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Presenter: Charlie Hess, Director, Iraq Project and Contracting Office

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Special Defense Department Briefing on Iraq Reconstruction Update

[Copies of the slides used in this briefing can be viewed by clicking here.](#)

BRYAN WHITMAN (Pentagon spokesman): Well, good morning, and thank you for joining us. It's a busy day here today. You've had your first briefing already early this morning, and we have another one following this one.

But it's really my pleasure to introduce somebody to you that most of you have seen at least two times before via satellite from Baghdad, but is here in Washington today, Mr. Charlie Hess, who is the director of the Project and Contracting Office in Iraq. And he's here today to give another one of his periodic updates on efforts to date with respect to reconstruction and how that is going.

And so, sir, turn I'll turn it over to you.

MR. HESS: Well, good morning, ladies and gentlemen. It's good to be with you today here in person. It's sometimes difficult for me to sort of get a sensing of what's going on when I'm talking to you from Baghdad because I can't see anything. I can hear the voices, and I don't get a sensing of -- necessarily of the context in which some of the questions are asked.

What I thought I would do today is just sort of make this very informal; walk you through some of the things that have been accomplished over the course of the last several months, and then entertain your questions and provide you some insight, I think, if I can, in terms of what's happening with construction. Because I do think, again, even though the situation is difficult, even though the security environment is not what we'd like it to be, progress is being made on the construction side of our business here.

And so what I would ask you to do -- and I think, Amy, they all have the packages, right?

STAFF: Yes.

MR. HESS: Okay. If I could ask you to sort of refer to the first slide there, which talks about measuring progress in the last 120 days, I think I had an opportunity to talk with you in the November time frame, the 17th of November, from Baghdad, and we were talking about what we were trying to accomplish by the end of the year. And if you just sort of look down this chart in terms of the August time frame, the October time frame, and

the December time frame, I think you'll get a sensing of some of the things that are actually happening, particularly with the amount of monies that have been committed, obligated, and perhaps most importantly, disbursed.

We're now starting to see the results of some of our efforts in terms of construction activities being underway; payment for things that are being accomplished. And so consequently, you'll notice that the disbursement number has increased significantly, from \$721 million in the August time frame to slightly over \$2 billion today. And that rate of increase we expect to see continued over the next ensuing months.

With respect to construction starts, we have achieved the milestone of over a thousand construction starts, which is what we were shooting for. Currently, today, this very morning, at 1,167, this number is increasing at the -- at a fairly significant rate. We're looking at about between 70 and 100 construction starts per week, approximately, if everything goes well. And so by the end of the year I think you'll see somewhere around 1,400 starts, and that's our next milestone.

With respect to the number of Iraqis employed on our PCO projects today, you'll also note that we've seen an increase there, to just over 100,000 in numbers of individuals working on PCO-related construction activities. And I think that's significant news as well. We would expect that number to increase even more, until the -- sometime right around the elections. It'll peak probably this summer, somewhere between 140,000 and 150,000, with respect to individuals working on the PCO programs.

Q That's not cumulative, right? That's -- (off mike) --

MR. HESS: That's a daily -- that's a snapshot -- that's basically a daily -- sort of daily count. In other words -- and again, this is a truly -- you have to understand this is a hard number to validate with some precision. But based upon the numbers that we're getting from our field supervisors and the construction representatives out there, you know, again, we take a snapshot, and we believe that right now you're looking at sort of an average daily number of around 103,000. Okay?

Q So do you have a sense of how much of this \$2 billion has been pumped directly into the Iraqi economy and how much has gone back to U.S. firms?

MR. HESS: I would have to say most of it -- with the exception of some of the perhaps physical equipment and things that might have been purchased back in the U.S., most of this is going into the economy in Iraq. Much of the subcontracts, the prime contracts are being done by Iraqi firms.

Again, the equipment, where it can be procured locally, is being procured locally. For example, if you're talking about concrete, bitumen, asphalt products, all the things associated with roadwork, that's all being procured locally. And so consequently I think it's fair to say a substantial amount of the 2 billion (dollars) disbursed is going into the local economy.

Okay. Any questions on that slide?

Yes, ma'am?

Q And how much of the 2 billion (dollars) goes into paying for security and insurance costs?

