditions remain favorable. Those auditors and observers have expressed significant doubts

about the Iraqi government's current ability to expend available funds at a sufficient rate or level of efficiency to maintain the complex, long-term, and large-scale programs required. By most public accounts, Iraqis in many areas of the country remain somewhat dissatisfied with the scope and pace of ongoing reconstruction programs, particularly with regard to the delivery of essential services such electricity and water. Midway through the "Year of Transition", DoD warned that:

"Future progress in essential services could be at risk since the U.S. will transition large-scale infrastructure projects to the Iraqis to fund and execute. While the Government of Iraq acknowledges it has the revenues to support these projects, budget and program execution rates indicate that the Government lacks the ability to execute programs on the scale required." [28]

As such, Members of Congress concerned about relative scope and effectiveness Iraqi contributions to reconstruction and security goals may wish to consider options to encourage or enable the Iraqi government to improve its public financial management capabilities. As described above, Administration officials have already taken steps to improve the coordination and performance of U.S. financial management assistance programs in Iraq by creating the interagency Public Financial Management Assistance Group (PFMAG). Congress can influence the operations of the PFMAG and its constituent programs through consideration of pending appropriations and authorization legislation or through the exercise of targeted oversight and evaluation.

Existing U.S. programs to improve the performance and capabilities of the security forces of allied governments in the Middle East also offer potential models for the structuring future of the U.S. assistance and advisory relationships with Iraq. Significant U.S. foreign assistance programs for Israel and Egypt are funded through annual appropriations of Foreign Military Financing, Economic Support Fund, and other assistance, and the annual appropriations process offers opportunities for Members of Congress to evaluate progress toward stated bilateral goals and respond to changing political and economic conditions. Alternatively, long-standing U.S. security assistance programs for Saudi Arabia are financed through Saudi government purchases of U.S. training and services through the Foreign Military Sales program. Iraq has begun using the FMS program for its acquisition needs, and may soon make large arms purchases worth up to $11 billion according to arms sale proposals recently notified to Congress by the Administration. The U.S. Army Corp of Engineers, which is currently carrying out U.S. funded reconstruction work in Iraq, carried out construction projects in Saudi Arabia on a contract basis during the 1970s and 1980s, funded by Saudi government oil revenues.

Similar direct or contract-based bilateral assistance programs could help Iraq complete its transition and reconstruction and would likely make U.S.-Iraqi relations subject to more conventional congressional concerns about human rights, the end use of U.S. military equipment, the regional military balance, and the efficiency and transparency of contract assistance programs. Increasing confidence within Iraq's political leadership and competition among some Iraqi political groups to harness popular nationalist sentiment may limit the attractiveness or utility of official bilateral assistance efforts over time, making contract-based solutions with U.S. or other international partners more appealing or effective.

CONCLUSION

Thank you for the invitation to testify and I look forward to your questions.

ENDNOTES

[1] Ernst & Young, Development Fund for Iraq—Summary of Audit Results for the year ended December 31, 2007, May 12-13, 2008.

[2] Government Accountability Office, GAO-08-1031—Stabilizing And Rebuilding Iraq: Iraqi Revenues, Expenditures, and Surplus, August 2008.

[3] International Monetary Fund, Country Report No. 08/17, "Iraq: Request for Stand-By Arrangement and Cancellation of Current Arrangement—Staff Report," January 2008, p. 9.

[4] U.S. Department of Defense (DoD), Measuring Stability and Security in Iraq—June 2008, Report to Congress in accordance with the Department of Defense Appropriations Act 2007 (Section 9010, P.L. 109-289), p. 10.

[5] U.S. Department of State, Section 2207 Report on Iraq Relief and Reconstruction, July 2008, Report to Congress in accordance with the National Defense Authorization Act for Fiscal Year 2006 (U.S. Policy in Iraq Act, Section 1227, P.L. 109-163).

[6] U.S. Department of State, Section 2207 Report on Iraq Relief and Reconstruction, July 2008.

[7] Special Inspector General for Iraq Reconstruction (SIGIR) Report 08-020, "Key Recurring Management Issues Identified in Audits of Iraq Reconstruction Efforts," July 2008.

[8] A Central Contracts Committee has now replaced Iraq's former contract approving authority. Decrees issued since January 2008 granted Governors and selected Ministers and Heads of Agencies authority to enter into contracts worth $50 million. The ministries selected were De-

fense, Interior, Oil, Trade, Health, Electricity, Industry and Minerals, Water Resources, Municipalities, and Public Works. Agencies not attached to ministries have been granted a $30 million contract approval ceiling. Iraq's governorates can now approve contracts worth up to $10 million. SIGIR Report 08-020, "Key Recurring Management Issues Identified in Audits of Iraq Reconstruction Efforts," July 2008.

[9] Information provided to CRS by U.S. Treasury Attache, Baghdad, Iraq, September 13, 2008.

[10] U.S. Department of Defense, Measuring Stability and Security in Iraq—June 2008, p. 3.

[11] Kurdistan Regional Government (KRG), Press Release: "PM Barzani announces political committee to discuss Iraqi federal hydrocarbons law," June 28, 2008.

[12] U.S. Department of Defense, Measuring Stability and Security in Iraq—June 2008, p. 3.

[13] U.S. Department of Defense, Measuring Stability and Security in Iraq—March 2008, p. 4.

[14] Reuters, "Iraq approves preliminary gas deal with Shell," September 7, 2008.

[15] Reuters, "Firms pre-qualified for Iraq long-term oil deals," June 30, 2008.

[16] U.S. Department of Defense, Measuring Stability and Security in Iraq—June 2007, p. 13.

