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IRAQ: MEETING THE CHALLENGE, SHARING THE BURDEN, STAYING THE COURSE

A Trip Report to Members

OF THE

COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE

Richard G. Lugar, Chairman

JULY 2003

A Democratic Professional Staff Member with the Committee and the Foreign Policy Advisor to Senator Chuck Hagel traveled to Iraq from June 25–July 3 to evaluate reconstruction efforts. The Ranking Member, Senator Biden, and Senator Hagel asked that their report be submitted to Members of the Committee and printed.

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LETTER OF TRANSMITTAL

UNITED STATES SENATE,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC, July 30, 2003.

RICHARD G. LUGAR, *Chairman*
JOSEPH R. BIDEN, JR., *Ranking Minority Member*

DEAR SENATOR LUGAR AND SENATOR BIDEN:

At the request of Senator Biden and Senator Hagel we returned to Iraq on June 25, two days after the visit of the Committee delegation led by Chairman Lugar to Baghdad. For the following nine days, until July 3, we held a series of meetings with a wide range of Iraqi professionals, prominent business leaders, academics, students, artists, journalists, religious leaders, politicians, and other elements of the new Iraqi civil society. In addition, we met Coalition Provisional Authority (CPA) officials, American military personnel, and United Nations officials.

Prior to leaving Baghdad, we presented some of our preliminary findings to Ambassador L. Paul Bremer III, the Administrator of the Coalition Provisional Authority, and Mr. Sergio Vieira de Mello, the Special Representative of United Nations Secretary General Kofi Annan.

The interviews and meetings were conducted in Baghdad, except for one day spent in Najaf. For all but three of our meetings with Iraqis, we were not escorted by CPA or coalition military personnel and made our own arrangements for accommodations and travel.

The conclusions and recommendations in this report are our own, and do not necessarily reflect the views of the Committee on Foreign Relations or its Members.

Sincerely,

PUNEET TALWAR
Professional Staff Member
Foreign Relations Committee

ANDREW PARASILITI
Foreign Policy Advisor
Office of Senator Hagel

IRAQ: MEETING THE CHALLENGE, SHARING THE BURDEN, STAYING THE COURSE

KEY FINDINGS

The United States faces an enormous challenge in managing the transition to stability and democracy in Iraq. The next few months are critical to our success. Despite a swift and effective military campaign, and the impressive performance of our armed forces during both the war and the present post-war stabilization phase, the American government and people may not have been prepared for the costs and commitment of rebuilding Iraq.

The scope of this task cannot be overstated. It will require significant resources—human and financial—and sustained U.S. involvement over many years. The United States cannot and should not bear this burden alone. Instead, we must more actively seek international assistance and participation from our allies, the United Nations, and NATO in re-building Iraq.

We found a precarious situation on the ground which could, if not urgently addressed, pose significant threats for American troops, as well as U.S. national security interests in the Middle East and beyond. Restoring law and order and rapidly improving the delivery of essential public services is intimately linked to improving security for US forces and to overall U.S. objectives in Iraq and throughout the Middle East.

The transition to stability, let alone democracy, will be difficult and success is not assured. Iraq does not have a tradition of democracy. That is not to say that Iraqis are neither capable nor worthy of democracy. They are. But history counts. Iraq has suffered 35 years of brutal dictatorship, 3 wars, and over a decade of international sanctions. The infrastructure is devastated. Democracy will take time and will depend on the long-term development of political institutions which did not exist under the Ba'ath regime. The near-term prospects for economic growth, a key driver of political progress, are not promising. Furthermore, despite Iraq's vast oil reserves, it is unlikely that there will be an oil windfall in Iraq for several years.

Creating a stable and representative Iraq, at peace with its neighbors, is critical to the success of U.S. policy toward Iraq and the Middle East. America must stay the course. At the same time, our policies and expectations in Iraq and the region should be tempered with a clear-eyed realism about the risks and costs associated with this effort.

PRIORITIES AND RECOMMENDATIONS

The U.S. Government should emphasize the following as urgent, inter-connected priorities:

- ***Security:*** Deploy sufficient forces to subdue Iraqi resistance and continue the hunt for former leaders of the regime, especially Saddam Hussein.
- ***Law and Order:*** Must be established in Baghdad and throughout Iraq. The U.S. should intensify its efforts to recruit and retrain Iraqi police officers, and immediately seek international assistance for this process.
- ***Re-establish Services:*** In Baghdad and throughout Iraq as soon as possible. Especially electricity and telecommunications.
- ***Get the Message Out:*** Through the establishment of world class radio and TV broadcasting, support for independent media, and possibly the opening of local public information centers where Iraqis can more readily access CPA officials.
- ***Generate Employment:*** For the estimated 60% of the working age population that is unemployed.
- ***Share the Burden:*** By seeking a broader role for the United Nations, the North Atlantic Treaty Organization, and our Arab allies to allow other countries to contribute troops and funds for stabilizing and rebuilding Iraq.

POLITICAL ATTITUDES AND EXPECTATIONS

Most Iraqis we interviewed were thankful to the United States for removing Saddam Hussein's regime from power; hopeful of a new relationship with the United States; and supportive of U.S. troops staying until Iraq is stabilized. Yet Iraqis remain a proud people. Gratitude over the removal of Saddam mixes with a strong strain of nationalism. Military occupation elicits complex reactions, and Iraqis, citing their long history of civilization, believe that they are capable of running their own affairs.

The United States is dealing with a huge expectations gap in Iraq. Following our rapid military success, Iraqis expected that the United States could dramatically improve almost overnight living conditions that had declined precipitously for more than a decade. Iraqis today are preoccupied with the economy, personal security, and the absence of services. Most of them told us that current conditions in Baghdad since the liberation have made life harder than it was even under the regime of Saddam Hussein. They also expressed uncertainty and fear that the present situation in Baghdad and throughout Iraq would not get better. A failure to improve conditions in Iraq would contribute to greater resentment of the CPA, undermine the Iraqi Governing Council, and increase risks to coalition forces.

An independent public opinion survey of 1,090 Baghdad residents by the Iraq Center for Research and Strategic Studies (ICRSS) conducted on June 19, 2003, reinforced many of our own observations. According to the poll, while only 17% of those surveyed wanted coalition forces to leave immediately, 74% described the current security situation as bad; 74% described the economy as bad; and 94% said that efforts to rebuild key sectors of the economy had so far failed.

ESTABLISH SECURITY AND LAW AND ORDER

Establishing security and law and order are the most pressing priorities for the transition in Iraq.

American and coalition forces have so far done a heroic job, and at great risk, to root out the remnants of Saddam's regime, guerrillas, and terrorists who have no place in the new Iraq. But the United States cannot continue to shoulder most of this burden alone. America must reach out for military support from our allies, preferably our NATO allies, to grant greater legitimacy to our security role in Iraq.

The Baghdad Police Academy.

Re-establishing a police force in Iraq is a separate and equally urgent priority. Coalition forces are not trained to police Iraq, although they have done precisely that during the transition. Policing must be done by Iraqis, but rebuilding Iraq's police force is a big job, and here, too, we cannot do it alone. The absence of law and order for Iraqis must be immediately addressed. Baghdad has experienced an unprecedented crime wave since Iraq's liberation—reports of carjackings, armed robberies, murders, and rape are rampant. The problem has been exacerbated by the widespread availability of arms and the mass release of prisoners—including many hardened criminals—by Saddam Hussein in the run up to the war.

The CPA's Iraq Police Assessment team would like to immediately enlist over 5,000 international police forces to train and patrol with Iraqi police,[1] but as of early July commitments from other countries were scant and only a handful of personnel had arrived. Fully training a competent and professional force of 73,000 Iraqis, which could effectively police the entire country, will take more than 5 years, according to the CPA's Iraq Police Assessment Team. In the interim, law and order can only be restored by a combination of international police forces, military police, and coalition troops working with a rough-and-ready force of Iraqis even as a more professional force is being trained in parallel.

Ambassador Bremer has made providing security his most immediate priority for Iraq. By the end of September, the CPA and the Iraqi Governing Council plan to recruit and train the first battalion of the new Iraqi army, and eight battalions for an Iraqi civil defense corps, and open a new police academy.[2] These efforts should be supported with the urgency and resources required for the task. They also should be augmented by an aggressive diplomatic strategy to recruit international police forces, which can assist in this effort.

DELIVER ESSENTIAL PUBLIC SERVICES

As temperatures approach 120 degrees during the summer, Baghdad and other areas continue to have inadequate supplies of electricity and water. It is critical that the CPA be given the necessary resources and the authority to deploy them as it sees fit to increase the supply of electricity. Ambassador Bremer has estimated that rebuilding Iraq's electricity sector could cost as much as $13 billion.[3] The CPA budget for July-December 2003 provides only $294 million for "electrical improvements." (See Annexes, pages 22–25.)

There is a large gap between supply and demand in the Iraqi electricity sector, a condition that pre-dates Iraq's liberation. Current demand for electricity in Iraq is estimated to be approximately 6,000–7,000 megawatts (MW) nationwide and approximately 2000–2200 MW for Baghdad.[4] The pre-war total electricity generation for Iraq was estimated at 4000 MW, a 33% shortfall in supply. The electricity situation in the months following Iraq's liberation was worse than it was prior to the war—as of July 14, generation nationwide was 3200 MW for Iraq and 1150 MW for Baghdad.[5] Reaching the pre-war generation level of 4000 MW is expected to take until the end of September.

One CPA official said that contracting delays, sabotage, looting, and security risks to key personnel have combined to keep electricity supplies insufficient in Baghdad and other locations. The destruction of a single transmission tower in late June caused electricity generation in Baghdad to fall to zero for four days. It took

[1] "Police Development Plan, Iraq Police Assessment & Recommendations," Iraq Police Assessment Team, Coalition Provisional Authority. (See Annexes, page 19.)

[2] Ambassador L. Paul Bremer III, Speech to the National Press Club, Washington, DC, 23 July 2003. (See Annexes, pages 34–43.)

[3] Ambassador L. Paul Bremer III, Speech to the National Press Club, Washington, DC, 23 July 2003. (See Annexes, pages 34–43.) One CPA official said the costs could reach $3.5 billion per year over 6 years, or $21 billion. Interview with CPA official, July 2, 2003.

[4] Interview with CPA official, July 2, 2003.

[5] Interview with CPA official, July 2, 2003 and a telephone follow-up, July 14, 2003.

one week of intensive effort to restore the previous level of power generation. In the meantime, the prolonged absence of power halted water supplies and led to a two week disruption in gasoline production.

The same official cited contracting delays as being partially responsible for preventing increases in the supply in electricity. He described the difficulty in obtaining $25,000 for repairs in the first month after the fall of Baghdad. According to him, of more than $200 million allocated for electricity out of a $680 million contract awarded to the Bechtel Corporation, Bechtel had spent only $1 million at the time of the interview.[6] This has forced the CPA to tap into Iraqi assets under its control to make essential repairs.

In addition to the costs associated with rebuilding Iraq's electricity sector, Ambassador Bremer has cited UN estimates that reestablishing a potable water supply and service could cost $16 billion over 4 years.

GET THE MESSAGE OUT

There has been a failure to communicate effectively with the Iraqi people. Many Iraqis we spoke with mocked the poor quality of 4-hour a day television broadcasts from the CPA, which, in any case, they could only see during the infrequent periods when power was on. Likewise, those Iraqis we interviewed did not listen to CPA radio broadcasts.

The lack of effective communication with the Iraqi people has increased their distance from the CPA and has heightened the sense of a vacuum in authority. Most of the Iraqis we spoke with were unclear about the intentions, programs, and policies of the CPA.

