



April 24, 2003

Bechtel Wins \$680M USAID Contract

BY JOSEPH REBELLO

WASHINGTON (Dow Jones) — The U.S. Agency for International Development said April 17 it awarded a \$680 million contract to Bechtel National Inc. of San Francisco to repair and rebuild Iraq's war-damaged infrastructure.

The 18-month contract is the biggest of the five contracts USAID has awarded so far in the reconstruction of Iraq. The agency has said it expects to spend \$1 billion over the next year for that purpose.

USAID said the contract calls for Bechtel to rebuild Iraq's ports, airports, electrical power systems, roads, bridges and drinking-water and sewer systems. It involves dredging and upgrading the Persian Gulf port of Umm Qasr - currently the chief entry point for humanitarian aid into Iraq. It also involves repairing schools, hospitals and "selected" government buildings. It is anticipated that Bechtel will work through subcontractors on a number of these tasks after identifying specific needs.

Bechtel National is a privately owned engineering and construction firm that is part of the Bechtel Group. Its president, Tom Hash, said the firm was "honored to have been asked by USAID to help bring humanitarian assistance, economic recovery and infrastructure to the Iraqi people."

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More Questions than Answers Regarding Iraq Bids

BY LOWELL FLEISCHER

Although the U.S. government has already awarded several contracts for the reconstruction of Iraq, most notably to San Francisco-based Bechtel, political leaders from other countries as well as members of the U.S. Congress have indicated that they want more say in the process. Lawyers and lobbyists on Washington's K Street, who see opportunities for their U.S. and foreign clients, report that the process is mired in confusion. "We're trying to find out what the rules of the road are because this is a fast-evolving situation, like the war itself," one attorney said. The stakes are high. The Council on Foreign Relations has estimated that the cost of rebuilding Iraq could be as much as \$20 billion a year for several years.

Democratic members of the U.S. House of representatives have asked the General Accounting Office to review the procedures and a bipartisan Senate group has introduced legislation that would require the administration to provide public

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In drawing up the contract with Bechtel, USAID said it wants the Iraqi reconstruction effort to be a “highly visual symbol of good faith” toward building trust for economic, social and cultural benefits as well as for political stability in the region.

The agency has said it expects to spend \$80 million immediately on public-health and infrastructure-rebuilding projects. The agency’s goal is to “reestablish potable water and sanitation services” and to “ensure that all basic healthcare needs of all Iraqis are met, including immunizations, maternal health, treatment of major childhood diseases, emergency and primary

response to illness and trauma, and referral of more serious cases.”

“Immediate reconstruction will focus on restoring normalcy as quickly a possible, repairing and administering a critical seaport and airports, water/sanitation networks, transport networks...electrical services, and key irrigation systems,” the agency said last month. “Priority will also be given to restoring electrical service to at least 75% of the population (the estimated pre-conflict level), ensuring that hospitals, pumping stations, and other key sites have emergency generators.”

U.S Aid to Iraq Reaches \$600 Million

According to U.S. Agency for International Development (USAID) Administrator Andrew Natsios, the U.S. has spent nearly \$600 million to date on humanitarian and reconstruction assistance to Iraq.

More than \$500 million of that amount has gone to U.N. agencies overseeing humanitarian relief efforts, including the World Health Organization (WHO), the U.N. Children’s Fund (UNICEF) and the World Food Program (WFP). Another \$25 million has been disbursed through internationally recognized NGOs.

A top reconstruction priority in Iraq is the repair of the country’s electrical power plants so that water and sanitation can be restored.

Other countries have pledged \$1.3 billion in assistance-coordinated by the U.N. Some \$713 million in funds and supplies has already been contributed by Australia, Canada, China, Croatia, the EC, France, Germany, India, Ireland, Japan, South Korea, Kuwait, the Netherlands, New Zealand, Norway, Russia, Spain, Taiwan and the U.K. The World Bank agreed last week to send assessment teams to Iraq to determine the country’s needs in each of several sectors such as water, sanitation, health and education.

USAID expects its involvement in rebuilding Iraq to last one to two years, compared to 10-20 years in Afghanistan. Natsios said he expects USAID’s major contractors will award many subcontracts to regional firms.

Source: U.S. Dept of State; International Information Programs.

USAID Holds Sectoral Conferences

USAID is hosting a series of sectoral consultations concerning reconstruction activities in Iraq. The consultative conferences will share information about the USAID role in Iraq reconstruction, the agencies objectives and goals, and the methods used to achieve them.

All consultations will be held in the USAID Public Information Center, Suite M.1, Ronald Reagan Building, Washington, D.C., from 10:00- 11:30 a.m.

Pre-registration is required. Conference attendees are limited to one person per organization.

Live and archived broadcasts of these sessions are linked from USAID’s Assistance to Iraq website at <http://www.usaid.gov/iraq/>. Live webcast viewers will be able to e-mail questions to the conference.

The first conference, regarding Primary and Secondary Education, was held Thursday, April 24.

The schedule for the remaining sectoral consultative conferences is as follows:

Tuesday, April 29	Electric and Water Systems
Thursday, May 1	Special Session for Washington, D.C. based embassies
Tuesday, May 6	Local Governance
Thursday, May 8	Public Health
Tuesday, May 13	Seaport and Airport Administration
Thursday, May 15	To Be Announced

Source: USAID Press Office.

Overview of U.S. Approach to Reconstruction in Iraq

Oversight

The overall responsibility for U.S. reconstruction initiatives in Iraq resides in the newly created Office of Reconstruction and Humanitarian Assistance within the U.S. Department of Defense, and is headed by retired U.S. General Jay Garner. The bulk of the contracts awarded to U.S. companies for reconstruction work will be administered by the United States Agency for International Development (USAID).

The President's budget request contained \$1.7 billion for reconstruction and \$543 million for humanitarian relief efforts. Congress will make the final determination about the funds that can be spent.

Primary Contracts

Between January 31 and March 4th, USAID issued eight Requests for Proposals (RFPs) for work in Iraq. These were for capital construction including bridge, road and port rehabilitation and repair; seaport administration; airport administration; public health; primary and secondary education; local governance; theater logistical support and personnel support. The personnel support contract was awarded to Arlington, VA-based International Resources Group; the seaport administration contract was awarded to Seattle, WA-based Stevedoring Service of America (SSA); the local governance contract was awarded to the North Carolina-based non-profit organization, Research Triangle Institute; and the capital construction contract was awarded to San Francisco, CA-based Bechtel.

Information on the dollar amounts of these contracts as well as the entire Requests for Proposals (RFPs) can be found on the USAID website— <http://www.usaid.gov/iraq/activities.html>. (See summaries of bid solicitations and awards on the next page and on page one.)

The prime contracts will be awarded to U.S. firms through the competitive procurement process. Existing U.S. foreign assistance law establishes a preference for U.S. firms.