[17] Bloomberg News, "Dallas Oil Company Approved to Drill in Kurdistan," September 10, 2007.

[18] U.S. Department of State Daily Press Briefing, Tom Casey, Deputy Spokesman, Washington, DC, September 28, 2007.

[19] Ben Lando, "Deeper Than an Oil Law in Iraq," UPI, September 10, 2007.

[20] Platts Commodity News, "Iraq's Shahristani Says Hydrocarbon Law not Expected Soon," November 15, 2007.

[21] Kurdistan Regional Government, "KRG responds to Dr Shahristani's threats to international oil companies," November 20, 2007.

[22] Radio Free Europe Documents and Publications, "Iraq: Baghdad, Kurds At Odds Over Oil Deals," November 30, 2007.

[23] Ned Parker, "Iraqi Political Factions Jointly Pressure Kurds," Los Angeles Times, January 14, 2008; and, UPI, "Iraq Factions Join Against Kurd Oil Deals," January 15, 2008.

[24] U.S. Department of Defense, Measuring Stability and Security in Iraq—June 2008, p. 10.

[25] The Senate recommends $200 million while both the House authorization bill and the previously-enacted supplemental appropriations act (P.L.110-252) provide $1 billion.

[26] Section entitled "Iraq Security Forces" in P.L. 110-252 and report language on p. S4337, Congressional Record, May 19, 2008.

[27] Sec. 1616 in S. 3001 as reported and S.Rept. 110-335, p. 428; see also Sec. 1512 in H.R. 5658 as passed by the House. Section 1613 in S. 3001 as reported by the Senate lists equipment, supplies, services, and training as the only types of expenses that can be funded in the ISFF; Sec. 1616 applies the prohibition to any "large-scale infrastructure projects" above $2 million.

[28] DoD, Measuring Stability and Security in Iraq—June 2008, p. vi.

Chairman SPRATT. Thank you very much, all three of you presenting today expressing your views on this subject. Let me just make clear of why the Chair and the Committee is holding this hearing. First of all, some of us were here in the first Gulf War and we recall the way the financing of it was arranged through the good offices of President Bush, the first President Bush, and Jim Baker. Namely we went to the allies in the region and asked them for in kind contributions as well as cash contributions, and they came through handsomely. We also went to allies from Germany to Japan, and they paid substantial sums partly in return for the fact that they were not making big troop commitments. As a result the cost of that war out of pocket to the United States was $2 billion to $4 billion, depending on how you tally up those various contributions and our outlays.

Begging the question, why have we not been able to achieve the same kind of sharing, cost sharing here, especially now that it appears that the country of Iraq is generating cash reserves, cash surpluses, that are over and above its immediate requirements.

And finally, we passed this year a supplemental appropriation bill of $185 billion, $160 billion of it goes to Iraq and Afghanistan. Everyone in this room knows, given the deficit projections we have got as recently as last week from CBO, that that level of commitment simply cannot be sustained on the basis that we have maintained it for the last five or six years, that is without borrowing every penny of it so that it goes straight to the bottom line. After all, our economy is our first instrument of a national defense. And our budget is a key element, a vital element of that economy. And we simply cannot keep building debt on top of debt and expect to

be the world's superpower and also be the world's largest debtor nation.

So this is all part of our purpose in having the hearing today. To ask, is this a source that we can now be relying upon so that we can begin using Iraqi funds to do what Wolfowitz said before this Committee and said before the Defense Subcommittee, they should be able to pay for it themselves, and relatively soon, given their vast mineral wealth. And that is what we are trying to explore today.

So we appreciate your testimony and your observations about it. And let me turn to Mr. Conaway now.

Mr. CONAWAY. Well, thank you, Mr. Chairman, and our witnesses. Thank you for coming today and talking. And I do not have an extended statement in the interest of time and listening to what they have got to tell us rather than us continuing to do our normal pontification and talk to each other, comments we already know each other are going to say. I would rather hear from the witnesses themselves. It may be a bit of a departure from our standard operating procedure, but I appreciate you guys being here and I look forward to the questions.

Chairman SPRATT. Mr. Doggett?

Mr. DOGGETT. Thank you, Mr. Chairman, and thanks to all of our witnesses. Dr. Korb, I have three questions for you about violence, about success, and about the future. First on violence, while there does appear to be some consensus, some evidence that the addition of troops contributed to a reduction in violence, you know, we have heard the administration boast so often that it does not negotiate with terrorists. We have heard President Bush and his cohorts, even just heap scorn on anyone who wanted to talk with people who do not agree with us. And we hear the importance of the United States refusing to blink. But is not the decrease in the number of deaths in Iraq in large measure the result of the Bush administration's decision to bribe, to pay off, the very organizations that were killing and executing our servicemen and women?

Mr. KORB. There is no doubt about the fact that the so called Anbar Awakening, remember Anbar was the most violent province, and creating the group called the Sons of Iraq composed of a lot of people who had killed Americans as well as Iraqi government officials, has been a big factor in getting the violence down because it took place initially in the most violent province.

Mr. DOGGETT. Well, the decision may have worked in part. But I have not heard the administration boasting of the reality that when President Bush said, "Bring it on," he responded by pouring on American money to the very people that had the finger on the trigger killing our young Americans in Iraq and accounting for some of these 4,000 plus deaths.

Now, the second question concerns success. The objective we were told was not that fewer Americans would be killed in Iraq but that no Americans were being killed in Iraq, and success was certainly not defined as continuing to pour out $10 billion or $12 billion every single month of American dollars in Iraq. And yet that is the situation of success of the surge we have today. If instead we measure the success of the surge using President Bush's own benchmarks as he announced them back in January of last year,

is it not correct that he cannot meet his own benchmarks? That is why he never talks about them anymore. And that what he deserves in terms of the objective as he defined it with those eighteen benchmarks is a big fat F for failure?