The absence of accurate information also has led to widespread rumors and conspiracy theories. Iranian broadcasts—TV and radio—and Arab satellite television including Al-Jazeera have filled the void. They were available for more hours during the day and their programming was of better quality. Neither of these sources is noted for its sympathetic portrayal of the United States.

CPA officials should take four specific steps to address the communications gap:

(1) Immediately make available high-quality broadcasts on TV and radio throughout Iraq. Such programming should acknowledge the problems Iraqis are facing, indicate what the CPA is doing to fix them, and offer a timeline for their resolution. The USG should call upon the expertise of private broadcasters in the U.S. and the Broadcasting Board of Governors for guidance in this process.

The CPA is taking a number of steps to expand its radio and television programming for Iraqis. Because of the problems with electricity in Baghdad and throughout Iraq, many Iraqis would likely turn to radio, which, unlike television, can be heard in cars and powered by batteries. The CPA is planning to re-transmit Radio Sawa and the Iraqi service of RFE-RL from towers inside Iraq, as well as expanding Iraq Media Network (IMN) radio coverage inside the country.

(2) Since the USG is attempting to build democracy in Iraq, the CPA should support a C-SPAN type service where public interest

[6] Interview with CPA official, July 2, 2003 and a telephone follow-up, July 14, 2003.

programming and grassroots political activity, including the town and neighborhood council meetings under USAID's Iraq Local Government Project, can be transmitted throughout Iraq to develop and encourage civic awareness, responsibility, and activism.

(3) Support indigenous, independent Iraqi media—through regulatory reform, journalism training, and perhaps making available subsidized equipment and financing facilities. The growth of a strong, independent media will improve the prospects for the eventual development of democracy in Iraq.

(4) Consider the establishment of public information centers in Baghdad and throughout the country where Iraqis can more readily access CPA officials, gather information on CPA efforts, and identify opportunities for participating in the reconstruction of their country.

The Az-Zaman newspaper printing press in Baghdad.

THE POLITICAL TRANSITION

A Vacuum in Authority

The CPA began its work facing a daunting and unexpected reality: there was no functioning national government in Iraq. The destruction and looting of most government ministries and office buildings in Baghdad, the dissolution of the Iraqi armed forces and most of the Iraqi police force, the breakdown in security throughout the capital after the liberation, as well as the effect of over three decades of dictatorship and over a decade of sanctions on Iraqi society, provided a sobering starting point for the coalition's efforts to facilitate a political transition.

Baghdad is the key to the success of our efforts. It remains the nation's political and cultural capital, and the most representative city in terms of Iraq's demographic diversity, with roughly 20% of the country's population. It is home to the most influential professional, business, and opinion leaders. In short, the national political transition will depend upon our success in stabilizing Baghdad.

The transition to stability, let alone democracy, is not assured. Iraqis must have a functioning national government and a clear constitutional process for democracy to have a chance to take root.[7] The absence of dictatorship does not necessarily foreshadow a democratic transition. Building democratic institutions will take time, patience, determination, and resources.

The Governing Council

The Iraqi Governing Council, appointed by Ambassador L. Paul Bremer III, the top American administrator in Iraq, met for the first time on July 13, 2003. The Council's 25 members include a mix of former exiles, tribal and religious leaders, women and representatives from Iraq's main communities—Arab Shi'a and Sunni, Kurds, Turkmen, and Christian. (See Annexes, page 20.) Although Ambassador Bremer reserves the final call on all decisions, the Council will have the authority to appoint and supervise ministers, send diplomats abroad, establish a process for writing a new Iraqi constitution, and set fiscal and budget policy, among other responsibilities.

The Council's fortunes will be directly correlated with the success or failure of the CPA to provide basic government services, re-establish security, and develop the economy. The Council, on its own, will not "deflect" any resentment or frustration away from the CPA by Iraqis about their situation as some American officials have suggested. If there is appreciable improvement in the lives of ordinary Iraqis, the Council, and the CPA, will gain legitimacy. If conditions stagnate or worsen, the Council will be perceived by Iraqis as lackeys of the CPA. Both will bear the brunt of their frustration.

It is critical to communicate to Iraqis that the Governing Council is only a "first step in establishing an interim government" and that it is directly linked to the constitutional process, which will lead eventually to national elections.[8] Without effective communication Iraqis may reach incorrect conclusions about the authority, independence, and tenure of the Governing Council.

The national political process must also be connected in the minds of Iraqis with the important work of the CPA, through the USAID Iraq Local Government Project, to establish interim city councils and municipal governments with limited powers as the ground-up building blocks of democracy in Iraq.[9]

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[7] Also see Thomas Carothers, "It's Too Soon For Democracy," *The Washington Post,* July 20, 2003.

[8] L. Paul Bremer III, "The Road Ahead in Iraq—and How to Navigate it," *The New York Times,* July 13, 2003.

[9] We attended meetings of the Interim Advisory Council for the Al-Rasheed district in Baghdad on June 23, 2003 (with CODEL Lugar-Biden-Hagel) and for the Ath-Thawrah district on July 2, 2003.

An Iraqi woman stands for election as representative of Ath-Thawra district to the Baghdad City Council.

Drafting a New Constitution

The development of an Iraqi Constitution will contribute to the cohesion and legitimacy of a new Iraqi government. It will establish the governing principles of Iraq, formalize key political compromises among major constituencies, and create institutional arrangements that hopefully will govern Iraq for years to come. Critical issues will be settled by the Constitution—Will the country be a federation? If so, with how many constituent parts? What powers will be held by the central government? What, if any, checks and balances will be put in place between the executive, legislative, and judicial functions of government? Will religion play any formal role in public life? Will the fundamental rights of all Iraqis be protected?

The Constitutional process should be seen as legitimate by Iraqis. Some may seek to question, hinder or obstruct this process. The mode of selection for the Constitutional Council has already become a point of contention, with Grand Ayatollah Ali Sistani—a powerful voice in the Shi'a community—issuing a *Fatwa* calling for Council members to be elected. During the Constitutional process the Iraqi Governing Council and the CPA must communicate clearly to the Iraqi people the link between the development of a Constitution and the process of building political institutions and democracy for all Iraqis. [10]

[10] See L. Paul Bremer III, "The Road Ahead in Iraq—and How to Navigate it," *The New York Times,* July 13, 2003.

Perceptions of Political Parties

The CPA should refrain, for now, from being seen as favoring any specific personalities or parties. In her classic study of British foreign policy in the Middle East, Elizabeth Monroe noted "the confirmed optimism that caused British statesmen to underrate the unpopularity to which they exposed rulers whom they supported and advised."[11] The ICRSS survey found that only 15.1% of Iraqis polled in Baghdad said that the political parties in Iraq represent their interests. Approximately 63% of those surveyed preferred a technocratic government, rather than one based upon political parties.

Our interviews in the capital confirmed the low regard that many had for several of the political parties, including some represented in the Governing Council. We found a range of opinion on the form of government Iraqis would like to see, with some strongly supporting the mixing of religion and politics (particularly in the Shi'a community), others favoring strict secularism, and some expressing curiosity about the establishment of a constitutional monarchy.

Iraqis we spoke with understood that it will likely take time for the development of a democratic political culture. In the interim, most want a government of technocrats who can restore essential services, security, and a sense of Iraqi independence in governance during the transition.

De-Ba'athification

While most Iraqis we interviewed expressed support for the principle of de-Ba'athification of Iraqi society, there was confusion and concern that orders by the CPA to remove Ba'athists from government would adversely affect relatively lower-ranking members of the party who may have joined purely for career advancement, not out of ideological conviction. The CPA should clearly state to Iraqis the scope and intention of its orders in this area. (See Annexes, page 21.)

Supporting the Development of a Democratic Culture

The forces in Iraq that are the best organized to mobilize followers are the Kurdish parties, former Ba'athists, and religious groups. The democratic orientation of the latter two is highly suspect. What is missing in Iraq is a strong democratic, secular center that has a grassroots mobilizing capacity. The CPA should intensify its efforts to develop mechanisms, direct or indirect, to make democracy training and other resources available for the development of democratic institutions, including political parties, independent media, the rule of law, and, particularly, non-governmental organizations.

A related threat to the development of a democratic ethos in Iraq comes from certain religious quarters, where democracy and freedom are being equated with "Western cultural and moral decadence." It will be critical to get the message across that democracy can take many forms, and that the American or Western models

[11] Elizabeth Monroe, *Britain's Moment in the Middle East, 1914–1971* (Baltimore, MD: Johns Hopkins University Press, 1981), p. 21.

are not the only ones available. Iraqis must feel that their form of democracy is authentic and consistent with their traditions.

THE IRAQI SHI'A

The Shi'a of Iraq comprise approximately 60% of the population, but have long been denied a commensurate role in the political leadership of their country. It would be a mistake, however, to see the Shi'a as a monolithic political block. Opinions among Iraq's Shi'a population span the breadth of the political spectrum.

The Imam Ali Mosque in Najaf.

Shi'ite religious communities are among the best organized in Iraq. Iraq is the home to two of the holiest cities in Shi'ism—Najaf and Karbala—and there is a great deal of political and social activism associated with Iraqi Shi'a religious institutions.

Within the Shi'a community, there is an intense competition underway involving groups such as the Supreme Council for the Islamic Revolution in Iraq (SCIRI) which was based in Tehran for many years, the Da'wa Party—which appears to have a strong grassroots presence, and the followers of Muqtada Sadr—the son of a well-known Shi'a figure assassinated by the regime of Saddam Hussein. The first two have representation on the Governing Council, while the latter has announced plans to create a rival council and an "Islamic Army." Attempting to stay above the fray, but still highly influential, are senior religious figures such as Grand Ayatollahs Ali Sistani and Syed al-Hakim.

The clerics we met in Najaf emphasized to us that their allegiance is to Iraq, not Iran. At the same time, Najafi clerics appear to support involving religion in public life in some way. The parameters of Shi'a politics in Iraq are still evolving and it is not clear

which, if any, group will emerge as the dominant voice and what specific relationship will be advocated between religion and government.

Despite widespread happiness among Iraqi Shi'a over the demise of Saddam Hussein's regime, there is little trust of American intentions in Iraq. Many Shi'a activists retain bitter memories of President George H.W. Bush's encouragement and then abandonment of the 1991 *intifada* in Iraq which resulted in tens of thousands of deaths.

Winning over Iraq's Shi'a, and all Iraqis, will depend upon the establishment of an Iraqi government that has legitimacy among all its citizens and is capable of providing security and services.

STATUS OF WOMEN

Most Iraqi women we encountered indicated that they have seen their personal freedom decline in the aftermath of the war for two reasons: (1) The collapse of law and order; (2) The growing strength and influence of religious groups.

Many women, including professionals, indicated that they have been forced to stay indoors because of the general state of lawlessness and rampant reports of abductions and rapes. Rape in a traditional society such as Iraq is a taboo subject. It often results in adverse consequences for the victim, frequently involving her murder by family members to "preserve" the family's honor.

Many women also related accounts of harassment and intimidation over their dress and behavior by newly assertive religious groups.

The CPA should take the following steps:

(1) Improve law and order—women will be the greatest beneficiaries. Police, including female officers, should be trained to meet the needs of rape victims. Legal reform will be needed to stiffen penalties for harming victims of rape, including "honor killings."

(2) Support non-profit groups assisting victims of rape and other violence against women.

(3) Publicize efforts to address the issue of rape to help remove the stigma suffered by victims.

(4) Continue to ensure the participation of women in the political process.

Vigilance on issues relevant to women will need to be heightened to ensure that the liberation of Iraq does not paradoxically lead to a decline in the standing of women in society.

