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Presenter: Dan Senor, Senior Adviser to the CPA

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CPA Briefs on Iraqi Currency Exchange

MR. SENOR: Good afternoon. I'm Dan Senor, senior adviser to Ambassador Bremer and the Coalition Provisional Authority. I'll also introduce Tony Fratto, who's with the Department of Treasury. Both of us will be available to answer any additional questions you have afterwards.

Q Can you spell it --

MR. SENOR: Dan Senor -- D-A-N S-E-N-O-R.

Q And you're senior adviser --

MR. SENOR: Senior adviser to the Coalition Provisional Authority.

Q All right.

MR. SENOR: And Tony Fratto. F-R--

Q F-R -- ?

MR. FRATTO: F-R-A-T-T-O.

Q With -- with the Treasury? Oh, yeah, sorry. With the Treasury Department?

MR. FRATTO: I'll take your questions after. Yeah, Treasury. Treasury spokesman is fine.

Q Thank you.

MR. SENOR: And then up here we have General Hugh Tant.

Hugh, you want to raise your hand?

Here we go. A little delay.

Q H-U -- ?

MR. SENOR: H-U-G-H. Tant, T-A-N-T. He's the director of the Iraqi Currency Exchange for the coalition. And joining General Tant are two of his advisers, Mr. Simon Gray --

Simon, raise your hand, please, so they know who -- there you are.

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-- who is from the Bank of England, who is working on this with us as well.

Q Is that A-Y or E-Y, please?

MR. SENOR: Ah, A-Y.

Q Thank you.

MR. SENOR: And Mr. Jacob Nell, N-E-L-L, who, process of elimination, is the third one -- (laughter) -- from the U.K. Treasury.

As you know, today the new Iraqi dinar has been put into circulation. The three-month exchange process began today. It is a one-for-one exchange for the old dinar versus the new dinar. I'll get -- I'll let the gentlemen from Baghdad get into details about how the Kurdish currency is being transferred -- exchanged.

This is Iraq's first new -- first national currency in the last, I presume, 15-plus years. It is symbolic of a unified economy. It is currency that is much more user-friendly, many more denominations. It has much-improved anti-counterfeit measures which we believe will give the Iraqi people increased confidence in their currency. It, as I said, is one currency for the entire country, versus two regional currencies which have existed up till now. And finally, but not least importantly, Saddam's image, his face is no longer appearing on the dinar, symbolic recognition of Saddam -- that Saddam Hussein is gone, as are all the horrors that he wreaked upon his country.

The central bank has taken the lead on the exchange program. General Tant's office advises and assists the Iraqi Central Bank. And like all the reconstruction projects we do in Iraq, we've been working hand in hand with Iraqi officials.

The logistical challenge involved with this currency exchange is enormous. Something -- some \$3 billion, the equivalent of \$3 billion in U.S. cash has been brought in, over 25 747 aircraft flights to bring in the currency, distributed to over 250 exchange sites across the country. We've trained some 750 Iraqi personnel to work the exchange sites. The amount of cash is -- I read one number recently -- something like over 2,200 tons of bills. It's an enormous challenge. It is something that we believe is another sign that the reconstruction is on track. It is another step toward major progress. Launching a new currency is something that took, in post-World War II Germany, three years before it was launched. And here we are, just last week having celebrated the six-month anniversary since the fall of the regime, and we're launching a new currency.

And with that, I will turn it over to our gentlemen. I think General Tant is going to start off with a statement, and I'm not sure about the others. And then we'll be happy to take your questions.

GEN. TANT: My name is Hugh Tant, and I'd like to say in the Iraqi language, "as-salaam aleikum" and happy dinar day.

Good afternoon, ladies and gentlemen. I'd like to start with an opening statement that gives an overview of the Iraqi currency exchange program, and then answer any questions that you have on that topic. I'll have to rely on someone on your location to keep the questions coming in an orderly manner, but would really appreciate it if you would identify yourself and your media organization before you start your question. That will help me and my colleagues in case we have to research an answer and get back to you.

The Central Bank of Iraq has taken an important step toward securing the economic future of the new Iraq by introducing a new currency today. Iraq needs a single, stable and secure currency which is convenient to use. Iraq has been divided by two currencies, the Iraqi print dinar -- that's the one that has Saddam's face on it -- which circulates in the central and southern parts of the country; and the pre-1990 Swiss dinar, which circulates in the north. Introducing a single currency is a key step towards the

integration of the two parts of the country into a single nation.