USAID awards contracts in accordance with the Federal Acquisition Regulation (FAR) and full and open competition is the standard rule. In order to respond quickly to anticipated needs in Iraq, USAID chose to limit competition for the first eight contracts to 21 selected firms who were known to have the required technical capability as well as the clearance to handle classified national security material. Only one firm—International Resources Group—was sole-sourced (the only firm to be solicited for the work) by USAID.

Subcontracts

Prime contractors, who are responsible for the successful completion of their contracts, will be able to award subcontracts to qualified U.S. and foreign companies. The latter will include – but not be limited to – those companies located in coalition partner countries.

In January 2003, USAID waived a standard procurement provision known as “source and origin” to allow a greater number of countries to be eligible to compete for subcontracts. Companies located in non-restricted countries (those not on the terrorist list) can compete for subcontracts.

Small Businesses and NGOs

A number of the initial eight RFPs required offerors to submit small business sub-contracting plans. In addition, for upcoming RFPs, USAID will post on its website the names of firms that receive the RFPs so that sub-contractors have the opportunity to contact the prime contractors should they wish to compete for work (<http://www.usaid.gov/iraq/activities.html>).

USAID has already awarded over \$20 million to domestic NGOs, including Save the Children, the International Medical Corps, Mercy Corp International and the International Rescue Committee.

Source: USAID

USAID SOLICITATION AND AWARD SUMMARY

(All Requests for Proposals (RFPs) can be viewed at the USAID website: <http://www.usaid.gov/iraq/activities.html>)

SEAPORT ADMINISTRATION

Awarded: Stevedoring Services of America

Date: March 24, 2003

Amount: \$4.8 million

The contract covers assessment and management activities at the Umm Qasr port in Iraq. In addition to being a critical component of Iraq's economic infrastructure, the southern seaport is critical to USAID's efforts to provide humanitarian assistance to the people of Iraq.

SSA will be responsible for the effective operation of the port, allowing food and other humanitarian and reconstruction materials and supplies to be delivered smoothly and efficiently. The Seattle, Washington-based company will provide an initial port assessment, develop improvement plans to overcome port-imposed constraints, and supply technical expertise to ensure an adequate flow of through shipment. The company will be responsible for the port pilots who will guide ships up the channel, and will manage the access of trucking companies to the port and establish a system of controls to avoid theft and corruption.

The marine terminal operating firm will also assist in locating and identifying obstacles that could affect the movement of shipping traffic, in coordination with local and national authorities. Under the terms of the contract SAA will also facilitate cargo-handling services such as warehousing, shipment tracking, refrigerated and other cargo storage and the onward transport of shipments. SSA's services aim to reduce vessel turn-around time and increase vessel productivity.

CAPITAL CONSTRUCTION

Awarded: Bechtel

Date: April 17, 2003

Amount: \$34.6 million initially, with funding of up to \$680 million over 18 months

The contract calls for the repair, rehabilitation or reconstruction of vital elements of Iraq's infrastructure. This includes assessment and repair of power generation facilities, electrical grids, municipal water systems and sewage systems. There is also a provision in the contract for the rehabilitation or repair of airport facilities, and the dredging, repair and upgrading of the Umm Qasr seaport, in close cooperation with other USAID contractors working in those sectors. The contract may also involve responsibility for the repair and reconstruction of hospitals, schools, selected ministry buildings and major irrigation structures, as well as restoration of essential transport links.

It is anticipated that Bechtel will work through subcontractors on a number of these tasks after identifying specific needs.

PRIMARY AND SECONDARY EDUCATION

Awarded: Creative Associates International Inc.

Date: April 11, 2003.

Amount: \$1 million

CAII, an international consulting firm with its headquarters in Washington, D.C., will implement a USAID education assistance program, "Revitalization of Iraqi Schools and Stabilization of Education" (RISE). The

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program is a rapid response effort to increase enrollment and improve the quality of primary and secondary education through short-term immediate impact activities that will lay the foundation for more sustainable reform.

Short-term activities will include development of baseline indicators to measure educational progress, and procuring and distributing essential school materials, equipment and supplies. These materials will be provided in time for the new school year to open, reducing any disruptions in classroom education. Child-centered, participatory teaching methods will be introduced to lay the foundations for democratic practices and attitudes among students, parents and teachers.

CAII will also work to improve teacher training and school leadership programs, and provide high-level technical assistance to help reform the educational system. As nearly 25 percent of school-age children are not currently attending school, the RISE initiative will pilot accelerated learning programs throughout Iraq and offer short-term, intensive bridge programs to help children re-enter the education system at the appropriate grade levels for their ages. The RISE contract does not include production of textbooks. USAID solicitations related to the production of textbooks on certain school subjects will be forthcoming.

PERSONNEL SUPPORT

Awarded: International Resources Group

Date: February 07, 2003

Amount: \$7 million

The contract base period will cover 90 days, with two additional 1-year option periods, which may be ordered by USAID. IRG will support USAID in the overall planning, monitoring, coordination, management, and reporting on reconstruction and rehabilitation activities across a variety of sectors including education, health, agriculture, civil society strengthening, and infrastructure.

LOCAL GOVERNANCE

Awarded: Research Triangle Institute

Date: April 11, 2003

Amount: \$7.9 million

Under the USAID contract, RTI will provide technical assistance to strengthen local administrations, civic institutions and civil society. RTI, an independent, non-profit organization based in Research Triangle Park, North Carolina, will create programs to increase management skills, knowledge and capacity of local administrators to direct services such as water, health, and public sanitation and in areas such as economic governance.

A provision in the contract allows RTI to authorize grants to both Iraqi and foreign non-governmental organizations (NGOs) to improve municipal infrastructure, assist local NGOs with capacity building and undertake training programs in communications, conflict resolution, leadership skills and political analysis. All activities under the RTI contract will target underrepresented or "at risk" groups, including organizations that promote women's rights and strive to help youth and minority groups to participate in the political process.

IRAQ COMMUNITY ACTION PROGRAM

This twelve month program will promote diverse and representative citizen participation in and among impoverished communities throughout Iraq, and will identify and address critical reconstruction and development needs.

AIRPORT ADMINISTRATION

This RFP will help the management of humanitarian and trans-shipment operations by air.

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THEATER LOGISTICAL SUPPORT

This RFP will help with warehousing, customs clearance, trucking and provision of bottled water.

PUBLIC HEALTH

This RFP will help to restore the public health service.

GRANTS

EDUCATION SERVICES

Grant awarded to the

United Nations Children's Fund (UNICEF) to provide support for basic education in Iraq.

HEALTH, WATER AND SANITATION SERVICES

Grant awarded to the

United Nations Children's Fund (UNICEF) to provide basic health, water supply and sanitation services in Iraq.

HEALTH SYSTEM

Grant awarded to the

World Health Organization (WHO) to strengthen the overall health system in Iraq.