THE ECONOMY, BUDGETS, AND OIL

The Iraqi economy is but a shadow of its former self. It has been ruined from 35 years of mismanagement and corruption under the Ba'ath regime; three wars since 1980; 12 years of international sanctions; and the looting, vandalism, and economic collapse that followed Iraq's liberation on April 9, 2003. In 2000, the UN estimated that Iraq's gross domestic product per capita had fallen to

between $500 and $700,[12] which would rank it near countries such as Yemen, Bhutan, and Angola.[13] Since the establishment of the UN oil-for-food program in December 1996, 60% of Iraq's population has relied upon oil-for-food program to meet its most essential needs. The private sector was operating at a fraction of capacity.

No Oil Bonanza

Although Iraqi's oil reserves are estimated to be the second largest in the world, Iraq's economy and infrastructure is in dire straits. There is no oil windfall on the horizon.

Oil revenues for July–December 2003, based on estimated exports of 1.5 million barrels per day by December, are expected to be only $3.455 billion. Iraq's oil exports and revenues are projected to be only 2 million barrels per day and $14 billion, respectively, for 2004.[14] To achieve those results, Iraq's oil infrastructure will require $2.5 billion in investment by December 2004.[15] The July–December 2003 Iraqi budget includes $825 million for rebuilding Iraq's oil infrastructure through the Restoration of Iraqi Oil Program. (See Annexes, pages 22–25.)

An expansion of Iraq's oil exports beyond these levels cannot be considered in a vacuum. Such a decision would probably require an increase in international demand for oil and further investments in Iraq's oil infrastructure. Under Secretary of State Alan Larson said in testimony before the Senate Foreign Relations Committee that, "Any significant expansion of baseline oil product capacity would need to be accommodated by increased demand in the international marketplace and in my view would most likely be privately financed."[16] The Independent Task Force of the Council on Foreign Relations on "Iraq: The Day After" estimated that restoring production to its peak of 3.5 million b/d would require an investment of $5–7 billion over 2 years.[17]

A Shoestring Budget in the Red

The interim budget for Iraq for July–December 2003 prepared by the CPA and Iraq's Ministries of Finance and Planning projects a total expenditure of close to $6.1 billion and a deficit of $2.2 billion. (See Annexes, pages 22–25.) The deficit will be funded from "committed financial assets, without the need for borrowing." The budget, while appropriately conservative in some respects, does not make the dramatic investments that may be urgently needed to bring about immediate improvement in the lives of ordinary Iraqis. Ambassador Bremer has so far predicted a deficit of almost $4 billion for FY 2004.[18]

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[12] *The Reconstruction of Iraq. A Preliminary Background Briefing Paper,* prepared by the UN Development Group, June 23, 2003.

[13] The World Bank, *World Development Indicators for 2000 and 2001.*

[14] Iraq exported 1.7 mil b/d of oil in 2002. Testimony of Hon. Alan P. Larson, Under Secretary of State for Economic, Business and Agricultural Affairs, before the Senate Foreign Relations Committee, June 4, 2003.

[15] Phil Carroll, CPA Senior Adviser to Iraq's Ministry of Oil, Baghdad, June 23, 2003.

[16] Testimony of Hon. Alan P. Larson, Under Secretary of State for Economic, Business and Agricultural Affairs, before the Senate Foreign Relations Committee, June 4, 2003.

[17] *Iraq: The Day After,* Report of an Independent Task Force Sponsored by the Council on Foreign Relations, 2003, p. 35.

[18] Ambassador Paul L. Bremer III, National Press Club, Washington, DC, 23 July 2003. (See Annexes, pages 34–43.)

Donors Conference

At present, a donors conference under the auspices of the United Nations is planned for Fall 2003. Critical to the success of this conference will be an assessment to be completed by the World Bank and International Monetary Fund. An initial study prepared by the United Nations for a preliminary donors meeting in June supports our conclusion that the need for assistance in a range of sectors will be extraordinary.[19] Given the need to immediately improve conditions on the ground, the United States will not have the luxury of waiting to increase spending until after the donors conference and the inevitable delays in actual delivery of pledges.

Debtor Nation

Iraq's economy could be handicapped by substantial international debt and compensation claims. Iraq's international debt is estimated at between $80–120 billion, and unpaid claims against Iraq through the UN Compensation Commission total $116.4 billion. Past and present Iraqi creditors face the prospect of dealing with a heavily indebted country. Iraq's economic prospects will dim even further if Iraq is forced to meet its present obligations without substantial relief. To have any chance of success in reviving the Iraqi economy, America must work with Iraqi creditors—through the UN, the Paris Club, the World Bank, the IMF, and other relevant international financial institutions—to relieve Iraq of most of this potentially huge financial burden.

Developing a Social Safety Net

Iraq will require a major overhaul and restructuring of its social services. For example, under the Ba'ath regime the Ministry of Labor and Social Affairs was the primary provider of social services and benefits to pensioners, women, children and refugees. The Ministry, with 3800 employees throughout Iraq (1300 in Baghdad) previously served approximately 100,000 Iraqi citizens in a country where the World Food Program estimates that 4.6 million (or one in every five people) in the center and south of the country live in chronic poverty, defined as the frequent inability to meet basic needs.[20]

In other words, an effective social safety net will have to be built almost from scratch to reach all Iraqis in need as well as to provide assistance to those who will be displaced from their jobs in a difficult transition. This will require an enormous increase in funding and place huge demands on the Ministry. Yet the Ministry's total projected expenditures for the July–December 2003 budget are only $6.4 million. In addition, its buildings and grounds in Baghdad remain in a generally unusable condition for the foreseeable months because of extensive damage from the war and subsequent vandalism.

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[19] *The Reconstruction of Iraq. A Preliminary Background Briefing Paper,* prepared by the UN Development Group, June 23, 2003.

[20] *The Reconstruction of Iraq. A Preliminary Background Briefing Paper,* The UN Development Group, June 23, 2003.

Prison records burned by former officials of Saddam Hussein's regime from Iraq's Ministry of Labor and Social Affairs.

Generating Employment

Unemployment in Iraq is estimated to be over 60 percent. Business leaders and independent economists assert that the employment situation has deteriorated considerably in the aftermath of the war. The unwieldy public sector, including state-owned enterprises, provided some social stability through employment, but contributed little to the overall productivity of the economy.

The decision by the CPA to abolish the Iraqi army added to an already acute unemployment situation. Many Iraqis we interviewed expressed bitterness and confusion over what they perceived as the singling out of the Iraqi Army, noting that for the most part the Army did not fight advancing American forces. An additional disenfranchised, unemployed 300,000 former soldiers may not only contribute to the country's political, economic, and social difficulties, but also pose a security risk for U.S. troops. The CPA should be commended for deciding to pay stipends to nearly all former members of the Iraqi military, but this has not addressed the issue of their employment.

Many Iraqis, including a field commander with the United States military, spoke to us of the critical need for employment generation through a massive program of public works akin to the efforts of the U.S. government during the Great Depression.

The CPA should invest in labor intensive construction projects that would have the dual benefit of creating jobs and boosting the private sector. As a related matter, commanders in the field should be provided with additional resources to use at their discretion for short-term projects that increase employment in specific locations.

The question of restructuring the public sector and dismantling state-owned enterprises will have to be addressed in due course. Given the deteriorating conditions on the ground, this issue should not be solely analyzed in economic terms. The social, political and, ultimately, security consequences of exacerbating the unemployment problem should be considered as well.

Finally, we recommend that Iraq be considered for preferential, if not duty-free, access to Western markets, including the U.S. and EU, to generate economic activity and employment.

INTERNATIONALIZE THE TRANSITION

The United States needs its allies, as well as the UN and NATO, to spread the military and financial burden of stabilizing and rebuilding Iraq and to help legitimize the transition to representative government.

The Bush Administration should seek a broader role for the UN, including an additional Security Council resolution if necessary, to facilitate the engagement of its agencies and its member states.

The UN has special expertise that can help facilitate Iraq's reconstruction. It can help conduct a census, which will provide critical information that is currently lacking. It is willing to offer support to an Iraqi body that will draft a new Constitution. It can help prepare the groundwork for elections by registering voters and presenting alternatives to Iraqis in choosing an electoral system. Furthermore, it can help to grant legitimacy in the area of transitional justice and the monitoring of human rights. In the critical area of rebuilding Iraq's economy, the UN can facilitate the work of the IMF and World Bank and offer an avenue for donors to channel assistance.

Iraqis have mixed views of the UN largely because of the devastating effect of sanctions imposed by the UN Security Council for over 12 years. Nevertheless, the UN is seen by some powerful individuals and groups in Iraq as a neutral organization that can help to legitimize the political transition. For instance, Grand Ayatollah Ali Sistani, among the most influential voices within the Shi'a community, has kept his distance from CPA officials, but he has met with Secretary General Annan's Special Representative Sergio Vieira de Mello.

The U.S. should also intensify discussions with NATO allies about what role the organization can play in helping to stabilize the security situation in Iraq and relieve the burden on U.S. and coalition forces.

IRAQ IN A WIDER CONTEXT

America's policies toward Iraq should be placed in a wider regional context. They cannot be considered in isolation of the Israeli-Palestinian conflict; Turkey's concerns and interests about northern Iraq; disputes regarding the Iraq-Kuwait border; and Iran's relations with both Iraq and the United States. While Southern Iraq will likely not become a satrapy of Iran, Washington and Tehran would be well-served by arriving at an understanding over their respective interests in Iraq to reduce the risk of unintended friction.

The United States, working with the United Nations and its regional allies, must seize the opportunity for a comprehensive ap-

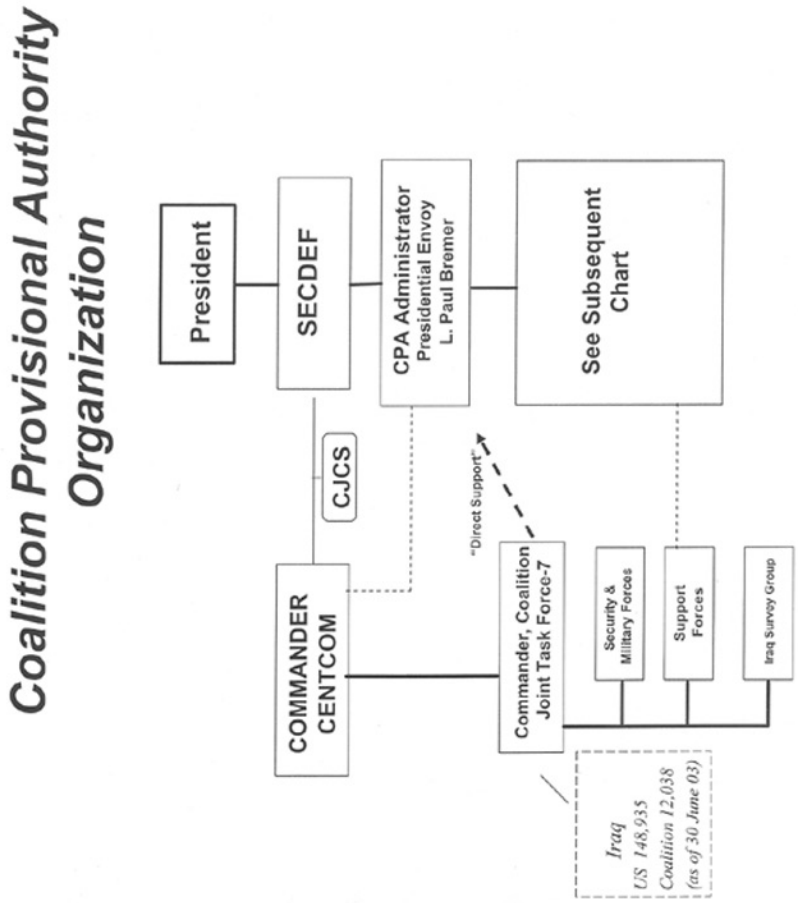
proach to regional security in the Middle East. Given the number of ongoing and potential conflicts, the countries of the Middle East should be encouraged to follow the example of other regions that have established formal security mechanisms—whether it is the Organization for Security and Cooperation in Europe or the ASEAN Regional Forum in the Asia-Pacific region. Such models offer guidance on modes of reducing tension and increasing transparency, predictability, and confidence. The United States has a direct interest in encouraging the development of such a regional security mechanism in the Middle East as part of a long-term strategy to preserve our victory in Iraq and to transform the entire region from what it is today into a peaceful, prosperous, and eventually democratic expanse.