Mr. KORB. Well I think, as I pointed out in my testimony, the Iraqis, I was over there as part of the AID project to assess the capacity of the Iraqi government. And one of the things I found in talking to a lot of them, they are very clever politicians. And they know what is happening back here, at home. And so if you get a benchmark like debaathification they will go ahead and pass the law. But then when you go and find out whether it is implemented it is not. And I think that is, if you take a look at the GAO analysis what happens is, yes, they will do a lot of these things. But then they really do not carry them out. Or whether it is corruption, or whatever it might be.

I mean, take the example of the provincial elections. Well, the provincial elections, we are going to have them in October. Well, they still have not set a date, you know, for them. That is a very, very, very critical, critical thing. And unless they implement these benchmarks you are not going to have political reconciliation, which is the whole purpose of all of our military activities. And I think it is important to keep in mind that even with the numbers of troops reductions that President Bush announced last week, you will still have more troops there when these reductions occur than you had before the latest build up occurred in January 2007.

Mr. DOGGETT. As you know, it has become conventional wisdom to brag about the success of the surge. But if you evaluate it in terms of the objectives that President Bush set out at the beginning he has failed to meet those objectives, has he not?

Mr. KORB. I would say the majority of them have not been met and that is why you really do not have political reconciliation. In fact, what I worry about now, again, is the Maliki government not incorporating these Sons of Iraq.

Mr. DOGGETT. And I wanted to talk to you about that because that gets to the future. You say that without a timetable we are going to continue to have that spigot of dollars just continue to be wide open. And of course there is a timetable there because most of the so-called group of willing, some would call it billing, the people that we cajoled or bribed into sending troops into Iraq, they have got a timetable. They are either all gone or they are going from Iraq, are they not? Other than maybe the two or three from Estonia, and some of the other major powers that have contributed in the dozens instead of in the hundreds of thousands.

Mr. KORB. The vast majority of the 40,000 troops from other countries who went into Iraq with us are gone.

Mr. DOGGETT. And is it not, your testimony, I believe you used the word stalled, that as long as we have a significant American troop presence there the Iraqis will never meet the standards that President Bush set for them last January that he has failed to achieve. And that that spigot will be wide open with American dollars and American blood because we have got the wrong policy there and cannot achieve the objectives that he set without getting a timetable to get our troops out?

Mr. KORB. I do not believe that they will ever undertake meaningful political reconciliation unless you have that hammer over them.

Mr. DOGGETT. Thank you for your testimony.

Chairman SPRATT. Mr. Conaway, did you have a question you wanted to ask?

Mr. CONAWAY. I did have some questions, Mr. Chairman. I just did not want to make an opening statement.

Chairman SPRATT. Okay.

Mr. CONAWAY. So, thank you. Mr. Kagan, in contrast to the phased withdrawal that Mr. Korb was talking about, you mentioned that the U.S. would lose leverage if we did that. Do you want to flush that out some?

Mr. KAGAN. Yes, Congressman, I would be happy to. I have to say that I completely disagree with the analysis that says that the U.S., the threat of a U.S. timetable to withdraw is a hammer in some way to hold over the Iraqis. On the contrary, it completely misunderstands what we are actually doing in Iraq to say that. We are currently engaged in primarily in peace keeping, peace enforcement operations in Iraq. And our troops play an extremely important role. They are seen widely by the Iraqi population as being relatively impartial and as being able to defend sectors of the Iraqi society from other malign actors in the government, outside the government, and so forth. And they do provide us with tremendous leverage toward the Iraqi government. I can guarantee you that whatever degree of accommodation we get out of the Iraqi government in the things that we want the Iraqi government to do is higher with more American troops in the country than it would be with fewer American troops in the country. Now that is not an argument for keeping American troops there forever. I think that we should have American troops in Iraq as they are needed. But I do think that we, it is important to understand the dynamic there.

Mr. CONAWAY. Thank you. Dr. Korb, you obviously have a different opinion on that. The eight to ten month time line that you would argue for based on all of the evidence you have, based on years of experience in the arena, is there a guarantee associated with that?

Mr. KORB. There is no guarantees associated with anything.

Mr. CONAWAY. Okay.

Mr. KORB. I think that, let me——

Mr. CONAWAY. Well, I will. I just want to make my point.

Mr. KORB. I do want to make——

Mr. CONAWAY. Just one second. I will let you speak. Five years from now, do you think someone will look on this testimony the way we are currently looking back on Paul Wolfowitz' testimony from five years ago and act like as if he had given some kind of galactic guarantee that that was going to happen. So I would argue that, you know, your position is yours but you are not going to implement it. You are not going to be responsible for that. And you do not have any skin in that game and there is no guarantee. So what happens during that ten months, if circumstances are different? Do you stick to your guns? Or is there opportunity that the vacuum does create some sort of ruckus that has got to be responded to differently? What happens in that regard?

Mr. KORB. Well, as I pointed out in my testimony, General James Dubik, the American general in charge of training the Iraqi security forces said that the Iraqi Army and police will be able, and these are his words, to assume full responsibility for internal security as early as April of 2009. So that is one indication.

The others I pointed out in my testimony. And I have testified before other committees. I just referenced it very briefly here. That in addition to us setting a timetable to withdraw I think you need a diplomatic surge, because all of the countries in the region have a vested interest in Iraq not becoming a failed state. Even Iran does not want to see it become a failed state because they will have the refugees coming in. If it becomes a haven for Al Qaeda which people, you know, point out, Al Qaeda is not a group that Iran likes which is why they were very helpful to us in Afghanistan. But are there any guarantees? No. I do not think there are any guarantees in terms, but I do not think there is a guarantee if you continue to keep expending American blood and treasure that you are going to get what the administration says is a, you know, victory, which is a stable, democratic Iraq that becomes an ally in the War Against Terror and a bulwark against Iran either.