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justification regarding the awarding of all Iraqi reconstruction contracts. Sen. Ron Wyden (D-ORE) said, "I have a problem with the process—the public is in the dark." Others have accused the Bush administration of rewarding large firms that are politically connected in Washington. According to other Washington contract lawyers, however, the inside track for Bechtel and others is not so much their inside-the-beltway cachet, but rather their history with the Agency for International Development (AID). Altogether, AID may hand out as much as \$2.4 billion, which the administration requested from Congress several weeks ago to cover eight separate projects, including the major infrastructure contract, as well as humanitarian relief.

Administration officials maintain that their decisions so far have been based solely on which companies were most qualified to do the work and on the need for an expedited selection and security clearances. They also point out that Bechtel already has about 1,000 people working on projects in the Middle East and Persian Gulf region where they maintain five offices.

Australian Prime Minister John Howard will visit President Bush at his Texas ranch early next month to seek assurances that U.S. firms will not receive preferential treatment on rebuilding contracts and to try to protect Australia's lucrative wheat sales to Iraq. The Federation of Indian Chambers of Commerce is send-

ing a delegation to the United States next week to discuss rebuilding activities. Indian firms are eyeing a "significant portion" of reconstruction work in Iraq, according to the federation. Other countries that supported the war effort in one-way or another, including Albania and Poland, are also attempting to land some of the subcontracts. Several British companies have complained about the secrecy and the decision to restrict the bidding to a handful of companies.

Andrew S. Natsios, the AID administrator, has said that he expects at least half of the Iraq contract awarded to Bechtel to be paid to subcontractors selected by the firm. Bechtel has said that there "will be a full and open competition on an international basis" that will be launched as soon as possible. AID will monitor the process and will have to approve most of the subcontracts. Some Washington analysts familiar with the AID bidding process have said they suspect that Bechtel already has many subcontractors in mind. It is unlikely they would submit a bid without having at least some of the major subcontractors lined up, one analyst said. The Bechtel contract covers virtually all the major projects in Iraq, including repairing two international and three domestic airports, ensuring potable water, reconstructing electric power plants, and building roads, railroads, schools, hospital and irrigation systems.

There are still several legal hurdles to be overcome for companies wanting to do business in Iraq. The National Foreign Trade Council, among others, will push lawmakers next week to adopt the Senate-passed version of the emergency spending bill for fiscal 2003 because it would repeal a 1990 law that bars any American firm from doing any work in Iraq. The House-passed version would merely allow the president to waive the act until September 2004.

Another potential hurdle for U.S. companies is UN sanctions against foreign companies working in Iraq. These are likely to be lifted, but Russia and France have been dragging their feet in an obvious ploy to gain more leverage over reconstruction efforts.

State Department Seeks Police Experts

The United States Department of State is recruiting experienced law enforcement personnel to re-establish "police, justice and prison functions in post-conflict Iraq, according to the Department's web site. The online posting says interested applicants must be active duty, retired, or recently separated sworn police officers, correctional officers or experienced judicial experts.

DynCorp, a government contractor with experience in Colombia and Afghanistan, has been given the task of filling the initial 150 openings. It is expected to be a key contender for the larger contract as well. The Department says 1,000 additional slots will open over time. The U.S. personnel are expected to train Iraqi citizens.

According to Department sources, the total cost of this mission could be in the range of hundreds of millions of dollars.

Pending Contracts

In addition to the contracts already awarded by AID, four are pending:

- 1) Airport Administration. Management of humanitarian and trans-shipment operations.
- 2) Theater Logistical Support. Warehousing, customs clearance, trucking and provision of bottled water.
- 3) Public Health. Help to restore the public health service.
- 4) Iraq Community Action Program. Twelve month program to promote diverse and representative citizen participation in and among impoverished communities throughout Iraq.

Lowell Fleischer is a free-lance correspondent based in Washington, D.C.

Austrian Companies Seek Role in Iraq Rebuilding

BY EVA KOMAREK

VIENNA (Dow Jones) — Austria could profit from the reconstruction of Iraq thanks to historic trading connections and its neutral stance on the war, says Herbert Stepic, chairman of the Austrian Arabic Chamber of Commerce.

Austria's relationship with the region dates back to the 1970s and Arab-friendly politics of former Austrian Chancellor Bruno Kreisky.

Stepic, who is also Vice Chief Executive of Raiffeisen Zentralbank AG (R.RFZ), said he expects that particularly food, engineering, paper, pharmaceutical, water treatment and oilfield equipment industry could win contracts.

Austria was involved in the food-for-oil program, delivering food, drugs and infrastructure equipment worth EUR88.5 million in 2002.

Stepic said he hopes that program will be scrapped as the country returns to normal trading conditions - from which RZB could also profit.

He said RZB is engaged in foreign-trade financing, loans, foreign payment transactions and extended bank and treasury functions as well as asset management with Libya, Saudi Arabia, Egypt, Yemen, Syria, Oman, Dubai and, before the food-for-oil program, also with Iraq.

Austrian water treatment company BWT AG (R.BWT) believes it has a good chance of taking part in Iraqi reconstruction.

"We have been active in Iraq for 25 years and have installed water cleaning systems for about 20% of Iraq's total drinking water supply," said Rudolf Edlinger, sales manager for BWT's Aqua Engineering division.

BWT's major contracts in Iraq totaled more than EUR72 million, Edlinger said, and he expects there could be similar-sized deals in the pipeline.

Initially though, BWT expects smaller orders from humanitarian groups for emergency water supply systems and only later, once it is clear who runs the country, the bigger contracts.

Austrian engineering company VA Technologie AG (R.VAT) also expects to be well-placed, spokesman and board member Wolfgang Schwaiger said.

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“Seventy-five per cent of our business is dealing with infrastructure and energy supply, which will be needed most in Iraq,” he said, adding that only last year VA Tech built a EUR30 million transformer station in Baghdad.

He added that VA Tech has set up a special team to focus on Iraq and last week the VA Tech board met Franz Schroeder, delegate of the Austrian Chamber of Commerce in Iraq.

“We’ve learnt that the U.S. will hold a meeting in Washington at the beginning of May to deal with the reconstruction of Iraq,” Schweiger said, adding that Schroeder will be there as Austria’s representative.

Schoeller-Bleckmann Oilfield Equipment AG (R.SBO), a leading provider of new drilling parts for the oil industry, expects any new orders will be longer-term.

“It will take some time before we get contracts because our customers are oil drilling companies,

which themselves first have to get the rights and contracts for drilling. That will take some time,” said Chief Executive Gerald Grohmann.

The estimated damage to Iraq’s oil business is about EUR1.5 billion with another EUR5 billion needed for upstream and downstream modernization, Grohmann added.