MR. HESS: Again, it's very difficult to gauge the precise amount. I would tell you that for many of the small projects, particularly the ones that are done with sort of sole Iraqi proprietorship, like schools and small-scale renovations, the security cost is minimal, in fact. We're not providing a security force. We are only providing security for those projects where we are truly providing sort of an enclave around the facility. So if you

go to like a major generation plant or a water treatment plant, typically at those sites we are providing security.

And again, the security numbers have been running somewhere between 10 to 20 percent of overhead costs. And at this point in time, I think we're actually down some from what we anticipated a short time ago. And I would tell you that's, I think, as a result of us going to this more broader footprint, if you will, in terms of construction projects. Having many more projects in many more places in fact helps us, because obviously the insurgents can't be at all of the projects or aren't at all the projects. And so, consequently, I think the more we have going on, the harder it is for them to actually impact the security.

The one area that they are still pursuing where security is an issue, frankly, is in the convoys, the logistics movements. And what we've done there is -- and I think we may have talked about this the last time -- we've established a regional reconstruction operation center, actually, and regional operation centers, which monitor our convoys, link them in with the military commands, and work with the security firms so that we in fact track and maintain visibility over our convoy movements. And that also helps a great deal in terms of promoting secure operations. And that's worked out to be very successful, and many more firms have expressed interest in being part of that particular process.

Q A grim metric -- I'm sort of off the topic here -- but how many -- I think like six months ago we had a briefing, and it was said about 30 or two dozen U.S. contractors had been killed during the course of doing reconstruction work.

MR. HESS: Yeah.

Q Do you have an update on that?

MR. HESS: I do not have an update on that, but I can find out. It -- again, it -- if you're counting solely expatriates, that's probably one number. If you're counting expatriates plus Iraqi contractors or Iraqi employees working for us, that's another number. But we can try and get you some statistics on that, if you think that's important. Okay?

Q I just want to understand the different categories here. Commitment -- when you say money that's been reserved for specific projects, does that mean you folks have decided that X billion will go toward health care? So that's set aside for health care --

MR. HESS: Yes, that's earmarked. And then what happens is, once you've actually taken some of that money and assigned it to a particular contract and actually made an obligation, which is the term of art -- when it is obligated, that means you have said, "Okay, I am buying the clinic at site X," and it's contracted for, for a specific dollar amount.

Q And you're saying under disbursements that no money is given to the contractor until they actually, you know, hand you the keys?

MR. HESS: There are progress payments made during the course of the project for work that is done satisfactorily. But basically, for the most part, we're looking at the end of the project as being the true time and place that you pay the final bill for disbursement. But there are progress payments being made.

Q So then -- I mean, I guess I can understand the difference between apportioned and disbursements, but why is disbursement still just 2 billion (dollars), even though you've got almost 10 billion (dollars) obligated? I mean, the 10 billion (dollars) is attached to specific projects, like you just said.

MR. HESS: Exactly.

Q So I mean, that still seems like a relatively small number -- the \$2 billion.

MR. HESS: Well, it -- when you think about, again, the work that's --the obligation is for work -- that's also work that could be design work. In much -- in many cases, it is design work. So it's something that's not physically, you know, on-site type activity.

The disbursement we're talking about actually is paying for the work that occurs after the dirt-turning starts. Again, you'll see that number escalate very significantly now here between now and the next several months, just as it has over the course of the last two months. And that is because the physical construction will take place. That will be the real test of -- and the real focus and the real cost of the work is in the construction side, not in the design side.

And so if you have a contract for a hospital -- and let's say it's a \$30 million hospital -- the design cost may be a small percentage of that, like 5 or 6 percent, and you'll pay that as you do the design. That design work will take several months -- many months, maybe, to do -- and then you start actually paying for the construction when the dirt-turning starts.

And so again, while you see that obligation is large, a lot of that is for work and projects that in fact have some long lead times in terms of the design piece. And so your initial expenditures -- the initial disbursement is going to be relatively low. And then ultimately, when the components arrive and when the work is put in place, that's when you'll see a significant increase in the disbursements.