A stable currency is the underpinning of sustainable economic growth. Under Saddam, Iraq suffered from inflationary financing of the government which fueled hyperinflation. The new currency, backed by the ban on inflationary financing of the government, draws a line under the past.

A nation's currency also needs to be protected against counterfeiting. This is a widespread concern that the current print dinar, printed on cheap paper with archaic technology, is easy to counterfeit. A huge amount of effort goes into obtaining notes which are seen as more secure. For instance, from April to September, the 10,000-dinar note traded at a 25 percent discount to the 250-dinar note. The new dinar note features up-to-date security measures on high quality paper, which will make it a durable, secure currency that inspires confidence; plus the dinar is currently an inconvenient currency with too few denominations. Iraqi consumers have to make do with two basic denominations, the 250 denomination, which is worth about 10 cents in the United States, straight to the 10,000-dinar note, which is worth about five U.S. dollars. And all of this makes getting change time-consuming, and carrying money a great burden.

The new range of denominations -- 50, 250, 1,000, 5,000, 10,000 and 25,000 -- will make the new Iraqi dinar a more practical and useful currency. In addition, the bad guy's face will be removed from the country's currency and replaced with scenes that remind the world of Iraq's important scientific, cultural and historical contributions.

The current print dinars will be exchanged at a one-for-one rate with the new Iraqi dinars. This rate was reflected in an effort to make the exchange as smooth as possible and protect the Iraqi people from being confused and defrauded by unscrupulous people seeking to take advantage of the situation. The older, pre-1990 currency, known as the Swiss dinar, will be exchanged at a rate of one Swiss dinar to 150 new dinars. This exchange rate reflects the difference in buying power for an average basket of goods in the northern, Kurdish region that continued to use the Swiss dinar after 1990, and the rest of the country, which moved to the print dinar.

The exchange period will run through January the 15th, 2004. And we'll use approximately 250 sites located throughout Iraq. Most of these exchange sites are banking institutions. There will also be a mobile exchange capability for isolated areas. to take care of people like the Bedouins.

Typically, it takes a couple years from deciding to introduce a new currency to actual implementation. In Iraq, the new currency is being introduced just three months after Ambassador Bremer announced the decision on July the 7th.

The exchange is a major logistical operation involving, among the elements, printing in six countries -- Sri Lanka, Kenya, Spain, the U.K., Malta and Germany; flying the 2,200 tons of new currency in 747s into Baghdad; three distribution hubs throughout the country; a battalion of Fijian soldiers to move the new currency to the banks and pick up the old currency; a fleet of Russian aircraft to move the currency in country; over 100 convoys that have delivered over 700 tons of currency around the country to date; over 10,000 bank staff and thousands of Iraqi police and bank guards providing security; a destruction site, where the verified notes are incinerated at a rate of up to 500 50-kilo sacks a day -- that's about 25 tons per day -- an information campaign that has distributed thousand of posters, millions of handbills, and a road show that has been to every region of the country; a major training and support program, which has trained 900 Iraqi bankers and provided counting machines, generators, ultraviolet lights and information packs to support the exchange locations.

As a result of this operation and the hard work of the Central Bank, I am pleased to announce that over 230 banks opened for the exchange today. Early reports from across the country indicate the first day of the currency exchange was a great success. And it was conducted in an orderly manner, without major incidents.

Earlier today, at the Baghdad airport, Secretary Evans; Dr. Shabibi, the governor of the Central

Bank of Iraq; Ambassador Bremer and I marked the start of the exchange with a tour of the Central Bank site.

The new Iraqi dinar will provide a firm foundation for Iraq's future economic development -- a single, secure and stable dinar.

Please feel free to ask me and my colleagues any questions that you have about the currency exchange. Thank you.

Q General, Charlie Aldinger with Reuters. Can you hear me?

GEN. TANT: I can hear you. Yes, sir.

Q Might we ask your full name, sir, before we start?

GEN. TANT: Yes. My full name is Hugh, H-U-G-H, Banks, B-A-N-K- S, Tant, T-A-N-T, III.

Q Sir, what's going to be done with the billions of dollars in counterfeit dinars that you've come across? They're just going to be -- I assume no exchange will be given for that. Will they just be taken up and destroyed?

GEN. TANT: Absolutely. Counterfeit is illegal in this country, just like it is in the United States and other countries. And when it is turned in at the banks, no credit will be given for that currency, and it will be destroyed.

