



Highlights of [GAO-07-1107T](#), a testimony to the Subcommittee on the Middle East and South Asia and Subcommittee on International Organizations, Human Rights, and Oversight; Committee on Foreign Affairs, House of Representatives

### Why GAO Did This Study

Rebuilding Iraq’s oil sector is crucial to rebuilding Iraq’s economy. For example, oil export revenues account for over half of Iraq’s gross domestic product and over 90 percent of government revenues.

This testimony addresses (1) the U.S. goals for Iraq’s oil sector and progress in achieving these goals, (2) key challenges the U.S. government faces in helping Iraq restore its oil sector, and (3) efforts to enact and implement hydrocarbon legislation. This statement is based on our May 2007 report and updated data, where appropriate.

### What GAO Recommends

In our May 2007 report, we recommended that the Secretary of State, in conjunction with international donors, work with Iraqi ministries to develop an integrated energy strategy, expedite efforts to establish an effective oil metering system, and enact and implement fair and equitable hydrocarbon legislation. State commented that the Iraqi government, not the U.S. government, is responsible for taking action on GAO’s recommendations. GAO believes that these recommendations are still valid given the billions made available to date and the U.S. government’s influence in Iraq.

[www.gao.gov/cgi-bin/getrpt?GAO-07-1107T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-1107T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph A. Christoff at (202) 512-8979 or [christoffj@gao.gov](mailto:christoffj@gao.gov).

## REBUILDING IRAQ

# Serious Challenges Impair Efforts to Restore Iraq’s Oil Sector and Enact Hydrocarbon Legislation

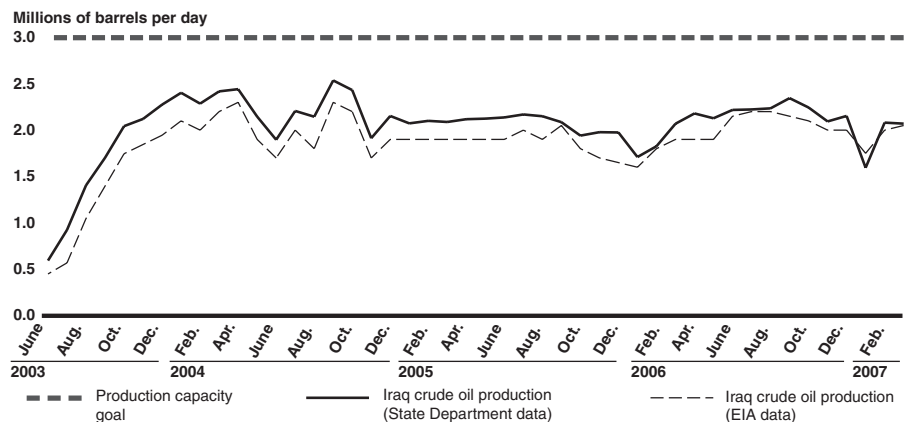
### What GAO Found

Despite 4 years of effort and \$2.7 billion in U.S. reconstruction funds, Iraqi oil output has consistently fallen below U.S. program goals. In addition, the State Department’s data on Iraq’s oil production may be overstated since data from the U.S. Department of Energy show lower production levels—between 100,000 and 300,000 barrels less per day. Inadequate metering, re-injection, corruption, theft, and sabotage account for the discrepancy, which amounts to about \$1.8 to \$5.5 billion per year. Comprehensive metering of Iraq’s oil production has been a long-standing problem and continuing need.

Poor security, corruption, and funding constraints continue to impede reconstruction of Iraq’s oil sector. The deteriorating security environment places workers and infrastructure at risk while protection efforts have been insufficient. Widespread corruption and smuggling reduce oil revenues. Moreover, Iraq’s needs are significant and future funding for the oil sector is uncertain as nearly 80 percent of U.S. funds for the oil sector have been spent. Iraq’s contribution has been minimal with the government spending less than 3 percent of the \$3.5 billion it approved for oil reconstruction projects in 2006.

Iraq has yet to enact and implement hydrocarbon legislation that defines the distribution of oil revenues and the rights of foreign investors. Until this legislation is enacted and implemented, it will be difficult for Iraq to attract the billions of dollars in foreign investment it needs to modernize the sector. As of July 13, 2007, Iraq’s cabinet has approved only one of four separate but interrelated pieces of legislation—a framework that establishes the structure, management, and oversight. Another part is in draft and two others are not yet drafted. Poor security, corruption, and the lack of national unity will likely impede the implementation of this legislation.

Comparison of State and Energy Department Data on Iraq’s Crude Oil Production



Source: GAO analysis of Iraq Ministry of Oil data collected by the State Department and U.S. Energy Information Administration data.