Q And what's your projection of the increase? By when, how much will you see --

MR. HESS: Well again, it depends upon the project. Each project is different. Again, you're talking some very small projects that are accomplished in a matter of weeks and months, and you have some very long lead-time projects that will take, in fact, over the course of 18 months to two years. For example, a very large gas-generation station might take two years to construct, and that would be the construction period plus the long lead-time in getting the turbine generator manufactured, which takes about 15 months or more.

Q But you should have some kind of a projection, like say by March you expect your disbursements to be up -- because it's been such a big deal -- by --

MR. HESS: Well again, what I expect to see is a continuation of this trend that we're seeing here now in terms of a continued increase, a fairly sharp increase in disbursements. I don't know that I can give you an exact number -- and I know that I can't give you an exact number. But again, I would say that within the February, March, April time frame, you will see that disbursement figure again rise significantly. And so my belief is that we are now seeing the results of the actual construction starts that we talked about.

Let me go here first, and then to the back.

Q I don't know whether this may be getting ahead of your briefing, but can you give a sense of how many or what percentage of the new construction starts, and also the employment, is in areas where the insurgency is active, in the Sunni Triangle, basically, as opposed to other parts of the country?

MR. HESS: Sure. Much of the work is, obviously, not in the Sunni Triangle, okay? What we are doing with respect to the Sunni Triangle is we're working with the maneuver commanders -- General Casey and the multinational force -- to go into cities that have been removed from insurgent hands, specifically at a time and place that they say it's acceptable for us to go in there.

We are in -- obviously we're in Samarra and Najaf. In the case of Fallujah, we're not there yet. We are poised to start work there. We actually will be starting projects that we had identified and were prepared to begin prior to Fallujah going into insurgent hands.

The way we do that is normally we are part of a team that's led by the Iraq Reconstruction Management Office. Ambassador Taylor has a group of folks that sit down and work with the maneuver units who are in the area of responsibility. They work with us, PCO, USAID and others and the interim Iraqi government to identify potential needs, what projects are already identified for work in that particular city or town, and then we'll figure out what we need to do in addition to the work that's already identified as being in the portfolio, so to speak.

Q Can you give us something in terms of maybe the amount of money that you expect to invest in those areas?

MR. HESS: Sure. And it varies. In the case of Fallujah, right now I believe that we are looking at approximately \$80 billion -- or \$80 million -- excuse me -- of construction money for PCO projects, and that I think the interim Iraqi government has identified an additional \$50 million that they are going to bring to the table. I know that the commanders have identified CERP money -- Commanders Emergency Response Program money -- and I don't know what the dollar value of that is, but there is a certain amount of money that they've identified for Fallujah. And I know that USAID has also some projects in Fallujah. So amongst that whole pool of projects, that's sort of in the ballpark. It's somewhere above probably \$100 million in total.

Q What about that region, not just Fallujah, but --

MR. HESS: The total? I don't have a number in the entire region.

Q Have you changed your estimates of what needs to happen in Fallujah? I mean, obviously if you had \$80 million identified before the battle, there's a lot more work to be done now.

MR. HESS: Again, our estimates are for the program that we have in hand. There's nothing that we will do to change the program unless the ambassador and others give us policy guidance to do that. We intend to continue on executing the program that we have unless the facilities that we were going to restore or reconstruct don't happen to be there anymore and we have to do something radically different. Based upon our initial assessments, I think most of the work that we had planned to do we will be doing.

MR. WHITMAN: If I could interrupt for just a moment, I don't want to -- (off mike) -- your question, but if there are some things -- because of our limited time, if there are some things that you wanted to get in your presentation, perhaps we can let you finish that, Mr. Hess, and then get back to some of the questions.

MR. HESS: Okay. May I do that? Very quickly. I will do it very quickly so that you can get to your questions.

Financial drill down. I think you've all seen this particular slide previously. Again, what this does is captures the committed, the obligated and the disbursed on a sector-by-sector comparison as we've done in the 2207, bringing you up to date on what the numbers are. And hopefully, that gives you some additional insight in each of the sector areas.

And what I will do is I'm going to continue to move through this so I can get to the end, and that way then you can ask your questions, because I think that's really what you're here for.