CONCLUSION: STAYING THE COURSE

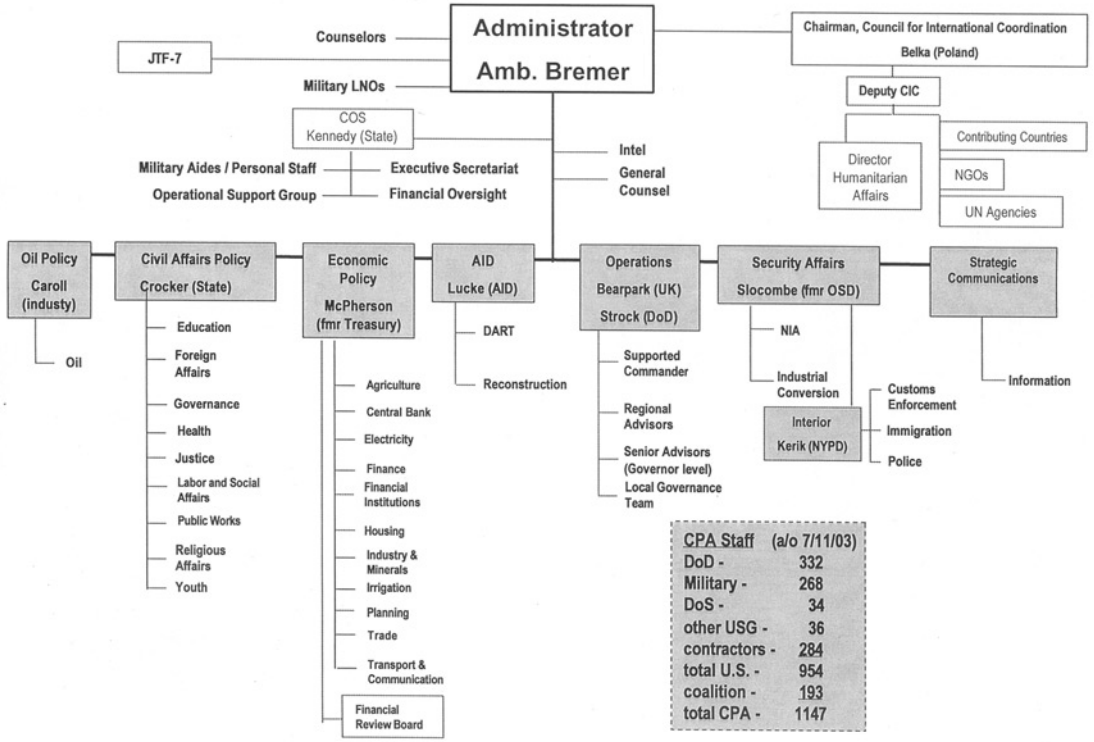
The end of Saddam Hussein's regime represents a new beginning, and an historic opportunity, for Iraqis, Americans, the Middle East, and the world. A stable and democratic Iraq could be a model for democratic change in the Middle East. The opportunities are enormous, but so are the risks. The United States must be prepared for a sustained commitment that could take many years. The CPA must be given sufficient resources, mandate, and assistance to get the job done.

The United States cannot and should not take on this challenge alone. We also cannot defer the tough decisions. Time is not our friend. The stakes are too high. The only viable "exit strategy" is American and international success in working with Iraqis to support a process that leads to a stable, and over the longer-term, democratic transition for Iraq. But it won't come easy, it won't come fast, and it won't come cheap.

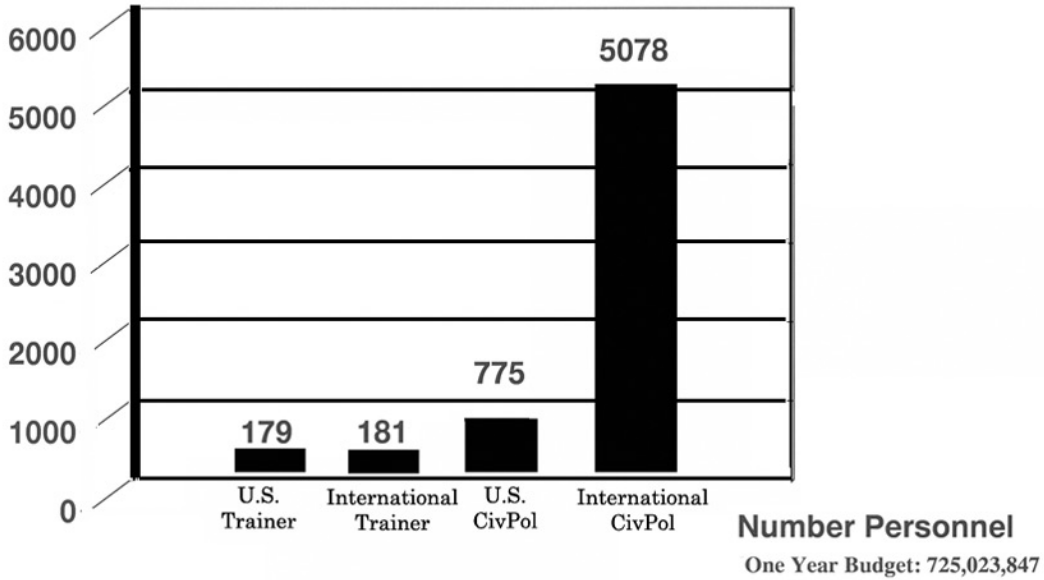
ANNEXES


Coalition Provisional Authority Organization
President
SECDEF
CJCS
COMMANDER CENTCOM
CPA Administrator
Presidential Envoy
L. Paul Bremer
"Direct Support"
Commander, Coalition Joint Task Force-7
See Subsequent Chart
Security & Military Forces
Support Forces
Iraq Survey Group
Iraq
US 148,935
Coalition 12,038
(as of 30 June 03)

COALITION PROVISIONAL AUTHORITY



IPTF Composition (Proposed)



IPTF – International Police Task Force
Source: "Police Development Plan, Iraq Police Assessment and Recommendations," Iraq Police Assessment Team, Coalition Provisional Authority (Power Point Presentation)

Members of the Iraqi Governing Council*

Ahmed Shya'a al-Barak, Coordinator for Human Rights Association of Babel

Naseer al-Chaderchi, National Democratic Party

Abdel-Aziz al-Hakim, a leader of the Supreme Council for the Islamic Revolution in Iraq

Aquila al-Hashimi, diplomat and foreign affairs advisor

Raja Habib al-Khuzaai, maternity hospital director in Diwaniyah

Iyad Allawi, leader of the Iraqi National Accord

Abdel-Karim Mahoud al-Mohammedawi, member of Iraqi political group Hezbollah in Amara

Mouwafak al-Rabii, Medical doctor and human rights activist

Mohammed Bahr al-Uloum, Ayatollah from Najaf

Ghazi Mashal Ajil al-Yawer, northern tribal chief

Dara Noor Alzin, formerly imprisoned judge

Salaheddine Bahaaeddin, Secretary General of the Kurdistan Islamic Union

Massoud Barzani, leader of the Kurdistan Democratic Party

Sondul Chapouk, Leader of Iraqi Women's Association from Kirkuk

Ahmad Chalabi, founder of the Iraqi National Congress

Mohsen Abdel Hamid, Secretary General of the Iraqi Islamic Party

Ibrahim al-Jaafari, Spokesperson for Dawa Islamic Party

Younadem Kana, Secretary General of the Democratic Assyrian Movement

Wael Abdul Latif, Governor of Basra

Samir Shakir Mahmoud, Writer from Haditha

Hamid Majid Moussa, Secretary of the Iraqi Communist Party

Abdel-Zahraa Othman, Leader of the Islamic Dawa Movement in Basra

Mahmoud Othman, Independent

Adnan Pachachi, former foreign minister, 1965–1967

Jalal Talabani, head of the Patriotic Union of Kurdistan

*Source: Associated Press, 7/13/03.

ORDER OF THE ADMINISTRATOR OF THE COALITION PROVISIONAL AUTHORITY

DE-BAATHIFICATION OF IRAQI SOCIETY—MAY 16, 2003

On April 16, 2003 the Coalition Provisional Authority disestablished the Baath Party of Iraq. This order implements that declaration by eliminating the party's structures and removing its leadership from positions of authority and responsibility in Iraqi society. By this means, the Coalition Provisional Authority will ensure that representative government in Iraq is not threatened by Baathist elements returning to power and that those in positions of authority in the future are acceptable to the people of Iraq.

Full members of the Baath Party holding the ranks of 'Udw Qutriyya (Regional Command Member), 'Udw Far' (Branch Member), 'Udw Shu'bah (Section Member), and 'Udw Firqah (Group Member) (together, "Senior Party Members") are hereby removed from their positions and banned from future employment in the public sector. These Senior Party Members shall be evaluated for criminal conduct or threat to the security of the Coalition. Those suspected of criminal conduct shall be investigated and, if deemed a threat to security or a flight risk, detained or placed under house arrest.

Individuals holding positions in the top three layers of management in every national government ministry, affiliated corporations and other government institutions (e.g., universities and hospitals) shall be interviewed for possible affiliation with the Baath Party, and subject to investigation for criminal conduct and risk to security. Any such persons determined to be full members of the Baath Party shall be removed from their employment. This includes those holding the more junior ranks of 'Udw (Member) and 'Udw 'Amil (Active Member), as well as those determined to be Senior Party Members.

Displays in government buildings or public spaces of the image or likeness of Saddam Hussein or other readily identifiable members of the former regime or of symbols of the Baath Party or the former regime are hereby prohibited.

Rewards shall be made available for information leading to the capture of senior members of the Baath party and individuals complicit in the crimes of the former regime.

The Administrator of the Coalition Provisional Authority or his designees may grant exceptions to the above guidance on a case-by-case basis.

By order of:

L. PAUL BREMER, III
Administrator, Coalition Provisional Authority

REPUBLIC OF IRAQ

BUDGET REVENUES AND EXPENSES—JULY-DECEMBER 2003

Budget Summary

Ministry of Finance, Ministry of Planning, Coalition Provisional Authority

Interim Budget for the period July to December 2003

This interim budget provides authority for the commitment and expenditure of money by the Interim Government of Iraq for the period July to December 2003. It sets the groundwork for the preparation and authorization of the budget for 2004.

It was prepared using the existing systems, forms and formats that have traditionally been used in Iraqi budgets. Each Iraqi Ministry and Kurd region prepared a budget with their Coalition Senior Advisor. That budget was discussed with the Coalition Finance Advisor. The proposed Budget was then reviewed by appropriate officials from the Iraqi Finance and Planning Ministries, briefed to AID and UN representatives and approved by the CPA Program Review Board.

The Budget balance for July to December 2003 shows a deficit of around $US2.2 billion. This will be funded from committed financial assets, without the need for borrowing.