“There hasn’t been any investment in the Iraqi oil industry for the past ten years,” Grohmann said, “so companies that win contracts will have to invest in equipment,” he said.

Leading global drilling companies such as Schlumberger Ltd (SLB), Halliburton Co (HAL) and Baker Hughes Inc (BHI) are already SBO’s biggest customers and with the U.S. accounting for 75% of SBO’s total sales, the company is optimistic.

More than 20 Austrian companies have already stated their interest in the reconstruction of Iraq, the chamber of commerce said.

Japan Eyes Involvement in Iraq Reconstruction

TOKYO (Dow Jones)— Japan has appealed to the United States for Japanese companies to participate in postwar reconstruction projects in Iraq, Kyodo News reported.

At a bilateral sub-Cabinet-level meeting in Washington last week, Japan told the U.S. that Japanese companies that had built power plants and other facilities in Iraq can help repair them if they were damaged during the war, a Japanese official told reporters.

The U.S. expressed hope that the International Monetary Fund and the World Bank will soon conduct a needs assessment in Iraq and said Washington will try to create an international framework for cooperation on rebuilding Iraq, according to the official.

At the bilateral Economic Dialogue meeting, the U.S. welcomed last week’s launch of Japan’s state-backed Industrial Revitalization Corp. and its plan to introduce special zones for structural reform, the official said.

The IRC is intended to help rebuild heavily indebted but commercially viable companies. The special zones are areas in which deregulation will be promoted, based on local government and private-sector proposals.

The U.S. said it is important IRC and the special reform zones produce results at an early date, the official said.

Snow Asks Japan for Monetary Pledge

BY TAKESHI TAKEUCHI

WASHINGTON (Dow Jones)— Japanese Finance Minister Masajuro Shiokawa said last week that U.S. Treasury Secretary John Snow asked Japan to give substantial financial aid for Iraq’s postwar reconstruction.

“Mr. Snow asked for Japan’s substantial financial contribution for the Iraqi reconstruction,” Shiokawa said after U.S.-Japan bilateral talks.

The Japanese finance minister told Snow that Japan is ready to make a contribution through some kind of international framework.

“We are well aware that we have to do what Japan is required to do in the reconstruction of postwar Iraq. But I told the secretary that it is desirable that Japan’s such contribution be made some sort of international framework,” Shiokawa said.

Japan has already pledged a \$100 million aid in humanitarian assistance, but it hasn’t decided on the amount of financial contribution in Iraq’s postwar reconstruction.

With Japan’s economy having been long stagnant, and the worsening fiscal situation, Japan’s reconstruction aid is expected to be far smaller than Japan’s fi-

nancial contribution of some \$13 billion in the Persian Gulf War in 1991.

The finance minister also said he told Snow that Japan will continue efforts to reform its economy.

“The secretary told me that the U.S. economy will probably pick up faster than expected, now that the war is coming to an end. So I told him that we would like to get Japan back on a faster economic recovery path too,” Shiokawa said.

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Powergen to Assess Damaged Power Stations In Basra

BY SARAH SPIKES

LONDON (Dow Jones)— Powergen, the U.K. unit of German utility EON AG (EON,) is sending two of its engineers to Basra in southern Iraq to evaluate damaged power stations, a Powergen spokesman said last week.

Dave Johnson, an engineer from the Ratcliffe power station and Bob Nicholls, of Powergen’s research and development arm, will spend a week in and around the city of Basra to establish the state of 731 megawatts of fossil-fuel fired power generation.

It’s unclear if the stations were damaged during the conflict or if some units aren’t working because of poor maintenance, said a spokeswoman.

The largest of the power stations Powergen will evaluate is the 400 MW Al Basra Hartha oil-fired station, which is about 14 kilometers north of Basra. A station of this size, if operating well, could supply about 300,000 people.

The other stations are the 200-MW Al Basra Najibiyah, the 120-MW Al Zubayr, the 10-MW Al Basra Grain Store, and the 1 MW Al Basra Jaubaylah station.

Once the engineers see what needs to be repaired, they’ll report back to the U.K. army which will devise a plan to fix them.

The army has asked Powergen and National Grid Transco PLC (NGG) to send engineers to Iraq to advise on repairs. National Grid’s team will be similarly small, said a spokesman for the company.

“We’re sending engineers there in an advisory capacity only, and not for any commercial reasons,” said the spokesman.

National Grid’s role will be to assess the electricity delivery network in Iraq, he added, but declined to say which areas the team would focus on.

At the moment, National Grid will concentrate only on the electricity network rather than on the country’s gas pipeline system.

In the wake of attacks by the U.S. and U.K. on Iraq, power supply problems continue to cause problems with treating patients in hospitals, with delivering clean water, and with pumping sewage.

Australian Team to Help Revive Iraq Agriculture Sector

BY VERONICA BROOKS

CANBERRA (Dow Jones)—The Australian government said this week it is sending a team of advisers to help resurrect Iraq’s agriculture sector.

The move comes as Australia seeks to protect its share of Iraqi wheat exports amid fears U.S. farmers want to muscle back in as the reconstruction of post-war Iraq begins.

Headed by Trevor Flugge, a former chairman of wheat exporter AWB Ltd. (A.AWB), Australia’s agri-

culture and food security advisers will work alongside a U.S. nominee and Iraqi officials.

The team will provide advice on dry land agriculture, grain distribution, irrigation and fighting salinity.

“Iraq’s agricultural sector has suffered through years of mismanagement and neglect,” Foreign Minister Alexander Downer and Trade Minister Mark Vaile said in a statement.

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“With much of the Iraqi population dependent on food handouts, rehabilitation of agriculture will be critical to Iraq’s stability and long-term economic recovery,” the ministers said.

Until 1990, before the onset of the Gulf War, the U.S. was a major supplier of wheat to Iraq.

AWB has been a major supplier of wheat to Iraq for a decade under the United Nations’ oil-for-food program, in an annual trade sometimes in excess of 2 million metric tons, worth around A\$800 million.

Vaile has said that Australia wants wheat contracts held by AWB to supply Iraq to be honored under the reinstated U.N. oil-for-food program.

He has also argued that the oil-for-food program in battered Iraq is simply a revival of the scheme and not a new arrangement.

U.S. Asks World Bank to Assess Iraqi Econ Needs

BY ELIZABETH PRICE AND JOSEPH REBELLO

WASHINGTON (Dow Jones)—U.S. Treasury Secretary John Snow said he will press the World Bank to begin assessing what it will take to rebuild Iraq’s economy as quickly as possible.

“I am baffled why the World Bank isn’t undertaking these assessments,” Snow said in a press conference ahead of a Group of Seven meeting of financial officials and the joint International Monetary Fund and World Bank spring meetings earlier this month. “It’s right up their alley ... and something that clearly needs to be done, so I anticipate that subject to come up and be discussed.”