Mr. CONAWAY. But you are open to the argument that should this phased withdrawal be announced and we start walking down that path that something unforeseen today happens that that might need to be altered at some point. In other words, you are not casting this in absolutely concrete the way some of the comments get thrown back at us from, that we all make from time to time as if we have got some guarantee. But there is an opportunity that circumstances would not work out the way you think they are?

Mr. KORB. Well, again, I go back to testimony I have given before the Committee over the last couple of years. We are not leaving the region, okay? That is a big difference. In other words, you are leaving Iraq but you are not leaving the region. And so therefore you have the capability, for example, if there should be an external invasion. But if General Dubik is right and they can provide for their own internal security, and this is a whole other subject here, the Iraqis want us to go. This is why we are negotiating with them on the status of forces agreement. Okay? They are the ones that have asked for the time line. Because the Maliki government, and I think feels quite correctly, as long as it looks like we are in charge in fact they are not going to be seen as legitimate by their own people.

Mr. CONAWAY. Right. I think we all agree on the end goal. It is just how do we get there? How do we orchestrate this dance? Dr. Blanchard, one quick question for you. In terms of the oil markets, is there anything sinister about Iraq going to companies who are experts in developing large projects like Royal Dutch Shell, like Exxon Mobil, like the Chinese government. Is there anything sinister in terms of them looking towards trying to find expertise in the arena to actually increase their oil production, and modernize an infrastructure that by all arguments has been totally neglected for some twenty to thirty years?

Mr. BLANCHARD. I think the Iraqi government has pursued those service, in particular, contract opportunities, based on a recognition that it lacks either the expertise or the technical capability to reha-

bilitate its oil production and to meet its immediate short term goals. I think over the longer, or medium term run, so if you look at these long term oil deals that will come up for bidding next year, I think the administration has taken the position, and I imagine many in the Congress would agree, that that should be conducted through an open bidding process that is free and fair.

Mr. CONAWAY. But that is something a sovereign government would do with——

Mr. BLANCHARD. Indeed, these are sovereign government decisions. And, you know, I think as an observer of Iraq's oil politics the sort of only caveat I would add to that is that these do not represent necessarily broadly discussed, you know, there is a, as I said, there is a lack of political consensus about really how to move forward with these things. So, you know, a decision by the Maliki government to move forward with a certain contract or a decision by the KRG to move forward with a certain contract does not necessarily represent the, you know, broadly shared vision of what Iraq's energy future should be.

Mr. CONAWAY. Sure. Thank you, Mr. Chairman. Thank you, Mr. Conaway. Mr. Doggett has had his opportunity but we will come back to you if necessary. Mr. McGovern is not here. Mr. Scott is not here. Etheridge, Moore, Bishop, Mr. Berry?

Mr. BERRY. Thank you, Mr. Chairman. Dr. Kagan it says in this information that I have in front of me that you were one of the architects of the President's surge policy. Is that correct?

Mr. KAGAN. Congressman, I am uncomfortable with any particular designation of that. I was an early proponent of the surge. I put out a report recommending something very much like the surge. But I did not have an official position in government.

Mr. BERRY. Was part of the idea or the plan that you had to go into the neighborhoods and pay people not to cause trouble?

Mr. KAGAN. I am sorry. I did not understand your last part?

Mr. BERRY. Go into the neighborhoods and pay people not to cause trouble?

Mr. KAGAN. No, Congressman. We did not recommend in our plan the Sons of Iraq initiative, although I think it was a very good initiative and I stand by it. But we did not recommend it.

Mr. BERRY. If I understood you correctly, you recommend continuing with whatever troop levels is necessary to maintain some kind of stability in Iraq for as long as it takes, basically, or certainly until there is a better alternative that comes along?

Mr. KAGAN. Well, Congressman, since my analysis tells me that rapidly withdrawing American forces at this point would lead to probably a resumption of violence and certainly a failure of current Iraqi political efforts and a failure of our mission, right now my recommendation is that we maintain forces at levels necessary to continue to move forward in Iraq.

Mr. BERRY. So at what point would you consider that it is time to start pulling our forces out?

Mr. KAGAN. When I believe that that is in the best interest of the United States of America, I would recommend that, sir.

Mr. BERRY. And how are you going to define that?

Mr. KAGAN. Well, you have to make an evaluation of what the likelihood of success is in Iraq, what the consequences of particular

force levels would be, what the new strategy would be, what its likelihood of success is, what the various spoilers and enemies would do in response to it, and come to a reasoned conclusion about this. From my perspective the issues is remaining focused on what our objectives are, making sure that we have a strategy that makes sense to move us toward those objectives, and maintaining that we have adequate force levels and other resources, including non-kinetic measures, to support that strategy. And that is the only way to do force planning as far as I am concerned, sir.

Mr. BERRY. And how would you propose to pay for this?

Mr. KAGAN. Congressman, I am a strategist, not a budget expert.

Mr. BERRY. Oh, yes, okay.

Mr. KAGAN. How would you propose to win the war, Congressman, if we withdraw the troops?

Mr. BERRY. We are not questioning the members. Thank you, Mr. Chairman.

Chairman SPRATT.*THANK YOU, MR. BERRY. MR. ALEXANDER OF LOUISIANA?

Mr. ALEXANDER. Thank you, Mr. Chairman. Dr. Kagan you used two terms a while ago. Peacekeeping and peace enforcement. Would you describe in your opinion the difference in the two?