Budget Summary

	($USm)
Expenditures	
Operating	2,002.1
Capital	352.7
Reconstruction	256.8
Other Expenditures	3,488.0
Total	**6,099.6**
Revenues	
Oil revenues	3,455.0
Fees, charges and taxes	59.1
Returns from State Owned Enterprises	373.6
Total	**3,887.7**
Budget Balance (Deficit)	**–2,211.9**

The Budget ensures fiscal discipline in the use of budgetary resources in order to rebuild the confidence necessary for the international donor and investment community to support the country's efforts.

Oil revenues totaling around $3.4 billion are fully committed to programs that benefit the Iraqi people.

Major priorities addressed include the reconstruction and restoration of essential facilities and services such as water, electricity, education and health care to meet the basic needs of the Iraqi people; restoring and revitalizing the banking system, productive enterprises, agriculture and trade to reintegrate Iraq into the world economy.

Key Initiatives of This Budget Include

	($US millions)
• "Special programs" and "transfers" redirected to Iraqi people	$900
• Electrical improvements	$294
• Subsidies to state owned enterprises reduced by:	$269
• Reconstruction	$257
• Security and Justice improvements	$233
• Defense funding	$225
• Public Health improvements	$211
• Communications improvements	$150
• Water and Sewerage improvements	$73

Table 1: Net Budget Position

	($USm)
Revenues	3,887.7
Expenditures	6,099.6
Budget Balance (Deficit)	**–2,211.9**

Table 2: Budget Financing

	($USm)
Vested Assets	1,700.0
Seized Assets	795.0
Development Fund for Iraq	1,192.0
Iraq Relief (appropriated)	2,475.0
Natural Resource Risk Remediation Fund	489.0
less spending before 1 July 200	31,248.0
Net Positionas at 1 July 2003	**5,403.0**
less:	
Budget Deficit	2,211.9
Central bank currency support	2,100.0
Net Position as at 31 December 2003	**1,091.1**

Table 3: Expenditures by Organization

Organization	Operational Expenditure ($USm)	Capital Expenditure ($USm)	Total ($USm)
Ministry of Agriculture	9.4	10.0	19.4
Baghdad Mayoralty	12.1	4.3	16.4
Board of Supreme Audit	0.4	0.0	0.4
Central Organization of Standards	0.0	0.0	0.0
Ministry of Culture	1.2	61.6	62.8
Ministry of Defense	45.0	120.0	165.0
Ministry of Education	9.7	0.0	9.7
Electricity Commission	24.0	77.6	101.6

Table 3: Expenditures by Organization—Continued

Organization	Operational Expenditure ($USm)	Capital Expenditure ($USm)	Total ($USm)
Ministry of Foreign Affairs	23.5	0.0	23.5
Ministry of Finance	199.4	1.2	200.6
Ministry of Health	210.6	1.0	211.6
Ministry of Higher Education and Scientific Research	32.8	4.0	36.8
Ministry of Housing & Construction	6.0	32.6	38.6
Ministry of Industry & Minerals	209.1	0.3	209.4
Ministry of the Interior	2.4	20.5	22.9
Ministry of Irrigation	2.7	30.5	33.2
Ministry of Labor and Social Affairs	6.4	0.0	6.4
Ministry of Justice (excluding Prisons)	5.8	25.7	31.5
Ministry of Justice (Prisons)	6.3	21.9	28.1
Ministry of Oil	0.0	0.0	0.0
Ministry of Planning	4.6	0.0	4.6
Ministry of Municipalities and Local Authorities	20.8	52.0	72.8
Ministry of Religious Affairs	0.7	3.2	3.9
Iraq Science and Technology Commission	11.8	1.6	13.4
Ministry of Trade	4.0	0.0	4.0
Ministry of Transportation and Communication	10.8	138.7	149.6
Youth Commission	2.6	2.8	5.4
Total Organization Expenditures (excl salaries)	**862.1**	**609.5**	**1,471.6**
Total Salaries and Pensions			1,140.0
Total Organization Expenditures			**2,611.6**

Table 4: Operating Expenses by Input

	($USm)
Service Requirements	133.9
Goods Requirements	221.9
Assets Maintenance	46.5
Operating capital	48.2
Transferred Expenditures (plus SOE support)	234.5
Foreign Obligations (Kuwait war reparations)	177.0
Special Programs	0.1
Total Operating Expenses by Input	**862.1**

Table 5: Significant Proposed Expenditures

	($USm)
Food social safety net	1,350.0
Restoration of Iraqi Oil (RIO) Program	825.0
Net Kurd Budget Support	300.0
Electricity restructuring	192.0
Police	150.0
LPG and Gas	135.0
Currency Reprinting	100.0

Table 5: Significant Proposed Expenditures—Continued

	($USm)
Construction Fund	100.0
Military De-Mobilization	60.0
Regional Commanders	6.0
U.S. Government Department and Agency Support	35.0
Program Review Board	35.0
"Oil for food" program	–200.0
USAID programs	
Bechtel	400.0
Total Additional Expenditures	**3,488.0**
Total Expenditures	**6,099.6**

Table 6: Revenues

	($USm)
Oil revenues	3,455.0
Transfers from State Enterprises	373.6
Taxes, Fees and Charges	59.1
Total Revenues	**3,887.7**

UNITED NATIONS SECURITY COUNCIL RESOLUTION 1483 (2003)

ADOPTED BY THE SECURITY COUNCIL AT ITS 4761ST MEETING, ON 22 MAY 2003

The Security Council,

Recalling all its previous relevant resolutions,

Reaffirming the sovereignty and territorial integrity of Iraq,

Reaffirming also the importance of the disarmament of Iraqi weapons of mass destruction and of eventual confirmation of the disarmament of Iraq,Stressing the right of the Iraqi people freely to determine their own political future and control their own natural resources, welcoming the commitment of all parties concerned to support the creation of an environment in which they may do so as soon as possible, and expressing resolve that the day when Iraqis govern themselves must come quickly,

Encouraging efforts by the people of Iraq to form a representative government based on the rule of law that affords equal rights and justice to all Iraqi citizens without regard to ethnicity, religion, or gender, and, in this connection, recalls resolution 1325 (2000) of 31 October 2000,

Welcoming the first steps of the Iraqi people in this regard, and noting in this connection the 15 April 2003 Nasiriyah statement and the 28 April 2003 Baghdad statement,

Resolved that the United Nations should play a vital role in humanitarian relief, the reconstruction of Iraq, and the restoration and establishment of national and local institutions for representative governance,

Noting the statement of 12 April 2003 by the Ministers of Finance and Central Bank Governors of the Group of Seven Industrialized Nations in which the members recognized the need for a multilateral effort to help rebuild and develop Iraq and for the need for assistance from the International Monetary Fund and the World Bank in these efforts,

Welcoming also the resumption of humanitarian assistance and the continuing efforts of the Secretary-General and the specialized agencies to provide food and medicine to the people of Iraq,

Welcoming the appointment by the Secretary-General of his Special Adviser on Iraq,

Affirming the need for accountability for crimes and atrocities committed by the previous Iraqi regime,

Stressing the need for respect for the archaeological, historical, cultural, and religious heritage of Iraq, and for the continued protection of archaeological, historical, cultural, and religious sites, museums, libraries, and monuments,

Noting the letter of 8 May 2003 from the Permanent Representatives of the United States of America and the United Kingdom of Great Britain and Northern Ireland to the President of the Security Council (S/2003/538) and recognizing the specific authorities, responsibilities, and obligations under applicable international law

of these states as occupying powers under unified command (the "Authority"),

Noting further that other States that are not occupying powers are working now or in the future may work under the Authority,

Welcoming further the willingness of Member States to contribute to stability and security in Iraq by contributing personnel, equipment, and other resources under the Authority,

Concerned that many Kuwaitis and Third-State Nationals still are not accounted for since 2 August 1990,

Determining that the situation in Iraq, although improved, continues to constitute a threat to international peace and security,

Acting under Chapter VII of the Charter of the United Nations,

1. *Appeals* to Member States and concerned organizations to assist the people of Iraq in their efforts to reform their institutions and rebuild their country, and to contribute to conditions of stability and security in Iraq in accordance with this resolution;

2. *Calls upon* all Member States in a position to do so to respond immediately to the humanitarian appeals of the United Nations and other international organizations for Iraq and to help meet the humanitarian and other needs of the Iraqi people by providing food, medical supplies, and resources necessary for reconstruction and rehabilitation of Iraq's economic infrastructure;

3. *Appeals* to Member States to deny safe haven to those members of the previous Iraqi regime who are alleged to be responsible for crimes and atrocities and to support actions to bring them to justice;

4. *Calls upon* the Authority, consistent with the Charter of the United Nations and other relevant international law, to promote the welfare of the Iraqi people through the effective administration of the territory, including in particular working towards the restoration of conditions of security and stability and the creation of conditions in which the Iraqi people can freely determine their own political future;

5. *Calls upon* all concerned to comply fully with their obligations under international law including in particular the Geneva Conventions of 1949 and the Hague Regulations of 1907;

6. *Calls upon* the Authority and relevant organizations and individuals to continue efforts to locate, identify, and repatriate all Kuwaiti and Third-State Nationals or the remains of those present in Iraq on or after 2 August 1990, as well as the Kuwaiti archives, that the previous Iraqi regime failed to undertake, and, in this regard, directs the High-Level Coordinator, in consultation with the International Committee of the Red Cross and the Tripartite Commission and with the appropriate support of the people of Iraq and in coordination with the Authority, to take steps to fulfil his mandate with respect to the fate of Kuwaiti and Third-State National missing persons and property;

7. *Decides* that all Member States shall take appropriate steps to facilitate the safe return to Iraqi institutions of Iraqi cultural property and other items of archaeological, historical, cultural, rare sci-

entific, and religious importance illegally removed from the Iraq National Museum, the National Library, and other locations in Iraq since the adoption of resolution 661 (1990) of 6 August 1990, including by establishing a prohibition on trade in or transfer of such items and items with respect to which reasonable suspicion exists that they have been illegally removed, and calls upon the United Nations Educational, Scientific, and Cultural Organization, Interpol, and other international organizations, as appropriate, to assist in the implementation of this paragraph;

8. *Requests* the Secretary-General to appoint a Special Representative for Iraq whose independent responsibilities shall involve reporting regularly to the Council on his activities under this resolution, coordinating activities of the United Nations in post-conflict processes in Iraq, coordinating among United Nations and international agencies engaged in humanitarian assistance and reconstruction activities in Iraq, and, in coordination with the Authority, assisting the people of Iraq through:

(a) coordinating humanitarian and reconstruction assistance by United Nations agencies and between United Nations agencies and non-governmental organizations;

(b) promoting the safe, orderly, and voluntary return of refugees and displaced persons;

(c) working intensively with the Authority, the people of Iraq, and others concerned to advance efforts to restore and establish national and local institutions for representative governance, including by working together to facilitate a process leading to an internationally recognized, representative government of Iraq;

(d) facilitating the reconstruction of key infrastructure, in cooperation with other international organizations;

(e) promoting economic reconstruction and the conditions for sustainable development, including through coordination with national and regional organizations, as appropriate, civil society, donors, and the international financial institutions;

(f) encouraging international efforts to contribute to basic civilianadministration functions;

(g) promoting the protection of human rights;

(h) encouraging international efforts to rebuild the capacity of the Iraqi civilian police force; and

(i) encouraging international efforts to promote legal and judicial reform;

9. *Supports* the formation, by the people of Iraq with the help of the Authority and working with the Special Representative, of an Iraqi interim administration as a transitional administration run by Iraqis, until an internationally recognized, representative government is established by the people of Iraq and assumes the responsibilities of the Authority;