If someone questions the banker's decision that it's counterfeit, they will be shown in different ways that it is counterfeit. They have ultraviolet lights in the banks. They also have Secret Service brochures that show what a counterfeit bill looks like under the ultraviolet light. They also have the bank manager, who can study the currency and determine that it is valid or invalid. If it's considered invalid and the customer still does not want to accept that, then they have the ability to call the Central Bank of Iraq and have someone come and attest to the validity of the currency.

Q Well, just a brief follow-up sir. Is there any indication at all how much money is in -- counterfeit money is in circulation?

GEN. TANT: Sir, before I left Washington, D.C., I spoke with the Secret Service, and they told me that approximately two notes per 1,000 was expected to be counterfeit.

Q General, this is Pam Hess with United Press International. On the counterfeit issue, just explain the philosophy behind making someone who is really an innocent victim of counterfeiting pay the price for it. See, you might have people whose whole life savings could be, theoretically, up in smoke because you all won't exchange that money. And how do you intend to deal with that problem?

And could you also explain -- is this a -- is it a voluntary exchange, or is there some point at which you're going to cut off acceptance of the Saddam notes, that people's confidence in the new notes will be such that they'll come in on their own?

GEN. TANT: Right. As I mentioned earlier, on the counterfeit side, counterfeit is illegal, and no credit will be given for it.

As far as the exchange, it's going to run from 15 October to 15 January. And we have publicized to the people, through the multimedia, that they don't have to rush to the bank; there will be plenty enough money to go around. They don't have to all show up on the first day or the second day. They have 90 days, basically, to do the currency conversion. But it has been clearly publicized that the 15th of January is the end date. And so they need to do their conversion.

Now, another alternative would be if they had -- and a lot of people took advantage of this, by

the way -- that they could have money placed in their account and it would be automatically converted for them; they wouldn't even have to show up at the bank.

And so, I hope that answers your question.

Q Not quite. It's Pam Hess again. There is a tremendous private economy, especially in Baghdad; private money-changers on the street, kids selling sodas, people -- you can, for some reason, buy tissues everywhere. What's to say that people are going to change their money? Even if you stop exchanging it January 15th, what's the impetus for them to change the money? Because presumably, they'll continue -- many people will continue to use the Saddam notes, even after January 15th. What will stop them from using them?

GEN. TANT: Well, they would be using worthless money, and that wouldn't make a whole lot of sense to me. Would it to you?

Q No, sir. Money is worth what people believe it's worth. And if they continue to exchange it -- if they continue to use the Saddam notes amongst themselves, then you haven't exactly changed the money.

This isn't a criticism, I'm just wondering how you work it out so that the money actually gets changed.

GEN. TANT: Well, I have to tell you, you know, we're taking every effort to inform the people through a very aggressive campaign that has been going on for some time, through handbills, posters, the newspapers, radio announcements. And also, we are putting brochures in the food baskets, and about 95 percent of the population participate in the food basket program. And the food baskets, on 1 November, will contain these brochures as another measure to get the word out so that people can take advantage of this period of time from the 15th of October through the 15th of January to get their money exchanged.

And I would now like to turn it over to Jacob Nell, who I believe can contribute to this answer.

MR. NELL: Just to add that general experience in currency exchanges around the world is that most of the exchange takes place in the first couple of weeks. And although three months has been allowed in Afghanistan and in the euro area, most of the cash had exchanged within the first week.

And secondly, I think there is a demand for the new print dinar because of the problems -- for the new Iraqi dinar because of the problems with the print dinar. It's widely suspected of being insecure, and it's not been stable in the past. And people wanted a new currency. And we had orderly exchange taking place across the country today. And the Swiss dinar is very old and falling apart. And people want to get their hands on the new currency.

Q Gentlemen, my name is Tom Squitieri with USA Today. Jacob just touched on what I was going to ask, but I'd like to ask in a different manner. What experiences, if any, did you -- were able to use and apply based on the conversions to the euro and, more recently, to -- in Afghanistan? And in Afghanistan, as you all may know, addressing Pam's point, there were some concerns that people, even despite a very intense, widespread publicity campaign, that some people who live in the mountains and such who come into the villages once a year wouldn't get the message in time. And you mentioned, General, the Bedouins would be too mobile. So if you could give me a little more detail on that. So, what lessons did you apply, if any, from the last two conversions, and more on the Bedouins, please. Thank you.