He said World Bank President James Wolfensohn would be part of the meetings on Iraq reconstruction. Earlier, Wolfensohn said the bank does not “have the slightest idea” what Iraq’s reconstruction needs are and will not send a team to Iraq to inquire without authorization from its board of directors. That’s because United Nations sanctions on Iraq may limit the bank’s powers. He said he will ask the board to decide what role, if any, the bank ought to play in Iraq.

“If we want to get half a dozen people on an airplane to go over there and take a look, we don’t need Security Council approval for that,” Wolfensohn said. “But because of the complexity of this situation and because of the sanctions under (UN resolution) 661, it is a subject which I personally think I should take to

my board.” He suggested that the bank’s directors may be just as divided about Iraqi reconstruction as the U.N. Security Council was over the war.

Snow said finance ministers would also confront the potentially controversial issue of Iraqi debt forgiveness.

“The debt levels are large relative to the economy, they go back a long time, and they haven’t been serviced for a number of years,” he said.

Although no one is sure exactly how large a debt Iraqi President Saddam Hussein amassed during his reign, some private economists say it could be as high as \$400 billion—enough to hurt efforts to rebuild the economy. Because the largest creditors are believed to be France and Russia, who happened to be the two most vocal opponents to the U.S. war to topple Saddam, the issue could become a new source of friction in international relations. While Russia doesn’t typically join the economic discussions of G-7 finance ministers, it often takes part in the political agenda. Russia will be included in talks over Iraq.

Paris Club: Ready For “Early Engagement” On Iraq Debt

BY MIRELA VLAD

PARIS (Dow Jones)—The Paris Club of sovereign creditors said today that its 19 members are ready for “an early engagement” on the Iraq debt issue.

However, the club said it expects a further resolution on Iraq from the U.N. Security Council and noted that the International Monetary Fund and the World Bank will play their “normal role.”

The Paris Club said in a statement that the creditors Thursday had a preliminary discussion on Iraq’s debt, and that they agreed as a first step to carry out an assessment of Iraq’s indebtedness to its members.

“On this basis, they will review this issue in the coming months and follow closely developments in the Iraq situation,” the Paris Club statement said.

According to sources close to the French finance ministry, Iraq owes the Paris Club \$26 billion, excluding interest.

The Paris Club deals exclusively with commercial loans underwritten by a state guarantee. Non-guaranteed commercial loans can be renegotiated through the London Club.

In addition, Iraq owes about \$100 billion in “war debt” resulting from the first Gulf War.

IRAQ AND THE RULE OF LAW

JOSEPH P. MARKOSKI AND THOMAS J. RAMSEY
(SQUIRE, SANDERS & DEMPSEY L.L.P.)

The re-building of Iraq will take place on a number of fronts. The popular press has focused on two: rebuilding damaged or obsolete physical infrastructure and establishing a democratically elected government. Although both are plainly necessary and extremely important, neither will be possible without the “reconstruction” of Iraq’s legal system or, more to the point, establishing the “rule of law” in that country.

Discussions about Iraq invariably lead to comparisons to Afghanistan, the world’s most recent post-conflict society. A more relevant comparison and, for policymakers, more instructive precedents can be found in the reconstruction of Central and Eastern Europe after the end of another not-too-distant conflict – the Cold War. The parallels are striking: the absence of critical infrastructure (such as a functioning telecommunications system); a centrally planned (but sorely mismanaged) economy; the lack of credible political institutions; and total disrespect for (much less experience with) the rule of law.

Experience in Central and Eastern Europe suggests that reconstruction of physical infrastructure, the development of a market economy (and related private sector investment), and the creation of a functioning democracy cannot take place without first establishing the rule of law. Although it can be variously described, the rule of law has certain critical elements:

- A functional and democratic constitutional framework;
- Recognition and protection of individual rights, both personal and property;
- Primary and secondary legislation that creates the framework for a democratic society and market economy;
- Fair and transparent interpretation and enforcement of laws and other legal norms; and

- Access to, and fair treatment by, an independent judiciary.

Although all of these elements are important and must reflect Iraq’s cultural and religious heritage, the recent history of Central and Eastern Europe makes clear that establishing fair and transparent mechanisms for enforcing the laws – including both personal and commercial rights – is *the* essential precondition for meaningful legal transformation.

Like the former Soviet Union and its Eastern Bloc neighbors, Iraq has a constitution, laws and implementing secondary legislation – some of which preceded the latest regime – that address most aspects of daily life. The existing legal framework, however, legitimized a non-democratic and oppressive regime. Moreover, “rights” that may have been recognized and even given some formal significance, on paper, were disregarded in practice. In other instances, the existing legislative framework is vague, creating the uncertainty and arbitrariness that are inimical to social and economic development. In other cases, legislation is outdated and inconsistent with a market economy and international best practices, particularly in the commercial arena. Still other legislation is adequate, indeed, desirable, but because of arbitrary and selective enforcement and interpretation is either ignored or held in dispute.

Legal Reform and the Private Sector

The need to reform the Iraqi legal system is not an academic issue of concern only to jurists, legal and religious scholars and diplomats. Our two weeks “on the ground” after the liberation of Baghdad, encompassing as they did the negotiation of two infrastructure projects and the formation of a joint venture, have demonstrated that businesspeople are as interested, perhaps more urgently interested, in establishing the rule of law in Iraq. These no-nonsense entrepreneurs are clamoring for answers to such fundamental practical questions as: What am I really buying? Will I have title? Will I be treated fairly? Will I have the ability to succeed economically? Without definite posi-

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Squire, Sanders & Dempsey L.L.P. is an international law firm with offices in Europe, Asia and the Americas, including a presence in Kuwait. Mr. Ramsey is resident in Brussels and Kuwait. Mr. Markoski is resident in Washington, D.C. and London.

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tive answers to these questions, the enormous investment that the Iraqi economy needs to modernize, and support social and political reform, will not occur.

In order to attract the private sector in the first instance and to encourage the massive investments that will be needed to rebuild Iraq's infrastructure and develop a market-driven economy, a predictable and sound legal and regulatory regime is absolutely essential. The need for sector-specific reform is particularly compelling. Sectors requiring prompt attention include telecommunications and media, energy, natural resources, and transportation. Legislation affecting multiple sectors also requiring attention include such matters as: corporate governance; competition policy; tax; finance and banking; bankruptcy and restructuring; intellectual property; trade; and environmental and consumer protection.

Iraq has a unique opportunity to address the reform of its legal and regulatory system in a comprehensive and cohesive manner consistent with its cultural and religious heritage. Iraq can learn from the recent experiences and, if successful, avoid the missteps of the emerging democracies of Central and Eastern Europe, where uncoordinated, ill-timed and inconsistent reforms – often promoted by well-intentioned, but misguided, international donors – needlessly impeded economic development and delayed the advent of democracy. Only time will tell whether Iraq – and those who share an interest in seeing Iraq evolve into a democratic and economically advanced society – will succeed in establishing the rule of law.