On the 1,000 mark in terms of construction projects, again we have said we were at 1,167. I think we're going to be beyond the 1,200 that we've indicated here by the end of the year. Certainly we are making

significant progress in many areas, particularly in terms of schools, border forts, road projects, and others, and the water and sewer projects, which are very important.

And then on the following sheet you have an indication of how that number essentially is broken out by both the Advanced Iraq Reconstruction Program, which was started earlier, just try and kick-start the reconstruction projects; along with the balance, the 814 projects coming right out of the IRRF in terms of the 814 projects totaling 1,167.

Following page. On Iraq employment, you can see some of the trends from April through December. I will say that I think we've seen this increase in the December time frame as a result of the post-Ramadan sort of start of interest in getting back to work. Many people who basically were concerned about what might occur during that period of time essentially have shown up back at the job site. And in fact, given the additional construction starts, I think this is a bit of good news.

As an additional element and topic that you might be interested in, we are really focusing-in now on our capacity-building, capacity-development within the ministries. In fact, tomorrow we'll be meeting with a host of U. S. professional organizations in the D.C. area here to sort of put our arms around what we need to do with respect to capacity-building in the ministries. This will involve basically helping the ministries establish the kinds of infrastructure that they need to become viable in terms of contracting, program management, project management; help them improve their operation and maintenance system, which again, clearly there has been woefully lacking in terms of their infrastructure capacity; along with providing them the asset management databases so that they can manage the facilities that we're providing to them. And that will occur here over the course of the near term, and tomorrow will be our kick-off session.

And then, just finally, measuring progress over the next 120 days, what we intend to focus on. Clearly, what want to do is maintain our operational security measures so that our folks working on these projects, both expatriate and Iraqis, are protected. We will continue to strive to maintain the momentum on our construction starts and pass the 1,400 and 1,500 number that we've got in our sights. I want to get the construction completions moving out smartly as well. Right now we have around 300, I think is the number, in hand, and I want to continue to maintain momentum; not that we just start projects, but that we finish what we're going to start.

I want to continue our efforts to grow a number of Iraqi firms and Iraqi employment associated with our program. And then finally, as I just mentioned, drive to develop that capacity-building that is part of the IRRF program as well. I think with that, you've got some points of contact information, and at this juncture let me go back and start entertaining questions because that's where the focus seems to be.

Let me go here, then go to the back. Yes, ma'am?

Q There are reports that air cargo companies affiliated with a Russian arms dealer by the name of Viktor -- I'm probably mispronouncing it -- Bout, B-o-u-t -- have received a fair amount of business in Iraq despite the fact that he's on a Treasury Department blacklist. Do you know anything about it, first of all? And do you have any mechanisms in place to ensure that that kind of thing doesn't happen?

MR. HESS: Well, in terms of our contracts -- and that certainly does not sound like one, is is not one that I am familiar with at all -- but our contracts, our contracting officers will certainly look at the debarred contract list and at the embargoed contractor list to make sure that we're not dealing with firms that are, in fact, precluded from working with the U.S. government.

Q But you don't have any information about --

MR. HESS: I have no information on this one whatsoever. I mean, if you could give me some more information about what they're doing. Is this a service contract of some sort, I take it?

Q All I know is air cargo.

MR. HESS: I have not heard anything about that. But if you had some details, we can certainly check into it.

Let me go back here. Sir?

Q Last year starting in about early June, mid-June, there was a significant slowdown in construction as contractors locked down their compounds ahead of the election, figuring there would be a spike in violence -- ahead of the hand-over, excuse me. Do you expect a similar slowdown ahead of the elections in January?

MR. HESS: I think it's probably still hard to say at this point in time. I think there is a keen interest on the part of many Iraqis to work. The reality is, if they believe that they can work in a safe manner, that they're not going to be intimidated and they can do it without incurring the visibility from the insurgency so that they become marked as working for coalition activities, I think they will continue to operate and I think they will try and maintain momentum on these projects.

Again, many of the projects, particularly if you look at the border forts and other things like that, are in fairly remote places. And so when we're doing projects like that, the contractors, I think, can get by with doing the work even during the election and pre- election period. My hope is that there will be enough momentum and interest that they will do that. And if we do see a sharp spike in violence and disruptive actions on the part of the insurgents, then I suspect again we'll have to revisit what we do during the course of that time. But at this point in time my sense is that work is going on, more work is going on every day, the number of projects are increasing every day, and so therefore I think that's the good news. And I'm hopeful that that will continue from now and through the election period.