Mr. KAGAN. Congressman, you engage in peacekeeping operations in situations where violence is either low or nonexistent, and where the main priority of your military presence is to deter the resumption of violence by forces that have put down their weapons and helped to make progress toward permanent reconciliation. Peace enforcement is a term of art that is used when you have violence that is going on that you are working to reduce. And it is a level generally of violence that you would say is below significant insurgency. And I think in most areas of Iraq that is where we are.

Mr. ALEXANDER. Okay. Look at the entire picture and in your opinion, on a percentage basis, are our troops engaged in which one the most?

Mr. KAGAN. I would say, Congressman, it is very, I cannot give you a definitive answer on that. I would say that it is probably about fifty-fifty. Our troops, we put our troops disproportionately in areas where there is violence, of course, because our purpose is to bring it under control. So in areas such as Diyala and Ninawa Province we have been focusing very much on going after violence. In Baghdad for the most part, I think, our forces are engaged in peacekeeping in a lot of areas. In Anbar they are certainly engaged in peacekeeping, in the south in Babel Province and so forth, they are engaged in peacekeeping. I think in Basra our forces are largely engaged in peacekeeping. So in large areas of the country we are engaged in peacekeeping. But in terms of what the percentage of troops that is I cannot say offhand.

Mr. ALEXANDER. Okay. Thank you.

Chairman SPRATT. Ms. Kaptur?

Ms. KAPTUR. Thank you, Mr. Chairman. I wanted to ask any of the panelists to comment, when we look back at the chart on how much the American people have spent on this War, nearly three-quarters of a trillion dollars, $653 billion and still counting. How much of that money possibly could have ended up in the wrong hands? There has been a lot of talk about corruption. Congressman

Berry talked about money being handed out in order to buy people's behavior. From what you know of the diversion of dollars in any society, even our own in any federal program, where we have major institutions in place to check corruption and even then we do not stop it. In a society like Iraq, where lawlessness is more the order of the day than a rule of law, what would be your guesstimate on how much of that might have been misspent? Have you ever thought about that? Diverted? Stolen?

Mr. KORB. Well, I think the Special Inspector General for Iraq has given you some really good figures on that. And I would, I think that his is probably the best analysis. And in fact, you may remember that some members of the Congress were so upset about his reports that they tried to do away with the office, okay, in terms of, you know, the things that he was saying. So I think his estimates are probably the, the best of how much money has been wasted.

Ms. KAPTUR. Thank you, Dr. Korb. Let me ask, of the number of U.S. troops that have been killed in Iraq the rate of death has been going down. Can we say the same about Iraqi civilians?

Mr. KORB. It has. I mean, the number of attacks on all Iraqis as well as Americans has gone down dramatically. But I think it is important to keep in mind that it went up tremendously in 2007. So when you compare 2007 to 2008, June of both years, yes, it is down. But that was a very, very high number. And I think if you say in terms of are the levels of violence where they were then? No, they are not. But it is still not a safe place. And I think that is the key thing to keep in mind. And that is why I think it is important that the Iraqis take over their security. And if the head of the training is correct then they can provide that security.

Remember now, there are close to 600,000 members of the Iraqi security forces. And what we are talking about is basically, we do not even have an estimate. But this is not a large scale, conventional military threat they are dealing with. They are dealing with violence and basically doing police work. So I think, you know, General Dubik is correct that that in fact could occur.

Ms. KAPTUR. When you saw the death of the Sunni leader in Baghdad this week, what did you say to yourself? Who was cooperating with us.

Mr. KORB. Well, what concerns me about that is the attitude of the Maliki government toward the so-called Sunni insurgents, Sons of Iraq. They were never happy with this. This was not their idea. This was something our on scene commanders did well even before the surge. They are the ones who begin working with these groups. And General Petraeus has been pressuring the Maliki government to take more and more of them in. But the fact of the matter is, it has been very, very, very slow. And I do worry about the fact that we have created a ticking time bomb there because these people do not support the central government who we are supporting. And so while they have been working with us to get rid of Al Qaeda in Iraq, because Al Qaeda in Iraq over stepped their boundaries, and they saw the results of the 2006 election, I think that in fact if they are not accommodated they can cause an awful lot of problems.

Ms. KAPTUR. I viewed it as a sign of the fragility of the situation there. I do not know if you——

Mr. KORB. Yes, I do.

Ms. KAPTUR [continuing]. Share that view to some extent. Let me just say, I wanted to make this comment on the record. It has been really amazing to me that the insiders who promoted this war as a simple task, and I want to say their names, Paul Wolfowitz, George Tenet, Douglas Feith, and Donald Rumsfeld, have largely disappeared. Where are they? Are they editorializing? Are they writing op-eds? Are they on the evening news? Now you would think that if these were courageous men they would stand by their position. But what has been amazing to me is, it is as though they have vaporized. Where are they? Why are they not up here? Why are they not giving speeches? It is amazing to me, one of the greatest disappearing acts I have ever seen.

Now, Colin Powell has sort of been on occasion seen. There has been a sighting now and then, and of course I think Vice President Cheney is one of the most hidden vice presidents I have ever seen. But where is the courage of their conviction? And I just wanted to say on the record. It is very upsetting to me. I did not agree with them on their position. But where are they? Do the American people not have a right to hear from them now? And I hope if, you know, they are listening today or someone says something to them, I hope that they hear this member from Ohio,because many of her constituents are dead because of them. And I can remember when Mr. Rumsfeld and Mr. Powell appeared before our Defense Committee and I asked Mr. Powell the question, "Sir, do you view what is going to happen as a liberation or an occupation? How will you know the difference?" Mr. Chairman, I view this now as an occupation in the way that it is functioning, not a liberation. And what is amazing to me is how these gentlemen have not stood by the courage of their convictions. Though I disagree with them completely, where are they? Thank you, Mr. Chairman.