10. *Decides* that, with the exception of prohibitions related to the sale or supply to Iraq of arms and related materiel other than those arms and related materiel required by the Authority to serve

the purposes of this and other related resolutions, all prohibitions related to trade with Iraq and the provision of financial or economic resources to Iraq established by resolution 661 (1990) and subsequent relevant resolutions, including resolution 778 (1992) of 2 October 1992, shall no longer apply;

11. *Reaffirms* that Iraq must meet its disarmament obligations, encourages the United Kingdom of Great Britain and Northern Ireland and the United States of America to keep the Council informed of their activities in this regard, and underlines the intention of the Council to revisit the mandates of the United Nations Monitoring, Verification, and Inspection Commission and the International Atomic Energy Agency as set forth in resolutions 687 (1991) of 3 April 1991, 1284 (1999) of 17 December 1999, and 1441 (2002) of 8 November 2002;

12. *Notes* the establishment of a Development Fund for Iraq to be held by the Central Bank of Iraq and to be audited by independent public accountants approved by the International Advisory and Monitoring Board of the Development Fund for Iraq and looks forward to the early meeting of that International Advisory and Monitoring Board, whose members shall include duly qualified representatives of the Secretary-General, of the Managing Director of the International Monetary Fund, of the Director-General of the Arab Fund for Social and Economic Development, and of the President of the World Bank;

13. *Notes further* that the funds in the Development Fund for Iraq shall be disbursed at the direction of the Authority, in consultation with the Iraqi interim administration, for the purposes set out in paragraph 14 below;

14. *Underlines* that the Development Fund for Iraq shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq;

15. *Calls upon* the international financial institutions to assist the people of Iraq in the reconstruction and development of their economy and to facilitate assistance by the broader donor community, and welcomes the readiness of creditors, including those of the Paris Club, to seek a solution to Iraq's sovereign debt problems;

16. *Requests* also that the Secretary-General, in coordination with the Authority, continue the exercise of his responsibilities under Security Council resolution 1472 (2003) of 28 March 2003 and 1476 (2003) of 24 April 2003, for a period of six months following the adoption of this resolution, and terminate within this time period, in the most cost effective manner, the ongoing operations of the "Oil-for-Food" Programme (the "Programme"), both at headquarters level and in the field, transferring responsibility for the administration of any remaining activity under the Programme to the Authority, including by taking the following necessary measures:

(a) to facilitate as soon as possible the shipment and authenticated delivery of priority civilian goods as identified by the

Secretary-General and representatives designated by him, in coordination with the Authority and the Iraqi interim administration, under approved and funded contracts previously concluded by the previous Government of Iraq, for the humanitarian relief of the people of Iraq, including, as necessary, negotiating adjustments in the terms or conditions of these contracts and respective letters of credit as set forth in paragraph 4 (d) of resolution 1472 (2003);

(b) to review, in light of changed circumstances, in coordination with the Authority and the Iraqi interim administration, the relative utility of each approved and funded contract with a view to determining whether such contracts contain items required to meet the needs of the people of Iraq both now and during reconstruction, and to postpone action on those contracts determined to be of questionable utility and the respective letters of credit until an internationally recognized, representative government of Iraq is in a position to make its own determination as to whether such contracts shall be fulfilled;

(c) to provide the Security Council within 21 days following the adoption of this resolution, for the Security Council's review and consideration, an estimated operating budget based on funds already set aside in the account established pursuant to paragraph 8 (d) of resolution 986 (1995) of 14 April 1995, identifying:

(i) all known and projected costs to the United Nations required to ensure the continued functioning of the activities associated with implementation of the present resolution, including operating and administrative expenses associated with the relevant United Nations agencies and programmes responsible for the implementation of the Programme both at Headquarters and in the field;

(ii) all known and projected costs associated with termination of the Programme;

(iii) all known and projected costs associated with restoring Government of Iraq funds that were provided by Member States to the Secretary-General as requested in paragraph 1 of resolution 778 (1992); and

(iv) all known and projected costs associated with the Special Representative and the qualified representative of the Secretary-General identified to serve on the International Advisory and Monitoring Board, for the six month time period defined above, following which these costs shall be borne by the United Nations;

(d) to consolidate into a single fund the accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995);

(e) to fulfil all remaining obligations related to the termination of the Programme, including negotiating, in the most cost effective manner, any necessary settlement payments, which shall be made from the escrow accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995), with those parties that previously have entered into contractual obligations with the Secretary-General under the Pro-

gramme, and to determine, in coordination with the Authority and the Iraqi interim administration, the future status of contracts undertaken by the United Nations and related United Nations agencies under the accounts established pursuant to paragraphs 8 (b) and 8 (d) of resolution 986 (1995);

(f) to provide the Security Council, 30 days prior to the termination of the Programme, with a comprehensive strategy developed in close coordination with the Authority and the Iraqi interim administration that would lead to the delivery of all relevant documentation and the transfer of all operational responsibility of the Programme to the Authority;

17. *Requests further* that the Secretary-General transfer as soon as possible to the Development Fund for Iraq 1 billion United States dollars from unencumbered funds in the accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995), restore Government of Iraq funds that were provided by Member States to the Secretary-General as requested in paragraph 1 of resolution 778 (1992), and decides that, after deducting all relevant United Nations expenses associated with the shipment of authorized contracts and costs to the Programme outlined in paragraph 16 (c) above, including residual obligations, all surplus funds in the escrow accounts established pursuant to paragraphs 8 (a), 8 (b), 8 (d), and 8 (f) of resolution 986 (1995) shall be transferred at the earliest possible time to the Development Fund for Iraq;

18. *Decides* to terminate effective on the adoption of this resolution the functions related to the observation and monitoring activities undertaken by the Secretary-General under the Programme, including the monitoring of the export of petroleum and petroleum products from Iraq;

19. *Decides* to terminate the Committee established pursuant to paragraph 6 of resolution 661 (1990) at the conclusion of the six month period called for in paragraph 16 above and further decides that the Committee shall identify individuals and entities referred to in paragraph 23 below;

20. *Decides* that all export sales of petroleum, petroleum products, and natural gas from Iraq following the date of the adoption of this resolution shall be made consistent with prevailing international market best practices, to be audited by independent public accountants reporting to the International Advisory and Monitoring Board referred to in paragraph 12 above in order to ensure transparency, and decides further that, except as provided in paragraph 21 below, all proceeds from such sales shall be deposited into the Development Fund for Iraq until such time as an internationally recognized, representative government of Iraq is properly constituted;

21. *Decides further* that 5 per cent of the proceeds referred to in paragraph 20 above shall be deposited into the Compensation Fund established in accordance with resolution 687 (1991) and subsequent relevant resolutions and that, unless an internationally recognized, representative government of Iraq and the Governing Council of the United Nations Compensation Commission, in the exercise of its authority over methods of ensuring that payments

are made into the Compensation Fund, decide otherwise, this requirement shall be binding on a properly constituted, internationally recognized, representative government of Iraq and any successor thereto;

22. *Noting* the relevance of the establishment of an internationally recognized, representative government of Iraq and the desirability of prompt completion of the restructuring of Iraq's debt as referred to in paragraph 15 above, further decides that, until December 31, 2007, unless the Council decides otherwise, petroleum, petroleum products, and natural gas originating in Iraq shall be immune, until title passes to the initial purchaser from legal proceedings against them and not be subject to any form of attachment, garnishment, or execution, and that all States shall take any steps that may be necessary under their respective domestic legal systems to assure this protection, and that proceeds and obligations arising from sales thereof, as well as the Development Fund for Iraq, shall enjoy privileges and immunities equivalent to those enjoyed by the United Nations except that the above-mentioned privileges and immunities will not apply with respect to any legal proceeding in which recourse to such proceeds or obligations is necessary to satisfy liability for damages assessed in connection with an ecological accident, including an oil spill, that occurs after the date of adoption of this resolution;

23. *Decides* that all Member States in which there are:

(a) funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of the date of this resolution, or

(b) funds or other financial assets or economic resources that have been removed from Iraq, or acquired, by Saddam Hussein or other senior officials of the former Iraqi regime and their immediate family members, including entities owned or controlled, directly or indirectly, by them or by persons acting on their behalf or at their direction,

shall freeze without delay those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves the subject of a prior judicial, administrative, or arbitral lien or judgement, immediately shall cause their transfer to the Development Fund for Iraq, it being understood that, unless otherwise addressed, claims made by private individuals or non-government entities on those transferred funds or other financial assets may be presented to the internationally recognized, representative government of Iraq; and decides further that all such funds or other financial assets or economic resources shall enjoy the same privileges, immunities, and protections as provided under paragraph 22;

24. *Requests* the Secretary-General to report to the Council at regular intervals on the work of the Special Representative with respect to the implementation of this resolution and on the work of the International Advisory and Monitoring Board and encourages the United Kingdom of Great Britain and Northern Ireland and the

United States of America to inform the Council at regular intervals of their efforts under this resolution;

25. *Decides* to review the implementation of this resolution within twelve months of adoption and to consider further steps that might be necessary;

26. *Calls upon* Member States and international and regional organizations to contribute to the implementation of this resolution;

27. *Decides* to remain seized of this matter.

[Administrator L. Paul Bremer Delivers Remarks at National Press Club—Washington, DC—July 23, 2003]

AMBASSADOR L. PAUL BREMER, COALITION PROVISIONAL AUTHORITY

Thank you very much, Tammy, and thank you for inviting me back to this forum. I addressed it before when I was last in government as ambassador at large for counterterrorism.

I had my staff working very hard working on my speech, and I was told that the speech is actually an hour long but I'm only allowed to speak for half an hour. So I'm going to read every other page, and I'll let you guys fill in the blanks.

These have been a great couple of weeks for the people of Iraq, for the coalition's reconstruction efforts and for the American armed forces. Let me give you a snapshot of the last couple of weeks.

This month, students across Iraq are taking their final exams, with all of the country's universities now reopened. Over 90 percent of Iraq's public schools have reopened too.

Right now, all of Iraq's hospitals and 95 percent of its health clinics are open and providing services to Iraqi citizens.

Ten days ago, Iraq's governing council was formed, launching the country on a path to democracy.

This followed the formation of the Baghdad city council, which I was pleased to participate in, which adds Baghdad to the list of all major Iraqi cities now that have city councils.

And by the way, over 85 percent of the towns in Iraq now have town councils. From north to south in Iraq, democracy is on the march.

And just yesterday, celebratory gunfire lit up Baghdad as Iraqis rejoiced at the news of the deaths of Uday and Qusay Hussein.

Yesterday's success, like so many of our successes during this reconstruction, is yet another sterling example of American Armed Forces at their finest. They are on the front lines of securing freedom for the Iraqi people, and ensuring that Iraq no longer poses a threat to the world or to America.

Let me say that I've noticed that in press coverage here in the United States in recent weeks has tended to portray our soldiers in Iraq as victims, rather than as the heroes they are.

I have visited virtually all of the American units in the entire country of Iraq, and I want to tell you I am a first-hand witness to the professionalism, dedication and courage that these young men and women are showing every day in Iraq. And let me be clear, they are truly heroes, and we owe them an enormous debt of gratitude.

Yesterday's mission was also a statement and a restatement of the partnership that has emerged between the Iraqi people and the coalition.

As in so many other areas of our reconstruction effort, this success can be attributed to an Iraqi citizen stepping forward. This is consistent with the trend we started noticing several weeks ago, of Iraqis coming forward to our police, or to their police, or to our tac-

tical units and giving us information about Baathists and other evil-doers.

Iraqis all across the country are taking their future into their own hands, and this, too, is worthy of celebration.

Today, we have three challenges in Iraq: securing the country, setting the economy on a path to prosperity and building the foundations of a sovereign democratic government.

