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Policy Brief.....Iraq Supplemental

The following Policy Brief contains:

- An outline of the Administration's supplemental request,
- a brief description of issues related to opening Iraq to foreign investment,
- information related to the disposition of Iraqi state-owned enterprises,
- an outline of the Iraqi Budget,
- an outline of future oil revenues, and
- information on international contributions for Iraq.

Administration's Supplemental Request

While the Administration has not officially submitted its Supplemental Request / Budget Amendment, it is expected the request will be as follows:

Department of Defense: \$65.5 billion.

Iraq Coalition Provisional Authority: \$20.3 billion, including:

- \$2.1 billion for border enforcement, police, fire, customs, and enhanced security communications;
- \$2.1 billion to establish national security forces and Iraq Civil Defense Corps;
- \$0.9 billion to provide justice and civil society development;
- \$6.0 billion to rehabilitate the electric power structure;
- \$2.1 billion to rehabilitate oil infrastructure and secure domestic consumption;
- \$3.7 billion to fund repairs and improvements to water and sewage services;
- \$0.9 billion to fund repairs to facilitate and conserve water resources;
- \$0.8 billion to repair transportation facilities and telecommunications infrastructure;
- \$0.5 billion to upgrade housing, public buildings, roads, and bridges;
- \$0.9 billion to fund construction, repair, and the equipping of hospitals and primary clinics;
- \$0.3 billion to invest into private sector business initiatives and job training programs.

The \$20.3 billion that is expected to be requested by the Administration is part of the \$50 to \$75 billion the Administration has estimated is needed for Iraqi reconstruction. Other funding is expected to come from Iraqi oil revenue and international contributions.

Opening Iraq to Foreign Investment & Promotion of Private Property

Private investment by those seeking to do businesses in Iraq could be instrumental in providing non-taxpayer resources for the reconstruction of Iraq.

Unfortunately, provisions of the Iraqi Constitution and legal system pose numerous obstacles to foreign investment and commerce with Iraq.

While Coalition Provisional Authority Administrator Paul Bremer has taken steps to remove some barriers to the creation of a free economy (such as the suspension of tariffs), many of laws implemented under Saddam Hussein remain in effect. The U.S. Department of Commerce has identified a number of these barriers.

http://www.export.gov/iraq/businessops/businessguide_current.html

As of September 9, 2003 these barriers include:

Prohibition of Investment by Citizens of Non-Arab Countries: “Currently, foreign investment in Iraq is restricted by statute to resident citizens of Arab countries. The Iraqi Constitution also prohibits private ownership of natural resources and the basic means of production, as well as foreign ownership of real estate.”

Prohibition on Non-Iraqis Operating as Commercial Agents: “Foreigners cannot be commercial agents or distributors under current law.”

Limitation on Joint Ventures with Non-Arab Nationals: “Currently, non-Arab foreign nationals may only form joint ventures with Iraqi companies on a contractual basis in connection with a specific project, and only so long as there is no capital sharing between foreign and Iraqi companies.”

Arab Boycott of Israel: “Iraq's current law strictly adheres to the Arab Boycott. The law requires any company wishing to do business in Iraq to answer an eight-point questionnaire, assuring the Iraqi Government that it will not do business in Israel. U.S. law prohibits U.S. persons from answering such questions (see Commerce/BIS Anti-boycott Compliance Office - <http://www.bis.doc.gov/antiboycottcompliance/default.htm>.)”

Recognition of Non-Arab Foreign Civil Judgments: “While Iraq has civil remedies for domestic business disputes, there is no current provision for the recognition or enforcement of non-Arab foreign civil judgments or arbitral awards.”

Disposition of State Owned Enterprises

According to Budget documents provided by the Coalition Provisional Authority, there are 192 state-owned enterprises or businesses in Iraq. It is unclear what plans, if any, are being made to privatize these enterprises. Privatization could result in the introduction of foreign investment and create opportunities for partnerships between Iraqis and interested investors. The following chart providing some limited information about the state owned enterprises was included in the Coalition Provisional Authority's 2003 Iraqi Budget:

Summary of SOEs

44

		Subsidised			
	No.	in 2003	Self-financed	rest	Explanation
Agriculture	10	0	10	0	Companies benefiting from Oil for Food programme
Electricity	11	0	9	2	Restructure of 2 worst performing companies.
Finance	9	1	8	0	Three insurance companies should be spun off in 2004.
Health	1	0	1	0	One company benefiting from Oil for Food programme
Housing and Construction	15	0	15	0	Probably going to 6 in 2004 to conserve capital.
Industry and Minerals	48	36	12	0	Seven only subsidised until 30 December 2003.
Irrigation	11	1	10	0	Not subsidised in this budget.
Military Industrial Complex	48	0	32	16	Plan for MIC companies is still being determined.
Oil	19	0	19	0	Three to be restructured in 2004.
Trade	8	0	8	0	Largely self-funding, but many may close with end of 'Food for Oil'.
Transport and Comm	12	11	0	1	Mainly utilities, Iraqi Airways restructured.
Total	192	49	124	19	

Examples of state-owned enterprises include:

- Hand-woven carpets
- Cement
- Vegetable oils
- Leather
- Veterinary services
- Paper
- Shopping centers
- Water transportation
- Internet service

Source: <http://www.cpa-iraq.org/budget/final2003budget.xls>

Iraqi Oil Revenue

According to media reports, the Administration expects Iraqi oil revenue to generate up to \$5 billion in 2003, rising to \$12 billion in 2004 and \$20 billion in 2005 and 2006. It is currently expected that this revenue would be used to support the Iraqi government and fund continued reconstruction efforts.

The Iraqi Budget

The Coalition Provisional Authority has approved a Budget for the Iraqi Government for the period of July through December of 2003. They are in the process of preparing a Budget for 2004.

The six-month budget for 2003, as provided by the Coalition Provisional Authority, is detailed below:

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

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
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*	*	*	*
Ministry of Planning	4.6	0.0	4.6
Ministry of Municipalities and Utilities/Public Works	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

* Operational and capital expenditure to be funded through extra realised revenues. Over \$1 billion of capital expenditure to be funded off-budget.

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: Other Proposed Expenditures

	(\$USm)
Social Safety Net	1,350.0
Electricity restructuring	192.0
Police	150.0
LPG and Gas	135.0
Currency Reprinting	100.0
Construction Fund	100.0
Military De-Mobilization	60.0
Regional Commanders	6.0
US Government Department and Agency Support	35.0
Program Review Board	35.0
Various expenditures	925.0
USAID programs	
Bechtel	400.0
Total Additional Expenditures	3,488.0
TOTAL EXPENDITURES	6,099.6

International Contributions for Iraqi Assistance

A meeting of potential donors to raise funds for rebuilding Iraq will take place in Madrid, Spain on October 23-24, 2003. While it is uncertain what the level of international contributions will be, it is expected that any contributions would be in addition to the contributions provided by the United States.