Chairman SPRATT. We have got some votes coming up. We want to make sure everyone has an opportunity to ask questions. So Mr. Jordan?

Mr. JORDAN. Thank you, Mr. Chairman. I will be quick. I want to thank you all for coming. I did not get a chance to catch everyone's testimony. But Dr. Kagan, I just want to go back to this public timetable, time line, deadline, debate. Which to me just does not make sense. And this is coming from someone, I mean, on the surface you can recognize it. You know, I always say deadlines influence behavior. The first piece of legislation I ever did back in the General Assembly in Ohio was welfare reform legislation. And I did the amendment. I remember offering it on the floor, and the big debate. I did the amendment that said after a certain point in time, able bodied adults would not longer receive cash payments from the state. Made sense, deadlines impact behavior.

But in this context it just scares me because of the message it sends A, to the bad guys, and probably more importantly, and I want your comments on this, more importantly to the citizens and government of Iraq. Are they going to have the full commitment they need to get where they need to get so this country, and our troops get home like we all want to see happen.

So elaborate on that if you would, and then I will yield back, Mr. Chairman.

Mr. KAGAN. Thank you, Congressman, I appreciate the opportunity to elaborate on that. The, first of all I want to make the point that Iraq has been so far by far the best ally in the war on Terror that we have had in terms of the number of troops Iraq has put into the field against terrorists and the number of casualties that Iraq has suffered. And I think it is very important to remember that. Because it is important to remember that the Iraqi security forces and the Iraqi government really, and the Iraqi people, really have chosen our side on the whole against our own worst enemy, Al Qaeda in Iraq, and also against Iranian backed militias.

Mr. JORDAN. In fact, when I was there you saw that, you witnessed that, when we were in Iraq last summer.

Mr. KAGAN. Absolutely. Absolutely. And it was a very positive sign when we were, when I was last down near Amara as the special groups had fled from the Iraqi security forces attack in that city. One of them had written graffiti on one of the bridges hear the border saying, "We will be back." And one of the Iraqi soldiers who had chased them out wrote underneath it, "We will be waiting." So there is a real commitment on their part to fighting our common foes. And what the Iraqis across the board are looking for from us is a commitment to them. And what they are hearing from Washington, D.C. is the exact opposite of that. They are hearing arguments that we should make no commitment to them. That we should hector them, that we should bully them, and we should punish them, but that under no circumstances should we guarantee that we will stand with them if they continue to fight against Al Qaeda, that we will stand with them if they continue to fight against Iranian backed and controlled militias.

And I think the more time that goes on when we leave open the question whether or not we will stand by this ally, the longer they are going to have to make some choices that I think we are not going to enjoy. Choices about how long do they want to be on the firing line alone, and how long do they want to wait before they start cutting deals with these various enemies. And I think we have already seen the very nefarious effect of this. Because the truth is one of the main reasons we have been having a hard time with this strategic framework agreement, which was initially supposed to be a SOFA is because at the outset we could not meet, the administration could not meet the Iraqis' asking price. The Iraqis' asking price was a security guarantee. And their point was that if they sign any kind of deal with us the Iranians, who see the world in a very black and white, zero sum game, would see them as siding with us against Tehran. And the Iraqis said, "We are willing to do that. Are you willing to back us?" And right up front, because of resistance within this Congress, the administration had to say no. And that has already led to very negative effects.

Now, if we set a timetable and say we are unconditionally pulling out by a certain period, whatever the situation on the ground, we will be sending the additional signal to the Iraqis that we do not plan to be there. We do not plan to back them and they need to make their own decisions. And I do not understand why anyone

imagines in that circumstance, given the threats they face, and given what the Iranians tell them on a daily basis, why if we abandon them we think that they will choose us and do what we want.

Mr. JORDAN. Thank you, Mr. Chairman.

Chairman SPRATT. Mr. Scott?

Mr. SCOTT. Thank you, Mr. Chairman. We were told going into this war, just a couple of months before, not to worry about budgeting for the war. The cost would be so insignificant when you considered that oil revenues were not listed in the budget and the cost of the war was not listed in the budget. So as the Budget Committee we were told by this administration not to worry about it. We have now spent over $600 billion and when you consider the future health costs for troops and replacement costs for equipment the estimates are in trillions. What happened?

Mr. KORB. Well, I think what happened is that we got carried away. We did not understand what we were dealing with. I think also what happened, and again if you go back and you look you may remember Larry Lindsey, who I had the privilege of serving with in the Reagan administration, who said, "You know, this could be $100 billion to $200 billion." They got rid of him. And then the head of OMB, now Governor of Indiana, Mitch Daniels said, "No, no, that is way too high." You know, it could not be even, you know, more than a hundred. And then of course Wolfowitz said it.

I think what happened, and this goes to Congresswoman Kaptur's point here that I think is very important. We talked about people who admitted they made a mistake. One of them is Francis Fukuyama, who wrote the book The End of History, is now the Dean at SAIS. He basically supported the war. And, but he said a couple of years later, I think, if you had told the American people that we were going to go to Iraq and have over 4,000 dead, spend whatever the number is, some, you know, could be up to $3 trillion, hundreds of thousands of Iraqis would die. And these were his words, "So Iraq could have an election," which was basically what happened, you would have been laughed out of the ballpark. I mean, and that is what happened. People were trying to convince the American people that it was necessary to go to war with a country that had nothing to do with 9/11. And so therefore, they presented a case.