And in all three areas—security, the economy and governance—we have a plan. It is a plan with clear benchmarks for the next 60 and 120 days. It is a plan that will guide our work and our mission in Iraq. And I have discussed this plan with the president and the National Security Council, and I presented it in my meetings with Congress yesterday.

In developing the plan, we considered the historic context in order truly to understand the challenges that lie ahead for us.

Much has been written about the liberation of Iraq, and that is certainly proper. It is a remarkable event in the history of human freedom. Never before in warfare have so many people been freed with so few casualties in such a short time with so little damage done to the country or to its people. Unfortunately the damage to the Iraq people had already been done before we got there.

The Saddam regime did untold damage to country's citizens, to its economy, to its infrastructure and to its relations with the rest of the world. And that affected every single Iraqi, not just the thousands or perhaps millions who have been killed and tortured under Saddam. The scars in Iraq run very deep.

The secret police, the thugs, the informers, the torture chambers—they may have gone. But the people of Iraq will be coping with the horrors of the mass graves and the individual and family tragedies for years to come. Since I've arrived in Iraq, I have met literally thousands of Iraqis. And I can tell you that every single one of them has had his or her family affected one way or the other by Saddam's cruelty.

Repairing the damage inflicted by Saddam—a material, human and psychological damage—is a huge task, a task which we will only succeed at if we have a real partnership between the coalition, the international community and the Iraqi people.

Our challenge is even greater, for it was not just the Iraqi army that disappeared in the face of a dancing coalition forces, the entire Iraqi government and all of its agencies and all of its reach into Iraqi society also collapsed. The Iraqi people went from a life in a police state with a controlled, highly structured society to no social or political structure at all in only three weeks.

Make some historic comparisons. The citizens of the Soviet Union had a decade or more to adjust to a new reality. And while the evil empire that collapsed in 1989 was evil till its last days, the difference between the country that Stalin ruled and the country that Gorbachev ruled was vast. Under Gorbachev alone, through perestroika and glasnost, citizens of the former Soviet Union had the opportunity to begin to think about and to experiment with limited openness.

There was no comparable period of transition in Iraq. The Iraqi people went from the dark night of tyranny to the daylight of freedom in a historic blink of the eye.

And for most Iraqis, there is no memory of a liberalized economy or even limited freedoms to call back upon. Compare that to the experience in Germany in 1945. Hitler of course was a monster, and his reign was a dreadful and tragic period in German history. But let's remember that Hitler was in power only one-third as long as Saddam Hussein. And the fact is that when the Third Reich was wiped out and the German people began to pick up the pieces to rebuild, they retained a living memory of a period in which Germany had a functioning democracy. There is not such legacy for Iraqis.

So the challenge in rebuilding Iraq is unique and very difficult and unlike anything we've seen in the last century.

We have a three-stage strategy to deal with this challenge, and I want to talk about each of those three.

The most immediate priority is providing security.

We have already made considerable progress. When I first arrived in Baghdad in early May, it was a city on fire, literally. There was no traffic in the streets except for military vehicles of the coalition. There were no shops open. I slept at night in those days with ear plugs in my ears, because otherwise I was kept awake by the gunfire that went on constantly every night. Looting was a real problem and ongoing.

That has all changed. The streets in Baghdad, in Basra, in Mosul, in Tikrit, in Kirkuk, in An Nasiriyah, in Diwaniyah, in Al Kut, in Ar Ramadi and Al-Fallujah, the streets are bustling with business, traffic, commerce. From the vegetable markets to the satellite dish shops, stores are open and merchants are no longer in fear of widespread looting.

The endless nighttime gunfire is virtually non-existent except, of course, last night when it was a sign of joy.

The north of Iraq is peaceful. The Shia heartland running from just south of Baghdad down to the Kuwaiti border is quiet. This is not a country in chaos, as it is sometimes portrayed.

Today in Iraq our forces face no strategic threat. The attacks against our brave uniformed men and women are concentrated in a small geographic triangle north and west of Baghdad where our troops never fought. In this area, we never fought and defeated the two Republican Guard divisions that were there. They simply faded away.

And it's no coincidence that this area of greatest activity against our forces was a traditional center of political support by Saddam. It's also where he put many elements of the military industrial complex with their Baathist civil servants.

Eighty-one percent of the attacks since June 1st have been in this small area. Here we face a stubborn resistance made up of former regime loyalists, criminals and some non-Iraqi terrorists.

Operations by our military forces currently underway in this so-called Sunni Triangle are making headway in reducing these threats, and I'm confident we will impose our will here as we have elsewhere in Iraq.

We typically follow up these military operations with quick-action development projects such as rebuilding schools, repairing hospitals or restoring waste sewage.

To date we have implemented several thousand such projects all across Iraq. We recognize the importance of having both a carrot and a stick.

Additional steps that will be taken over the next 60 days to improve security include, first, recruiting and training the first battalion of the new Iraqi army. Recruitment commenced this weekend. And I'm told in conversations with Baghdad this morning that there were mobs of people volunteering to join the new Iraqi army. It will be a volunteer force, not a conscripted force.

Secondly, we will raise eight battalions of the new Iraqi civil defense corps in the next 60 days. We will open the new police academy, which is even now recruiting for police. We will re-establish the border guard. We will start trials before the central criminal court, which I established a month ago, and we will start judge-training seminars.

But we need to be realistic. There will be bumps in the road. Total security is not possible. Continued success on our overall reconstruction plan will probably be met by bitter-enders who target our successes.

If you look at some of the most disruptive and symbolic attacks in recent weeks, it turns out that what they do is attack our success stories. I'll give you three examples.

On July 6, in the early afternoon, a young infantry man providing security to our people at the Baghdad University was mortally wounded in an assassination. This tragic event, however, could not obscure the reality that all 22 universities in Baghdad have been open since late May. The universities have begun reconstruction with the assistance of coalition forces and our authority. The vast majority of undergraduates throughout Iraq, something like 90 percent, are now completing their final exams, and therefore bringing to conclusion—to a successful conclusion—the school year.

On July 5, a bomb exploded killing several Iraqis at a ceremony marking their graduation from a police training course in Al-Fallujah. This, too, was an attack on our success, demonstrating the attackers opposition to the efforts of Iraqis to bring safety and security to their own streets, and showing the same disdain for their own people that Saddam showed for 35 years.

Just this past weekend there was a fatal attack on a U.S. soldier guarding a bank. Today, over 72 percent of the banks in Iraq are open. In Baghdad all customers and depositors are being served. If their branch is closed, another branch is covering for them. Banks have been a success for the coalition and the Iraqi people, and that's why this young infantry man was targeted.

And as we have more successes across the board, we should be prepared for more desperate attacks against our forces and the Iraqi people, but we will not be deterred.

The second element of our strategy is working with Iraqis to put their country on the right economic path.

The immediate situation is daunting, but it could have been much worse. And it's important to remember what did not happen. We did not have a humanitarian crisis. There was no refugee crisis. Early operations by the coalition prevented attacks or destruction

of the oil infrastructure and production has already resumed. In fact, we are exporting oil.

There was no great collateral damage.

Still, much work remains to be done, including the restoration of basic services, without which no economic plan can succeed. Our focus is now on providing those basic essential services to the Iraqi people: power, water, health care.

One of the first obstacles the coalition encountered in restoring basic services was a dilapidated infrastructure. It would be very hard to overstate a chronic under-investment in Iraq's infrastructure over the past 30 years. In almost every sector, from oil to electricity to sewage, the technology and machinery date back to the 1950s and the 1960s while the Saddam regime diverted billions into militarization and its own pockets.

The Iraqi engineers were somehow able to keep these systems going, a fine tribute to their extraordinary skill and ingenuity. But there is a limit. In the area of electrical power, for example, shows the challenges we face across the country.

The current demand in Iraq for electric power is about 6,000 megawatts. The total available power in Iraq before the war is 4,000 megawatts. So even when we have restored the full availability of power as it was before the war—something we intend to do in the next 60 days—there will be a shortfall of roughly one-third in terms of power availability.

This has always been the case, for example, throughout the country.

And in Baghdad, Saddam basically protected the Baghdad power by shipping power in from other parts of the country and starving other cities. For example, Baghdad got about 18 hours of power before the war, but Basra in the south, part of the Shia heartland and as part of Saddam's effort at repression, they got 10 to 12 hours a day.

Saddam withheld electricity and other essential services as part of his political oppression and manipulation.

The chronic under-investment in infrastructure means that our infrastructure is fragile, brittle and lacks redundancy. So it is extremely susceptible to the kinds of attacks of political sabotage we've seen against the power industry and against the oil infrastructure in the past month.

Our engineers estimate that it will take as much as $13 billion to rebuild and meet foreseeable power demands. The United Nations estimates that we will have to spend $16 billion over the next four years just on water, in getting decent water to the population. These numbers are indicative of the kinds of money that is going to have to be spent just to get Iraq to normal standards in this economy.

Another example is health care. In the 1990s, Saddam Hussein cut health care by 90 percent, 90 percent. Last year, in the entire year of 2002, Iraq spent $13 million on health care for a population of 25 million, about 50 cents per person. The budget that I just approved three weeks ago will increase that to $211 million in this six months alone, an increase in health care spending of 3,500 percent over what Saddam spent last year.

Now we in this area, as in security, have a plan for what to do in the next 60 days. I'll just cite a few examples.

First, we're going to get power back to prewar levels.

Second, we're going to rehabilitate over 1,000 schools throughout the country, and I might add, provide 1.3 million children with starter kits through an aid program.

We will restore health care to 95 to 100 percent of prewar levels—and of course, that won't be enough, we're going to have to do much more in the years ahead. And we are going to distribute revised textbooks throughout, which remove the Baathist's ideology that has been woven throughout the textbooks and curricula over the last 30 years.

But simply rebuilding government buildings or repairing power lines will not be enough to bring about sustainable growth. That growth will require a fundamental transformation from three decades of economic mismanagement and neglect and a Stalinist-industrial structure.

Even before the war joblessness was high and public infrastructure was in a shambles. Instead of serving as the front-line source of credit for would-be entrepreneurs, the banking system acted primarily as a fiscal agent for an all-powerful state. The central bank, for example, nearly rubber-stamped a policy of printing money to finance deficits with the predictable inflationary results. For the last year for which statistics are available, the Iraqi government figures show that in 2001 inflation was—get this—115,000 percent.

State-owned enterprises lived off of government subsidies that allowed them to destroy value rather than create it. The coalition's task in this economic field is therefore two-fold. First, we have had to stabilize the current economic situation by continuing the payment of public-sector salaries and by launching a range of construction in infrastructure projects to create jobs. The payment of salaries helped avoid the humanitarian and refugee crisis that many had predicted, and construction and infrastructure proposals will be important in supporting the economy in the coming months.

But no one believes that sustained economic growth can come from individual construction projects or job-creating programs. Yet the creation of jobs remains a continuing concern of economic policy. Unemployment, according to the Iraqi government figures, was more than 50 percent before the war. And unemployment may rise even higher in the months ahead as other economic reforms are implemented.

We are injecting almost $200 million a month into the economy through the payment of salaries, pensions and emergency payments. But with our development projects, we will also provide thousands, tens of thousands, of jobs in the next 60 days ahead.

The longer-term component of our economic program is crafting policies that will lead to long-term growth. During the past month and over the next 60 days, many policies for growth have been or will be established.

One of the most important concerns: Iraqi's currency.

Iraq lacks what many economies and countries take for granted, which is a usable currency with enough denominations to facilitate trade.

In central and southern parts of Iraq there is circulating only one denomination, the so-called Saddam dinar, which is in only two notes. A 250 dinar note which is worth about 17 cents. And a second denomination which has a face value of 10,000 dinar, but which trades in the market for much less because of fear that this note may have been stolen or counterfeited.