(Editor's note: Future issues of Iraq Reconstruction Report will include analysis of the legal and regulatory framework within specific sectors of Iraq's economy.)

UN Extends Annan's Authority Over Iraq Aid Program

BY MASOOD FARIVAR

UNITED NATIONS (Dow Jones)— The U.N. Security Council voted today to extend Secretary General Kofi Annan's authority to administer the delivery of humanitarian goods into Iraq under the U.N. oil-for-food program.

The unanimously approved measure extends until June 3 Annan's authority to use funds from the program's U.N.-controlled escrow account to pay for food, medicine and other humanitarian supplies for Iraqi civilians.

The measure doesn't address sales of Iraqi oil, which were used to raise revenue for the program but have been suspended since the war began.

In voting to extend Annan's authority, which was to expire May 12, Security Council members wanted to ensure that Iraqi civilians continue to receive humanitarian aid.

The six-year-old oil-for-food program, an exemption to sanctions imposed on Iraq after its 1990 invasion of Kuwait, was suspended shortly before the start of the war in Iraq. While the humanitarian aid component of the program is moving forward under Annan's authority, oil exports aren't expected to resume soon, as Security Council members debate who will have the authority to sell Iraqi oil. The current six-month phase of the program ends June 3.

Russia introduced a proposal at a Wednesday meeting of the five permanent members of the council to give Annan authority over all aspects of the oil-for-food program, including the sale of oil and the development of the Iraqi oil sector.

Western diplomats, however, scoffed at the idea of giving U.N. control over the Iraqi oil industry.

"I don't think it will go anywhere," a British official said. "The aim should be the earliest possible return of control of Iraqi resources to Iraqi authority and the return of the economy to normality."

Asked about the Russian proposal, John Negroponte, U.S. envoy to the U.N., reiterated the U.S. call for sanctions to be lifted.

France called for adjusting the oil-for-food program to reflect new realities in Iraq following the fall of Saddam Hussein's regime, with an eye to eventually phasing it out. France has yet to formulate the idea in concrete terms, but most council members agree that the program needs to be changed.

Exactly what form the program might take is up in the air. The debate is expected to take weeks, and diplomats said the Security Council may consider another technical rollover of the program if no agreement on how to move forward is reached by June 3.

Iraq exported about 1.7 million barrels a day of crude oil in the months leading up to the war. Under the oil-for-food program, the U.N. Office of the Iraq Program would use revenue from those exports to pay for humanitarian supply contracts signed between Iraq and foreign suppliers.

Today's resolution allows Annan to directly contact suppliers and speed billions of dollars in urgently needed supplies to Iraq.

France Seeks End to Iraq Sanctions

BY JESS BRAVIN

UNITED NATIONS (Dow Jones)— France proposed an immediate suspension of “civilian sanctions” on Iraq, a move intended to help restart the country’s shattered economy and undercut U.S. claims that Paris is obstructing Iraq’s reconstruction.

The surprise proposal came at a closed Security Council meeting on the U.N. weapons-inspection program, which was suspended in March when the U.S. launched its war to overthrow Saddam Hussein. The U.S. has requested that the U.N. lift its sanctions permanently, in recognition that the regime they were imposed upon no longer exists.

The proposal represented a significant move toward the U.S. position by France, which spearheaded international opposition to the war but has recently moved to close the rift. But its effect as a compromise measure wasn’t immediately clear. While Security Council members agree in principle that all sanctions eventually should be lifted and Iraq’s trade and diplomatic relations normalized, a tense diplomatic face-off continues over who will oversee that transition.

Most countries want the U.N. intimately involved in rehabilitating Iraq, and in the final certification of what weapons of mass destruction the Hussein regime possessed. But Washington essentially views the U.N.’s oversight role as having ended with the overthrow of Mr. Hussein. France and Russia, both of which hold Security Council vetoes, continued to say a permanent lifting of all sanctions, civilian and military, should be contingent on a U.N. certification that Iraq is weapons-free. And France stopped short of saying that restrictions on sales of oil, now allowed only through the U.N.’s oil-for-food program, should be removed.

Last week, President Bush called on the Security Council to lift the sanctions without condition. Yesterday, John Negroponte, the U.S. ambassador to the U.N., said, “We now need to work with France and other countries to see how best that can be achieved and how quickly.”

A U.S. official said the French proposal didn’t go far enough. “We just want to drop the sanctions without caveats,” the official said. “You shouldn’t have to jump through hoops now that Saddam Hussein is gone. We feel we have the moral high ground on this.”

A French diplomat said Paris’ proposal was aimed at bringing investment and financial services into Iraq

and allowing Iraq to resume trade. While prohibitions would remain in place for weapons and related goods, “we need to give a political sign to the Iraqi people that we understand the situation has changed,” the diplomat said.

Although the proposal has yet to take shape on paper, the French diplomat said it foresaw a gradual wind-down of the oil-for-food program, with the national oil industry handed over to the eventual successor Iraqi government. Until then, the diplomat said, there may need to be continued U.N. oversight of oil sales. “If you allow the Iraqi provisional authority or even the occupying power to sell oil, we need to know the amounts they will sell and for what purpose,” the diplomat said.

The U.S. intends to fund the reconstruction of Iraq’s economy and political institutions with Iraqi oil proceeds, by far the country’s biggest source of income. A coalition diplomat said the French plan offered more a change in tone than in substance. “The French are more attuned to the P.R. aspects of this,” the diplomat said. French President Jacques Chirac has faced calls recently, both from within his own party and by French business leaders, to mend bridges with Washington and London.

The council was split over any role for the U.N. weapons-inspection team, known as Unmovic. Hans Blix, the chief U.N. weapons inspector, told the council that while he was sure coalition forces were working “objectively” to find prohibited weapons, “the whole international community” had an interest in “finding the long-sought truth about the suspected existence of weapons of mass destruction” in Iraq.

Speaking to reporters, Mr. Blix said U.N. inspectors are “not on leash from any government,” and while “we may not be the only ones in the world who have credibility . . . I think we do have credibility for being objective and independent.” Like Mr. Blix, who questioned U.S. intelligence reports cited to accuse Iraq of noncompliance, U.S. forces have so far found no prohibited weapons.

“Suffice to say that Unmovic had their chance and it didn’t work,” a U.S. official said. Mr. Negroponte said the coalition had “assumed responsibility for enforcing pertinent Security Council resolutions . . . for the foreseeable future.”

Senior Iraqi Oil Officials Consolidate Control Over Energy Sector

BY CHIP CUMMINS

BAGHDAD (Dow Jones) — Lacking an oil minister and any clear direction from Washington, a handful of senior Iraqi oil officials are consolidating control over the country's energy infrastructure.