And, you know, we are talking about Paul Wolfowitz here. He is also quoted as saying, "Well, I never believed there were weapons of mass destruction. But that sold. So that is why we emphasized that." I mean, that is the type of thing that we had to deal with. And I think had the American people known this, had all of you known this, in terms of the votes I think the vote would have been a lot different in the Congress.

But we believed our own propaganda. I mean, there was this character Chalabi here that convinced the administration we would be greeted as liberators. Do you remember that we thought we would be down to 30,000 troops by the end of 2003? I remember when I went to Iraq the first time in November the troops all thought they were coming home by Christmas, okay? I mean, they were told that. And then when General Abizaid said, "No, we have got an insurgency." Secretary Rumsfeld said, "No, you cannot use that word." Okay? And then, you know, I mean, so all of these

things happened. You know, there were a number of mistakes made.

But I think the original one was overestimating our ability to go into a foreign country and achieve a quick, relatively easy military victory. And we are all paying the price for it. I did not support the war. But I think it is important to keep in mind that this is the first significant conflict we have ever fought in our history where we do not have a draft and we have not raised taxes. And therefore, the problems that Chairman Spratt was talking about earlier in terms of our overall economic position is in terrible, terrible shape.

And that is also one indicator of our economic power. In terms of, what about the costs of not being able to do what you need in Afghanistan? Afghanistan is deteriorating rapidly and you do not have the wherewithal to deal with that situation.

Mr. SCOTT. The costs of reconstruction, what portion of that cost is due to the damage done by the war and how much of that is new and improved infrastructure?

Mr. KORB. Again, if you go back and you take a look, after they said they had no idea how bad the Iraqi infrastructure was before we went in. And again, I am thinking, how could you miss that? You had, you know, CNN was there, you had newspaper reporters, not to know how, so I think the infrastructure was not in very good shape before we went in. We did not realize that. Had we realized that we would have known that the costs would have been much greater to rebuild. I do not think, in fact I think there is a credit to our troops, they minimized the damage to the Iraqi infrastructure when they went in. Now, subsequently with the development of the insurgency you have had a lot more damage.

Mr. SCOTT. Iraq has a surplus. Have they ever committed to using the surplus to do the construction rather than have us do the construction? I mean, I do not remember them inviting us in with their representation that they would spend their money. What, on what basis are they committed to spend their money and not ours?

Mr. KAGAN. Congressman, the Iraqis do seem to be committed to spending their own money. They are having a variety of problems doing that. They do budget annually for infrastructure projects and they have said that they want to spend their own money and also bring in foreign investment. They have repeated on many occasions, it is their objective to spend their own money to build their own country. I do not think there is any question about the intention.

The issue is the pragmatic difficulties that they face in actually doing that spending on infrastructure. And I think we can get a little bit carried away talking about the trivial amount that they have spent on reconstruction. The fact is, if you go back and look at the GAO report they have spent tens of billions of dollars of their revenue. They have spent a lot of their revenue. They have spent it primarily on operations and maintenance funds, which is to say salaries.

Now in the context of the sort of insurgency that we were dealing with that was fueled for a long time by people who were simply unemployed, that was a direct contribution to our efforts to bring violence under control. Now we are working them toward the process

of developing the systems that they need in order to spend infrastructure money responsibly without having excessive corruption, but that takes time.

Mr. SCOTT. Who decides who gets the contracts?

Mr. KAGAN. The Iraqi government decides who get Iraqi government contracting, sir.

Mr. SCOTT. And the American contracts?

Mr. KAGAN. We decide.

Mr. SCOTT. No further questions.

Chairman SPRATT. Mr. Baird

Mr. BAIRD. Thanks, Mr. Chairman. I just want to start by stipulating I think this invasion and conduct of it were some of the worst foreign policy mistakes in the history of the country. But once we are there we have to deal with that reality. In the context, I just want to put things in the context. Because I hear things said here on Capitol Hill and back home that are just sort of out of context.

In the context of our total annual deficit, which CBO now estimates at over $400 billion plus another 150 borrowing from social security, what is the annual spending on Iraq?

Mr. KORB. It is about $10 billion to $12 billion, at least $10 billion a month. So that——

Mr. BAIRD. So the point being, the point being if we completely withdrew, spent not another penny on Iraq, would we still be in deficit or not?

Mr. KORB. Well I think, yes, you would.

Mr. BAIRD. We would be substantially, we would not, I do not think we should waste a penny of the taxpayers' money. But people have argued back home, "Gosh, if we were not in Iraq we could rebuild our infrastructure, blah, blah, blah." We would still be in deficit, friends. We need to be clear about that.

Secondly, in Iraq, U.S. dollars what percentage goes to reconstruction now versus security?

Mr. KAGAN. Congressman, I do not have the exact number for you. But we have made policy decisions sometime hence and we were going to stop investing in long term infrastructure projects in Iraq. And we were to focus very heavily on security. And so whatever the percentage is now, and I think it is heavily weighted toward security at this point, you will see that it will be even more heavily weighted that way in the future based on decisions that have already been taken in theater and in the administration.

Mr. BAIRD. I believe that to be accurate. It is heavily weighted toward the security side. The reason I say that is people also say, "Why are we spending such vast funds to rebuild the Iraqi infrastructure when our own infrastructure is hurting?" I understand the concern. I wish we were not spending so much money in Iraq. But we need to be clear, at least for the facts, the vast majority of U.S. funding is not going to rebuild Iraq's schools, or roads, etcetera. And the Iraqis are doing more of that.

Mr. Korb, a year ago at this time were you suggesting that there was progress in the security situation in Iraq? Or were you skeptical at that time?