GEN. TANT: Well, absolutely. If we receive word from any means -- and you know the military is positioned throughout the country, and we have governance throughout the country that the people go and talk to. And let's say through the Food Basket program, since 95 percent of the people participate in that program, and they read this brochure, and they're way out in the desert. And they say,

well, we need to participate and exchange our dinar, then, when the word is funneled to us -- and we're very sensitive about this -- is that we will go out and meet with the leaders of those Bedouin tribes and determine a good location and a time, and then we will send the mobile exchange teams out there to serve that population, that part of the population.

MR. NELL: On Afghanistan, we looked very carefully at the lessons from that exchange. But there's a dysanalogy, really, because Iraq has a banking system. And I think Afghanistan outside Kabul, you didn't, really. And they only used 50 exchange sites in the currency exchange there. We're using about 250. However, some of the ways in which we designed the program -- dying the old notes at the banks to prevent re-circulation, some of the ways in which we designed the forms on some of the equipment that we used, was based upon experience from the Afghan currency exchange.

Q Hi, sir. This is Donna Miles (sp) from the American Forces Press Service. You said that most of the exchanges tend to take place early on in the exchange period. Do you have a sense, first day exchange, how many dinars were exchanged, how many people went to these different sites today?

GEN. TANT: Right. We don't have a tabulation on exactly how much was exchanged today. We do have reports that the exchanges were widely used by the population. And it will take some time to get those reports in to us so that we can determine exactly how much, but those reports are very important to us because we'll use that in the replenishment process when we go back to the banks and replenish their monies.

Q Paul Courson with CNN. Thanks for having the briefing.

One question is whether you've alerted any of the military tactical teams to be on the lookout for large amounts of cash that will be unearthed in the dinar denominations, where we had reports earlier that they were paying potential attackers against U.S. troops over there. Do you think -- and I'm talking about more than just shaking out the mattresses. We're talking large volumes of cash that will suddenly become unearthed as part of this exchange so that they can continue this underground funding, if you will.

GEN. TANT: Well, we've trained nearly 1,000 bankers, or over 900 bankers, and in that training there was a block of instruction for the handling of suspicious amounts of money. And also, we have recommended that any amounts of money turned in over 5 million dinar, which is equivalent of 2,500 U.S. dollars, that a report be rendered, you know, indicating the person who turned it in and their identification number and information about them personally. It is required for anybody turning in over \$25 million, it's absolutely required that it's reported. Also, the banks are heavily guarded by the Iraqi police and bank guards, and if a bank manager felt somebody was doing some criminal-type transaction, then they would have the police at their immediate disposal to handle the situation.

MR. NELL: I wonder if we could add on this point that we are essentially knocking on an open door, in that first, Iraq in the old regime did have a system for reporting suspicious transactions or possibly criminal transactions, so bank managers and the police are familiar with this type of reporting. And it's pretty clear that most bank managers and bank staff are more than willing to report people who they think might be trying to launder money belonging to the previous regime.

Q General, Charlie Aldinger again with Reuters. What is this money backed by, sir? I mean, U.S. dollars are backed with gold bullion, aren't they? Is there gold in a bank somewhere supporting it? What gives it value, I guess I'm asking.

GEN. TANT: Absolutely, that's a very good question. And it's backed by international currencies and government securities, just like the U.S. currency.

And I'll ask Simon if he would like to add anything to that.

MR. GRAY: I think you've given the answer there, General Tant. The dinar, as you say, just like the U.S. dollar and the British pound and the euro, is backed by a mix of government securities, other

loans to banks, foreign currencies and gold. The Central Bank of Iraq has all of those.

MR. SENOR: Anyone else?

Tony, why don't you -- are we -- anyone else?

Q I assume he's a retired general, isn't he? And what branch --

MR. SENOR: General, what rank are you?

Q What service?

MR. SENOR: Why don't you -- what service, what rank. Can you give them -- they're interested in who you are. (Laughter.)

Q I assume he's retired. I assume -- are you retired, sir?

GEN. TANT: I am retired. My last five and a half years, I served at the Pentagon and managed \$44 billion of the U.S. Army's budget, and briefed the Hill and staffers approximately 120 times. And now I'm a banker at Southcoast Community Bank in Mount Pleasant, South Carolina, and that is considered one of the fastest growing businesses in South Carolina. And very proud of that. And I was very proud to be able to contribute to this operation. I'm married. I've been married almost 30 years to Kristine Lee Tant (sp), and I have twin daughters, Ann (sp) and Elizabeth (sp). Ann is a pharmaceutical sales rep in the Arlington area with GlaxoSmithKline. And my daughter Elizabeth (sp) is a West Point graduate, married to a West Point graduate. They serve their country. And now my daughter is trying to put her husband, Jeff Angerman (sp), through law school, where he's number two in his class.