The group is meeting regularly with U.S. military officers in control of the capital to discuss the logistics of restarting refineries and power plants. The Iraqi officials haven't met with senior U.S. officials responsible for restarting Iraq's broader oil industry, the mainstay of the country's domestic economy and an important global supplier of crude oil.

The re-emergence of Iraq's respected oil bureaucracy in Baghdad likely would be a welcome sign for Pentagon officials, who have been counting on cooperation from Iraq's professional ranks to help get the country running again. But the new indigent power center in the capital also might make it more difficult for Washington to quickly retool to its liking the organization of Iraq's petroleum industry, which all but disintegrated after last month's U.S.-led invasion.

It isn't clear how U.S. officials intend to incorporate the group of oil ministry officials into their planning for energy-industry reconstruction efforts, which are well under way in other parts of the country. But with American troops firmly in charge of Baghdad, U.S. military commanders likely will be making — or postponing — all high-level oil-related decisions for the time being. They also are likely to have the final say about which top officials hold on to their responsibilities in the ministry.

U.S. officials said that retired Gen. Jay Garner, who is leading efforts to rebuild Iraq as head of the Pentagon's Office of Reconstruction and Humanitarian Assistance, or ORHA, plans to meet with the oil-ministry officials later this week. A pressing concern for oil-market watchers will be whether the U.S. sends an Iraqi delegation to this week's meeting of the Organization of Petroleum Exporting Countries. The oil minister in Saddam Hussein's toppled government, Amer Mohammed Rasheed, is one of the former officials most wanted by the U.S. government.

Gen. Garner and an advance team of ORHA officials arrived this week in Baghdad. His visit coincided

with the return of electricity in parts of the city, which erupted in sporadic, celebratory gunfire shortly after power was restored.

Team of U.S. and Iraqi Expats Assembled

ORHA has been meeting regularly with Iraqi oil officials in the south of the country, which produced about 60% of Iraq's oil before the war. ORHA also has been assembling a team of senior U.S. and Iraqi expatriate advisers to help steer oil-sector reorganization. The list of advisers, who will be led by retired oil-industry veteran Phillip J. Carroll, hasn't been finalized. Mr. Carroll is being briefed in Washington. He and a group of ORHA energy officials based in Kuwait City aren't expected in Baghdad for several more days.

The Iraqi group consists of about eight ministry officials and top executives at Iraq's state-controlled petroleum-related companies. Thamir Abbas Ghadhban, the ministry's director general of planning before the war, has emerged as the leading coordinator for the group, though other officials said they haven't chosen any person to represent them.

"We are reorganizing ourselves," said Kahtan Al-Anbaki, the director general of the state-run oil-equipment company, as he left the oil ministry, which is guarded by U.S. Army soldiers. "We don't need to elect someone. We are all senior and understand each other."

Other senior bureaucrats meeting regularly at the ministry include Faleh Al-Khait, director general for technical issues at the oil ministry, and Faleh Al-Athari, head of Iraq's powerful oil-marketing arm, the State Oil Marketing Organization, or SOMO.

Working without phones and electricity at the largely intact oil ministry complex in Baghdad, Mr. Ghadhban said the group's priority was restarting oil production, transportation and refining operations in order to supply fuel to power plants across the country and provide gasoline for transportation. He said the team has restarted Baghdad's Daurha refinery, which is running at about half its capacity of 100,000 barrels a day.

IRAQI OIL WATCH

BY KENT MOORS

Field Conditions

Preliminary indications point to Iraqi crude oil production capabilities emerging largely unaffected from the military activities. Sources in the US military command stated on April 21 that crude oil pumping from the northern fields around Kirkuk could begin in a few weeks. That evaluation was also the view of Faraidoun Abdul Kader, temporary Kirkuk regional governor, who called on April 17 for all oil workers in Kirkuk area fields to return to work. Facilities have suffered only minor damage and the U.S. Army engineers have concluded both the domestic storage tanks and those at the main Iraqi export terminal in Ceyhan, Turkey are full.

Meanwhile, a British review of the southern fields outside Basra is also encouraging. Completed in stages between April 10 and 17 and evaluated by BP technical personnel both in London and on Cyprus, the report reveals limited damage to production field pipeline feeding networks and support facilities, little if any impact on overall E&P from the wellhead fires now extinguished, but with a restrained drop in well pressure at several locations. One source at BP told us "it appears that the field infrastructure is intact and extractions could be resumed without significant interruption." Concerns over dropping pressure and possible attendant reservoir damage remain, since the longer the fields lay idle, the more likely longer-term damage can be done to the deposit formations. To date, however, there are no test results confirming any significant or widespread structural alteration of deposit reservoirs.

Sector analysts note that these findings are a welcome relief from concerns over field destructions similar to those witnessed in 1991 Kuwait. On March 5, the official Iranian government news agency IRNA announced that Baghdad had begun mass destructions of oil fields in advance of the US military arrival. According to the Iranian report, aircraft had been used

to bomb some 2,500 wells in the south of Iraq. One day after that press release, Russian sources dismissed the report as fabrication. Nevertheless, fears had persisted that field facilities surrounding Basra had been sabotaged or set for later detonation.

Pipelines and Terminals

Some damage to the pipeline network has taken place, but neither main export crude oil trunk line has been affected. Currently under the United Nations (UN) sanctions, all authorized Iraqi exports in the "oil-for-food" program travel by one of two pipeline routes—a 987 km route from Kirkuk and a second 890 km line from Basra. Both end up at the port of Ceyhan in southeastern Turkey. That port also just happens to be the delivery point for the US-sponsored 1,740 km long Baku-Tbilisi-Ceyhan (BTC) trunk pipeline designed to carry Caspian Basin crude oil beginning in 2005. Ceyhan is rapidly becoming a major focus of global oil transport. The combination of Caspian crude oil traffic and any resumption of larger Iraqi exports following the easing of UN sanctions, means significant expansion, service and provisioning contracts will be forthcoming. Ceyhan's current storage capacity of 75 mln tons is inadequate. The BTC traffic alone will add an additional 350 to 400 tankers annually to the port and some 60 mln tons yearly by 2008. A new BTC storage and export terminal is set for groundbreaking in December with operations to begin by February of 2005. The facility will be located adjacent to the existing Iraq-Turkey Pipeline Marine Export Terminal, operated by the Turkish pipeline company BOTAS and built in the 1970s.

One interesting other development is emerging on the Iraqi pipeline front. Washington sources confirmed on April 22 that the US and Israel are exploring the possibility of reopening an old crude oil pipeline connecting Mosul in Iraq with the Israeli port of Haifa. The pipeline was built by the British in the 1930s but has not been used since the Arab-Israeli conflict of 1948 caused the crude to be diverted to refineries in Syria.