Mr. KORB. Well, a year ago the violence had not yet come down, okay? So it does not really start until late in 2007. Okay? When

a combination of factors, Sons of Iraq, more troops, Sadr laying down his arms.

Mr. BAIRD. Did you foresee that and say, "I see all these things happening and therefore I expect casualty numbers of U.S., Iraqi, and civilians to go down?" Or were you rather skeptical that that was going to happen a year ago at this time?

Mr. KORB. Well, I was mainly focused on the political reconciliation. That is what I was concerned about because the whole purpose of the increase in troops and the other things was the get the political reconciliation.

Mr. BAIRD. Did you make any comments a year ago about the security situation?

Mr. KORB. Again, a year ago in September?

Mr. BAIRD. Yeah.

Mr. KORB. I did not think that the violence was going to come down the way that it did, no.

Mr. BAIRD. I appreciate that. That is correct. If we had pulled out, it is correct you said that. It is not correct that you were correct. If we had pulled out one year ago, or if we had begun a withdrawal, a year ago some people were saying, "Let's begin to withdraw one to two brigades a month and let us finish it up by 2008." So no U.S. combat, very small physical presence, 30,000 or so. Even that, some said zero. What do you think would have happened? Mr. Kagan, and we will go on down the line. Do you think we would be seeing low numbers of casualties? Do you think we would be seeing chaos? What do you think, Mr. Kagan?

Mr. KAGAN. Congressman, I am very confident that if we had begun a year ago as General Petraeus was testifying about what he thought needed to happen, withdrawing a brigade or two a month, sectarian violence would have rapidly begun to increase. The Iraqi government probably would have collapsed. The Iraqi security forces definitely would have collapsed. They were not in a position to function on their own. As the Jones Report at that time made very clear and as our own observations on the ground made clear. And I think all of the progress that had been made to that point in 2007 would have been undone. And I think the situation might well have become irretrievable very rapidly at that point because it would have been seen as the final betrayal by the Americans of the Iraqi people.

Mr. BAIRD. What would have happened to surrounding countries, like Jordan?

Mr. KAGAN. You would have seen increased refugee flows. I think Michael O'Hanlon at Brookings Institute wrote an excellent report about the likely spillover effects of this. And you would have seen significant destabilization. I think you would have started to see much more aggressive intervention on the part of Iraq's neighbors both to stem the tide of refugees and also to try to protect their coreligionists and so forth. So I think you saw a real danger. And again, I think it was probably Ken Pollack who laid this out. You saw a real danger that a situation in Iraq spiraling out of control could well have become a regional conflagration.

Mr. BAIRD. Mr. Korb, do you want to comment on that?

Mr. KORB. I think if you go back and you take a look in 2006, when President Bush met Prime Minister Maliki in Jordan. And

Prime Minister Maliki said the following, "Let us take control of Baghdad, my troops, and you, you move yours to the outskirts." If in fact that happened and you also had the so-called Anbar Awakening——

Mr. BAIRD. Let me just, I try not to be discourteous. But my question was, if one year ago, not in 2006, in 2007 we had begun to withdraw one to two brigades a month, and to this point where we were very, very low troop strength. Mr. Kagan is of the belief, I actually share that belief, that we would have had substantial infighting, chaos in the ground, possible genocidal violence, a number of U.S. troops killed in the withdrawal process, and resurgence of Al Qaeda, and the strengthening of Iran.

Mr. KORB. I disagree.

Mr. BAIRD. Uh-huh. What do you think would have happened?

Mr. KORB. As I have said all along, basically, and obviously you have looked up some of the things I have said because——

Mr. BAIRD. Well, you said it about me at the time so I remembered it.

Mr. KORB. Basically, if you set a withdraw date and undertook a diplomatic surge with the countries in the region, none of whom wanted to see Iraq become a failed state, they would have been involved constructively. And I also demonstrated in the reports, the Americans would not have had any casualties if you had done it the same way that you put in over 200,000 troops in 2004. So that, there would not have been increased American casualties. And it would have, in my view, given the Iraqis the incentive to do what they need to do. I think, I cannot emphasize, this is a very, you know, distinguished group of people. These people are, you know, have long traditions. And I think it would have given them the incentives to do what they need to do, which they still have not done. And with that——

Mr. BAIRD. Well, the National Intelligence Estimate at the time took a somewhat different perspective on that in a line that got very little attention. The line basically said that the threat of U.S. withdrawal and a U.S. timetable is probably causing people to retrench rather than reach out and work together. Anyway, I am thankful, at least, that the casualty numbers have gone down. I think it is a credit to our soldiers, it is a credit to the Iraqi people, it is a credit to the change in tactics by General Petraeus and Ambassador Crocker. Thankfully, we did not have to test the other hypothesis. We did not have to run the risk of genocide, etcetera, etcetera. And it is still fragile. But the fragility in my judgment does not justify the claims of and the calls that we now withdraw one to two brigades a month. Because how, saying an edifice propped up by certain things that it is finally getting stronger if we just pull out the props, that will suddenly force it to strengthen itself, it does not work in architecture and I do not think it would work in foreign policy. I thank the Chair and thank the witnesses.

Chairman SPRATT. Thank you, Mr. Baird. And to our three witnesses for your diligence and cooperation in preparing your testimony and the testimony you have given and the answers you have forthrightly stated, we very much appreciate it. We have learned from your contribution and we appreciate your participation.

Before we conclude I would ask unanimous consent at this point that anyone who did not have the opportunity to ask questions be permitted to do so by submitting them for the record within the next seven days.

Thank you once again for coming and for your participation. The Committee is now adjourned.

[Whereupon, at 12:00 p.m., the Committee was adjourned.

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