Q Have any of the Western contractors communicated to your office that they might lock down -- (inaudible) -- the election?

MR. HESS: At this point in time, none of the Western contractors have indicated that they will lock down. In fact, the Western contractors that -- particularly the design-builders who are out supervising and working in the field with many of the Iraqi subcontractors, have really indicated that they want to get out to the field -- and when I say the field, out beyond the Baghdad perimeter -- because that, in essence, is a better environment for them to work in. Now, that's not the case everywhere, obviously. You don't want to go to Ramadi or Fallujah. But for the most part, we think, and they think that they can make some inroads in getting work done, and that's clearly the case in the south, I think, and in the Kurdish regions and in other places.

Let me go back here.

Q How widespread is the problem of intimidation of Iraqi workers? And are you managing to attract enough laborers for projects, particularly as these constructions start to move into the more hectic?

MR. HESS: Well, yeah, intimidation is a widespread problem. I'm -- it does happen. Iraqi supervisors and managers of firms have been threatened, their families threatened. And in fact we've had family members killed of some of the firms. And that goes back to the question about the numbers.

I think it's fair to say that the encouraging note there is that even though that is happening, these firms and their employees are still willing to come to work. They still value what the reconstruction is doing for them

and their country. And I think that's the key factor.

Again, and I think I may have mentioned this at our last VTC, but the one trip we had recently made into Kirkuk, where Ambassador Taylor and I went and visited with the local community leaders there, was very compelling in terms of their interest in the reconstruction projects as a mechanism to improve their local community. And we met with, I want to say probably about a dozen or so local leaders, and these were men and women from various ethnic groups -- they were Kurdish, Arab and others -- who clearly were willing to sit around the table at peril to themselves and their families, to come together to talk about what projects were important, how they could improve the projects, you know, what things should be done. I mean, they had some suggestions like, you know, "We really don't need a new water treatment plant, because we think we can fix the old one or improve the old one. But what we really need is some additional distribution in these areas to serve these communities."

And so they were very knowledgeable and cognizant of the projects, what's in the portfolio. And I guess I would tell you that I was very encouraged by their sense of ownership and their sense that these were important things for them and their community to execute. And so again, I haven't seen that everywhere, I'll be candid. But having seen it there gives me great hope that we are on the right track. And I think if we can prevail in the Kirkuk area and other areas, we'll prevail in general.

Let me go to the back there.

MR. WHITMAN: We need to make this one the last one, I'm afraid.

Q You mentioned the problem of intimidation. Have you got figures on the number of these -- when you do these projects, you create targets.

MR. HESS: Right.

Q Have you got figures on the number of these projects that have been subject of attack?

MR. HESS: I would say that in terms of numbers of projects subject to attack, it's probably less than 5 percent. Okay? And that's off the top of my head based upon what I know about the insurgency and what they're looking at.

Q And a related question on the intimidation. When you do construction work, you need a steady workforce.

MR. HESS: Right.

Q But I'm guessing if you've got an intimidation problem that some days 10 people show up for work, maybe the next day a hundred people show up for work. How much is that deterring your effort?

MR. HESS: Well -- and that is a problem. And what we will find is you'll go -- if you have an intimidation incident or you have some type of VBI -- an IED, improvised explosive device, or a VBIED at a particular site, the workforce will stay away for several days, and then it will basically pick back up again. So you'll have some impact for a few days after the event. But again, for the most part, these individuals and Iraqis in general seem to want to work, and when they sense that it's safe again, they will come back to work.

It's not just incidents external to -- you know, in the outlying areas of Iraq, but it's also prevalent in the Green Zone. If you have a incident at one of the checkpoints where people come into the Green Zone to work inside the Green Zone, typically the workforce there will diminish for a few days and then they will come back as

well, after they perceive that it's safe again.

MR. WHITMAN: All right. Well, sir, we thank you.

MR. HESS: Thank you.

MR. WHITMAN: We appreciate your time, and we look forward to having you give us another update in a couple of weeks.

MR. HESS: Okay, thank you very much. Thank you all.

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