The Political Dimensions

Any resumption of Iraqi oil exports in any volume, however, must await the resolution of four separate

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Kent Moors is CEO of The ASIDA Group, an international advisory consortium that specializes in Russian, CIS and Caspian emerging markets strategies. His a former consultant to the U.S. State Department, the Russian Central Bank and Standard & Poor's, and a recognized international expert in hydrocarbon financial and project development strategies.

Energy Sector

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international political disputes. First, the UN sanctions still exist and can only be changed by a Security Council decision. Washington has indicated it favors the phasing-out of those sanctions, rather than a single vote to abolish them. The approach is intended to avoid another diplomatic contest with veto-holding France and Russia, both of whom would certainly reject any attempt to open up Iraqi full exports while the fields remain under the control of the US military.

France's proposal on April 22 to end economic sanctions caught Washington by surprise, but US officials hasten to note the French proposal says nothing about increasing crude oil exports. Moscow, however, has another caveat to introduce. A source in the Russian Foreign Ministry confirmed to us on April 21 that Moscow will insist that the Security Council authorize UN weapons inspectors return to Iraq and complete their job before any consideration is made on ending the economic sanctions.

Paris Club Deliberations

Second, even a resumption of the UN mandated level of exports is now being opposed. Those exports have averaged about 205,000 tons a day for the past several years, out of an overall daily production of around 317,000 tons. But erstwhile US ally Saudi Arabia and less than friendly Iran issued a joint communiqué on April 21 insisting that no oil field activities in Iraq commence while the territory is under the occupational control of the US military. Both nations are demanding that a new civilian government be in place in Baghdad before any work is resumed at Iraqi fields.

Third, the Paris Club began deliberations on April 22 over whether to cancel or reschedule Iraqi external sovereign debt. Some adjustments are anticipated, with a write-off equaling as much as 50% of the total likely, but the immediate problem is trying to figure out how much Baghdad actually owes. Estimates for principle, interest and penalties range from \$60 bln to more than \$125 bln. And that does not figure in war reparations which are certainly to be insisted upon by Kuwait (for the 1991 invasion) and Iran (for the 1982-1988 border war), or an already demanded \$199 bln total in damages from more than a dozen nations.

A proposal by the US, announced on April 18 and designed for presentation to the G8 meeting in June, to forgive most of Iran's external debt has had little support. France, Russia, Austria and Poland on April 21 insisted that Iraq should pay the debt owed, while

Hungary said it would only accept its debt payments (about \$152 mln) in cash. Russia alone is owed as much as \$8 bln.

The most likely compromise, suggested by Poland (deputy labor and economy minister Jacek Piechota on April 15), Austria (Minister of Finance Karl-Heinz Grasser, also on April 15) and Russia (Finance Minister Alexei Kudrin on April 20) is to have whatever debt agreed upon paid back primarily either in oil or from oil sale proceeds. But to put this option in perspective, if the rather low figure of \$100 bln were ultimately agreed upon as the overall debt/reparations to be repaid, and the UN sanction levels of oil exports were retained, utilizing all of the export proceeds for debt repayment would still require a 30 year re-payment period. The oil proceeds are supposed to be fueling an Iraqi domestic recovery. The funds cannot serve two masters.

Russian Interests in Iraq

Finally, US policy toward Russian field development interests in Iraq is again creating problems in Moscow. Richard Perle, senior advisor to US Secretary of Defense Donald Rumsfeld, stated in an April 21 interview running in the Russian business newspaper *Kommersant* that Russia was likely to lose rights to Iraqi oil contracts signed under the Saddam Hussein regime. That brought an angry response from several Russian officials. Moscow is still smarting from a pre-war Iraqi decision to cancel LUKOIL's \$3.7 bln West Qurna field development project, a decision which has been energetically challenged by Moscow.

Three other Russian hydrocarbon companies also have contracts in jeopardy—natural gas giant Gazprom's construction unit Stroitransgaz (block 4 of the Western Desert fields); Slavneft (purchased last December by Russian oil companies Sidanko and Tyumen Oil Co, better known as TNK, for the Lutheis oil field adjoining existing deposits outside Basra in the south), and the obscure company Soyuzneftegaz (for the Rafidayn oil field, also in the south), run by former Russian Energy Minister Yuri Shafranik.

Even a possible negotiating position on this matter suggested by Kudrin on April 21 is itself a political hot potato, this time in the US. Kudrin insisted that Russian companies be involved in the Iraqi reconstruction contracts to be awarded by Washington. The diplomatic leverage which may come from the approach, however, would fly in the face of a recent U.S. House

of Representatives non-binding resolution calling for the removal of any German, French or Russian companies from such contracts, given their governments' oppositions to US military policy in Iraq.

Iraq Says Oil Output Can Top 6M B/D if Sanctions End

BY CHIP CUMMINS

BAGHDAD (Dow Jones)—Iraqi oil officials said they expect to be able to exceed long-term production targets of some 6 million barrels of oil a day in a post-Saddam Hussein regime assuming U.N. sanctions are lifted.

Thamir Gadhban, the director general of planning at the oil ministry, said officials believe Iraq is still on track to produce 6 million b/d within five to six years, as previously announced.

But without the burden of U.N. sanctions, Iraq could produce more than that, he said.

"With a freer hand, and if we can get various help here and there - perhaps we can get help from foreign companies - perhaps it can be more," he said.

Gadhban said Iraq has proven reserves of 115 billion barrels of oil, slightly more than outside analysts project, and another 200 billion barrels of probable reserves.

Gadhban said there are hundreds of promising petroleum structures that have yet to be explored. "Therefore we can put new discoveries into production in a short time."

Gadhban said Iraq's pre-war production capacity was about 3 million b/d.

OPEC Pres: Won't Discuss Incorporating Iraq at Thu Mtg

BY SALLY JONES

VIENNA (Dow Jones) OPEC's President said Wednesday the oil-producer group won't discuss incorporating Iraq into its quota system when it meets Thursday.

Abdullah bin Hamad Al Attiyah said on his arrival in Vienna he hoped the war-torn country would remain part of the Organization of Petroleum Exporting Countries.

He said he hadn't heard anything official from Iraq on whether it planned to send a representative to the meeting.

Al Attiyah wouldn't be drawn on what action he thought the group would take on its output policy: "We'll discuss it tomorrow. We'll discuss all the options."

Al Attiyah, who is also Qatar's oil minister, reiterated there was 2 million b/d or more in oil oversupply, adding that current oil prices are "psychological."

At 1345 GMT, the June Brent contract trading on London's International Petroleum Exchange was down 30 cents at \$25.16.

Oil stocks, he said, had shown a build in the first quarter for only the second time since 1990.

He said it was unlikely OPEC would hold a formal session Thursday, describing the meeting as consultative.

Asked about when Qatar would put forward candidates for the post of OPEC Secretary General, to be relinquished by incumbent Alvaro Silva at the end of this year, he said: "Not at this meeting but we could in June or September."

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