Meanwhile in the north in the autonomous Kurdish region, Iraqis have been forced to use the pre-Gulf War dinars that are now wearing out literally, physically wearing out after more than a decade of use.

On July 7, we announced that all of Iraq's bank notes would be exchanged for new bank notes beginning on October 15. Iraq, for the first time in a decade, will have a unified currency of which the entire nation can be proud. And over the next 60 days, we will work hard to prepare the Iraqi economy for the October 15 launch of the new bank notes.

The coalition is also helping re-open banks that have been closed during the war or by subsequent looting. By next week all of Baghdad's customers at the two large state banks will be able to conduct bank businesses either at their own branch or at a nearby branch. At most of those branches, customers will be able to cash checks drawn on that branch. Doesn't sound like much in America, but in Iraq it's an important step to returning to a payment system and moving the country away from a purely cash economy.

Eventually, foreign bank know-how will be needed for Iraq to prosper, and this can be achieved by giving management contracts to foreign banks for these two large state banks. This is an issue we will address also in the next 60 days.

Obviously at the heart of any country's banking system is the central bank. On July 7, along with the announcement about the bank note conversion, the coalition announced that the Central Bank of Iraq, henceforth will be made independent of the Ministry of Finance. In the next several weeks we'll work with the governing council to put in place a full bank operation and regulatory law. Making the Central Bank independent will prevent future governments from ordering the Central Bank to print money to cover deficits.

An important step in building monetary credibility is also to impose fiscal discipline.

We recently completed an emergency budget for the second half of 2003 that incorporates transparency and discipline, two things that have never been available to previous Iraqi budgets. In the coming months, we will execute this budget, putting procedures and safeguards in place to ensure that the money is spent where it is intended.

Because of Iraq's tremendous needs for infrastructure and other expenses related to the transition, the budget calls for spending that is higher than our revenues. But the deficit will not be covered by printing new money, as it would have been under the old regime. The deficit will be filled this time by allocating money from seized and vested Iraqi assets. These assets belong to the Iraqi people, and I am required and will spend them in ways that are beneficial to the Iraqi people.

It is going to take time and a great deal of outside assistance to transform and bring steady growth to the economy of Iraq. The legacy of Saddam hangs like a black cloud over every aspect of the lives of the Iraqi people. And that black cloud extends also over the economic future.

Because of the criminal misuse of the wealth that belongs to the Iraqi and the decades long neglect that he imposed on the economy, Iraq is not the rich country it should be today. Indeed, it will be a poor country for some years to come.

In addition to finalizing the 2003 budget, we have just completed initial budget projections for 2004. Our initial assessment is that we will run a deficit next year of almost $4 billion. As oil production returns to pre-war levels, we expect the budget to escape from deficits after 2004. But even so, Iraq's near-term needs will require considerable assistance from the United States, its coalition partners and the international community.

We will need additional help from the international community, specifically in the early debt renegotiation, resulting in a substantial reduction in the real value of Iraq's debt.

On that note, I've heard in recent days about, quote, "the possibility," unquote, of internationalization of our reconstruction effort.

We could of course and would welcome additional support. But it is already the case that there is an international effort in reconstruction.

The steps we are taking in the financial and budgetary fronts over the next 60 to 120 days and beyond are intended to help Iraq complete the transition that many other countries around the world attempted in the last decade, moving from a centrally-planned economy, dominated by value-destroying, state-owned enterprises to a free market. As in many socialist economies, Iraq's state-owned enterprises hobbled economic growth. And because they didn't face the discipline of the market, they destroyed value rather than creating it.

We have imposed hard budget constraints on these SOEs now, and we are evaluating all of the state-owned enterprises to see which ones should be closed immediately. The adjustments to state-owned enterprises cannot be done in isolation. There needs to be a well-financed, well-functioning safety net in place so that workers who lose their jobs will not be left behind. So we will continue providing food to all of Iraq's people and have greatly increased spending on health care as I mentioned.

A central lesson from the past transitions is that employment growth is most likely to come from new and small-sized enterprises. All of our policies are cast with the idea of growing those firms in mind.

For example, we are now reviewing business regulations and licensing rules to ensure a streamlined process for creating new businesses. We are making sure that Iraq has a functioning commercial code and honest judges to enforce it. We want to have a well-functioning property rights regime which have been seen all across the world to be important and fundamental building blocks to economic growth. And opening Iraq to the rest of the world promises to pay big dividends to the Iraqi people.

Finally, we have a strategy for dealing with political development. History teaches us that economic freedom and political freedom go hand-in-hand.

One cannot survive, let alone flourish, without the other. Our plan is predicated on the fact that the coalition's job will not be complete until there is a sovereign democratic government in Iraq.

Saddam Hussein's Iraq was a totalitarian state in the truest sense of the word. I can't emphasize that enough. Saddam, his sons, and other henchmen, and his Baathist ideology, subjected every element of society, top to bottom, to total control.

It was truly a totalitarian system. It permeated every sphere of everyday life for every Iraqi, including women's associations, professional guilds, and other associations.

Uday, for example, was particularly active in abusing officials throughout the sports world, down even to the municipal sports federations and National Olympic Committee.

This makes our goal all the more challenging. When I arrived in Iraq in May, I said that by mid-July we would meet our first critical milestone, the formation of a broadly representative interim council with real powers and responsibilities.

Well, last week, on July 13th, which is pretty much the middle of July, we executed according to plan with the formation of the Iraqi governing council.

That governing council, for the first time in Iraq's history, brings together a balanced, representative group of political leaders from across the country.

It represents the diversity of Iraq, whether they are Shia or Sunni, Arab or Kurd, Baghdadi or Basrawi, man or woman, all Iraqis will see themselves represented in this council.

And the council will be involved in all significant decisions in the months ahead. It will name the new ministers to lead Iraq's ministries, and its members will be able to represent Iraq internationally.

Just yesterday, a delegation from this group presented itself to the United Nations Security Council. The governing council will determine the budget for next year, and another one of its first jobs will be to launch the constitutional process.

The governing council is the first of three steps toward a sovereign, democratic Iraqi government. Now that it is established, we can look for the second step, which is the convening of a constitutional conference and the adoption of a new Iraqi constitution, written by the Iraqis and for the Iraqis, not by any foreigners, and certainly not by any American.

Once the new constitution has been adopted by the Iraqi people, and that'll be the second stage of our political plan, we can move to the third stage, the election of a free and democratic Iraqi government. That will be an accomplishment of which all Americans can be proud.

Over the next 60 days, we'll focus intensely on support for a constitutional conference, support for new interim ministers in the ministries, and the establishment of a regulatory and licensing framework in which an independent media can flourish. These are only the latest signs of progress to Iraqi democracy.

Two weeks ago, the 37 members of the Baghdad City Council met to mark the transition of the capital to democratic rule. Today, for the first time in history, all major cities and 85 percent of the towns have municipal councils. Iraqis are more and more now taking responsibility for the management of their own affairs through local councils. More than 150 new newspapers have been started since liberation. Iraqis are speaking out and demonstrating with a vigor borne of 35 years of imposed silence. This is not yet full democracy, but freedom is on the march north and south.

Finally, our planning is maturing rapidly. With the agreement and help of our uniformed colleagues, we are now preparing the first combined civil-military plan for Iraq. The plan begins with the president's vision for Iraq, and it's a good place to wind up this speech.

The president's vision for Iraq is to build a sovereign, free, unified and democratic Iraq at peace with its neighbors and with the world. We have made a lot of progress moving toward that vision, and we have a plan for the next 60, 120 days and beyond that makes further progress toward those goals. In all our primary areas, security, economy, governance, we will continue to work closely with the Iraqi people.

As President Bush said this morning in the White House Rose Garden, "They are our greatest allies, the Iraqi people." They have been a great source of inspiration to me. They have an unflappable sense of optimism and professionalism. Their dignity, their work ethic and national pride combine with President Bush's vision for Iraq has convinced me that the Iraqi people's best days are yet truly to come.

Thank you very much.

Further Reading

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2. "Iraq's Post-Conflict Reconstruction: A Field Review and Recommendations," by the Iraq Reconstruction Assessment Mission of the Center for Strategic and International Studies, July 17, 2003.

3. "A New Voice in the Middle East: A Provisional Needs Assessment for the Iraqi Media," Baltic Media Center, Index on Censorship, Institute for War & Peace Reporting, International Media Support, May-June 2003.

4. "Climate of Fear: Sexual Violence and Abduction of Women and Girls in Baghdad" Human Rights Watch, July 2003.

5. "NDI Assessment Mission to Iraq," National Democratic Institute for International Affairs, June 23 to July 6, 2003.

6. "Preparing for War, Stumbling to Peace," Mark Fineman, Robin Wright, and Doyle McManus, *Los Angeles Times,* July 18, 2003.

7. "U.S. Lacked Plan B in Iraq," Jonathan Landay and Warren Strobel, *Philadelphia Inquirer,* July 13, 2003.

Iraq
International boundary
Province (muḥāfaẓah) boundary
National capital
Province (muḥāfaẓah) capital
Expressway
Road
Railroad
0 50 100 Kilometers
0 50 100 Miles
Lambert Conformal Conic Projection, SP 12°N/38°N
Boundary representation is not necessarily authoritative.
TURKEY
SYRIA
IRAN
SAUDI ARABIA
KUWAIT
JORDAN
Caspian Sea
Lake Urmia
Persian Gulf
Shatt al Arab
Tigris
Euphrates
Little Zab
Great Zab
Nahr al Khābūr
Nahr Diyālā
Nahr al Ghurāf
Buḥayrat al Ḥabbāniyah
Buḥayrat ar Razāzah
Buḥayrat al Qādisiyah
Buḥayrat ath Tharthār
Buḥayrat Dahūk
De Facto Boundary
DAHŪK
ARBĪL
NĪNAWÁ
AS SULAYMĀNĪYAH
AT TAʾMĪM
SALĀH AD DĪN
DIYĀLÁ
AL ANBĀR
BAGHDĀD
WĀSIT
BĀBIL
KARBALĀʾ
AN NAJAF
AL QĀDISĪYAH
MAYSĀN
ḎĪ QĀR
AL MUTHANNÁ
AL BAṢRAH
Baghdad
Kuwait
Dīyarbakr
Batman
Kurtalan
Şanlı Urfa
Al Qāmishlī
Al Ḥasakah
Dayr az Zawr
Al Ḥuqnah
Sinjār
Mosul
Zākho
Dihūk
ʿAqrah
Arbīl
Rāwat
Qalʿat Dizah
Karkūk
Aq Sulaymānīyah
Ḥalabjah
Bayjī
Tikrīt
Sāmarrāʾ
Khānaqīn
Al Qāʾim
Ḥadīthah
Akāshāt
Ar Ruṭbah
Ar Ramādī
Al Fallūjah
Al Ḥabbāniyah
Karbalāʾ
Al Ḥillah
Al Hindīyah
Al Kūt
Al Ḥayy
Al ʿAmārah
Al Diwānīyah
An Najaf
As Samāwah
Nāṣirīyah
Al Baṣrah
Az Zubayr
Umm Qaṣr
Al Fāw
Al Jahrāʾ
Rafḥā
Ḥafar al Bāṭin
Ra's al Khafjī
Wādī al Bāṭin
An Nukhayb
Ar ʿAr'ar
As Salmān
Al Buṣayyah
Tabrīz
Orūmīyah
Marāgheh
Mīāneh
Zanjān
Mahābād
Saqqez
Sanandaj
Hamadān
Kermānshāh
Īlām
Borūjerd
Khorramābād
Dezfūl
Ahvāz
Khorramshahr
Ābādān
Rūdkhāneh-ye Sīmareh
Rūdkhāneh-ye Kārūn
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