MR. SENOR: Yeah, General, what rank, lieutenant general or full -- what rank are you?

Q Were you.

MR. SENOR: Were you?

GEN. TANT: I was a brigadier general. That's a one-star.

MR. SENOR: Anything else? Grandchildren, aunts, uncles -- anything? (Laughter.)

GEN. TANT: I served in the first Persian Gulf War with the 101st Airborne Division Air Assault. And I commanded the base camp where we had our 18,000 soldiers to prevent any type of attack like a Beirut- type terrorist attack.

Q Thank you.

MR. SENOR: Thank you, General.

Q Thank you very much.

MR. SENOR: Why don't you come up. And if you guys have any follow-up, Tony Fratto from Treasury I think may be able to shed some light.

Did you get your question --

MR. FRATTO: Should we let these guys go to bed?

MR. SENOR: Yeah. You guys -- and by the way, thank you for staying up so late. We recognize -- having been on the other end, I know how you feel. So thank you very much.

GEN. TANT: We thank you, too. Thank you for having us.

MR. SENOR: See you in Baghdad.

Q What's the impetus for exchanging money instead of just ignoring the money exchanged? Is it -- what is that?

MR. FRATTO: I'm sorry? The economic argument for it?

Q Yeah. If I'm Joe on the street and I just, "Oh, I like my Saddam notes, I'm going to keep these. People keep allowing me to buy cokes on the street."

MR. FRATTO: And Jacob -- I think it was Jacob who sort of answered that question. I mean, the thing about paper money is it wears out. It doesn't last forever. So a couple reasons. Number one, the whole idea behind money is that it's liquid and it's accepted in a lot of places. You can spend it. And if it's not the official currency, it's not going to be accepted in banks and other official places, its value really diminishes a great deal.

Q So the answer is, what will keep there from being now two currencies, the old and the new, is the fact that official places, like banks, will not accept the old after January 15th.

MR. FRATTO: That's right. And then fewer and fewer people will begin to accept it, also. A business, even if it's, you know, sort of an off-the -- you know, a non-official business, you know, a street vendor, even they will begin to give you less and less for that currency if it's not accepted as an official currency.

And then, you know, the U.S. dollar -- the one-dollar bill has a life of about 18 months. The Saddam dinars were printed on really inferior paper, so you can imagine that their shelf life is even less.

What was really unique was actually the Kurds in the north, who maintained that old dinar for a very long time, almost 10 years --

MR. SENOR: Without any replenishment.

MR. FRATTO: -- without any replenishment, which actually gave them a very stable monetary policy up there. They had no inflation because they only had a limited supply of money. But they all knew that, you know, so they took very good care of their money. And even then, it ended up being very flimsy. But they took care of their money because they knew that they couldn't replenish it in any way or trade it in in any way.

Q What do you think will happen to the money changers on the street? Do you think that business will go away with the new -- the ones who are changing from U.S. dollars back and forth.

MR. FRATTO: I doubt it. I mean, it should still be a fairly thriving business. I mean, the U.S. dollars will still find their way into a country like Iraq, just like they do in lots of other especially oil economies, you're going to find dollars, and even euros, as well.

Q Tony, on the exchange rate, the old dinar was worth -- a 10,000 dollar (sic) note was worth about five bucks. What's the new one worth, just to --

MR. FRATTO: The same.

Q It's worth -- and will that be floating, or somehow --

MR. FRATTO: It's -- yeah, it floats. It floats on the -- it floats on the street. There is no --

Q So in other words, if the oil comes on line, the value may go up, or if it's slow to come on, it may -- could it slip as well?

MR. FRATTO: Yeah. Just like any other floating economy, it'll depend on the, you know, the relative strength of that economy and whether the country is running a sound -- you know, running sound fiscal and monetary policy. And it was one of the great -- you can't run -- you can't run a monetary policy without knowing what the money supply is, for example. That's one of the great -- just from an economic benefit, for the first time, Iraqi -- you know, the Finance Ministry and budget officials will actually know what the money supply is, you know, so you can run an effective monetary policy now because you know what M1 and M2 is out there, you know how much money is in the economy, and you know what the impact, then, is on prices and the exchange rate, and --

Q And now they'll know that.

MR. FRATTO: Exactly.

Q Thank you.

MR. FRATTO: Thanks.

MR. SENOR: Thank you.

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