



U.S. DEPARTMENT of STATE

U.S. Policy Toward Iraq

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(As prepared)

Chairman Hyde, Ranking Member Lantos, Members of the Committee, I appreciate the opportunity to appear before you today, on a subject which is of great importance to all of us as we seek to help Iraqis establish the foundations of a government, economy, and society that will never again threaten its own people, the security of the region or the world with weapons of mass destruction or unprovoked aggression.

In January, President Bush established the Office of Reconstruction and Humanitarian Assistance (ORHA) under the authority of the Department of Defense to consolidate and prepare to implement the various plans for post-conflict Iraq that we had generated in the interagency process. Our planning efforts did not prejudice the need for military action - in fact, as we worked on humanitarian relief and reconstruction plans for a conflict scenario, we also vigorously pursued the peaceful disarmament of Iraq through diplomatic means. However, we all know now the decision Saddam took to continue his defiance of the international community, and the results of the coalition's successful military action that ended his reign over the Iraqi people. At the President's direction, the Department of State and other executive branch agencies are providing continued support to ORHA and the Defense Department's efforts on the ground in Iraq. We have done so by providing a number of highly qualified individuals, many with experience in the region and much needed language skills.

On February 26, President Bush outlined a vision of a democratic Iraq, and made clear that the United States would accept its responsibilities to help the Iraqi people get back on their feet after decades of Saddam's tyranny: "Rebuilding Iraq will require a sustained commitment from many nations, including our own." The U.S. is committed to supporting the establishment of an Iraq united within its borders, with a government by, for and of the Iraqi people, free from weapons of mass destruction (WMD) and at peace with its neighbors, in which the rule of law and human rights are respected, and where individuals no longer live in fear of the knock of the secret police at the door. We will stay in Iraq as long as necessary to accomplish our goals, but not a day longer.

We know that political freedom will not emerge in a vacuum; it must be supported by a prosperous, vibrant economy that provides opportunities for all Iraqis and ensures that the wealth of the country is never again wasted on weapons of mass destruction, wars of aggression, or the obscene interests of a few. Iraqis need not be told this, for they know it already. At the April 28 meeting of between 250 and 300 Iraqis in Baghdad, organized to foster discussion among Iraqis on their political future, Shi'a cleric Iyad Jamal Al Din said: "Democracy is a package, and a future democratic Iraq must be based on a free press, a free market, respect for human rights, and separation of powers. These things go together; either accept them all or reject them all." The U.S. is committed to assisting Iraqis accept them all. We are not alone in this effort. Other countries are with us on the ground or have otherwise signaled their commitment to working together with us to help Iraqis rebuild and renew their country.

In recent days, with the unearthing of mass graves and the telling of stories long buried by Saddam's regime, we are just beginning to understand the totality of Saddam's political violence. Similarly, I would like to sketch what I think are the full dimensions of the economic disaster Saddam's regime brought upon the Iraqi people. Then, after some thoughts on a couple of core reconstruction goals viewed from 30,000 feet, I will briefly discuss some of our efforts with the international community and on the ground as we help Iraqis make their future a more prosperous and stable one.

Where We Are Today

President Bush initiated military operations against Iraq eight weeks ago to the day. In that relatively short period of time,

a great deal has already been accomplished, not only militarily. In a seven-month interagency planning process for Iraq relief and reconstruction, the Administration worked very hard to ensure that we did not create an artificial distinction between "humanitarian relief" and "reconstruction" efforts. The transition from relief to reconstruction is a misnomer - reconstruction and post-conflict activities began on day one working hand in hand with humanitarian response.

As a result of the planning and execution of a superb military plan, extensive humanitarian contingency planning and the remarkable efforts of numbers of Iraqis, there was remarkably little new damage to Iraq's civilian infrastructure as a result either of coalition military action or the deliberate actions of Saddam's regime on its way out the door.

There is no famine; no shortage of food. Working closely with the World Food Program, the coalition is reestablishing the public distribution system (PDS) throughout Iraq as areas become permissive. The coalition is also using the PDS to deliver needed goods, like liquid propane gas (LPG), and will restart delivery of rations through the system as food arrives and the security situation further stabilizes.

Today, our primary concern remains the establishment of a secure and stable environment, ending the continued looting and the restoration of basic infrastructure. We are providing both military and civilian resources to make this a reality. Ten thousand Iraqi police officers have been put back on the street, and Iraq's Criminal Court resumed legal proceedings last Thursday. A Department of Justice-led international team of senior level criminal justice sector experts is about to begin a program of assistance that will include at the outset a comprehensive assessment of the courts, prosecution, police, and prison systems. The assessment will help a collaborative effort among experts from Iraq, the Departments of Justice and State and other nations to determine the level and kinds of assistance the Iraqi people will need to reconstitute an effective and fair criminal justice system, and to design and implement programs toward that end. We, and the international community, are prepared to send into Iraq as many advisers, technicians, and other specialists as necessary in this endeavor.

Getting Iraqis back to work has also been a key objective. Emergency payments have been approved for over one million Iraqi civil servants to facilitate their return to work, and the coalition has already made those payments to more than 500,000. In the vital oil sector, initial production has been restored by more than 12,000 workers who have returned to work.

There are a number of factors that have been important in achieving our immediate objectives, but I would like to focus briefly on two.

First, as a result of Congressional action on the President's wartime supplemental request, we are quickly providing needed services through contracts. The work done to restore Um Qasr port, including paying local staff, hiring and importing needed equipment, is just one example; but the improvements to the port will be critical in allowing the continuing flow of food and other needed commodities into Iraq. Ambassador Chamberlin will speak in more detail to this and USAID's other extensive activities in support of Iraqi reconstruction.

Second, we must also recognize the important contributions of our coalition partners, international organizations and non-governmental organizations. The U.S. has provided over \$600 million in humanitarian and reconstruction assistance already, including some \$500 million to the United Nations, primarily for the World Food Programme (WFP).

Legacy of Misrule

There is no certain way to predict the total cost of Iraq's reconstruction and, though we expect that Iraq will be able to fund the majority of its reconstruction efforts, there is a clear requirement for international assistance to meet Iraq's urgent, short-term needs. Iraq is a potentially wealthy country, in both human and natural resources, but Saddam's misrule has left a terrible legacy for Iraqis. Under Saddam, the Iraqi economy declined dramatically over the past 25 years. In 1978, Iraq had a per capita Gross Domestic Product (GDP) equivalent to that of New Zealand, and greater than that of Hong Kong and Argentina. In 2002, Iraq's per capita GDP was half that of Argentina, less than a quarter than that of New Zealand, and about one-eighth that of Hong Kong. Over the past 25 years, economies around the world have benefited from innovation and entrepreneurship driven by the market and private sector investments; Iraq's economy has sharply contracted and become ever more repressed by the centralized control of the state. Today, Iraq ranks 54th of 90 developing countries in the UN Human and Income Poverty Index, behind such countries as Jordan (ranks 7th), Lebanon (11th), Turkey (19th) and Libya (27th).

Saddam manipulated the oil-for-food program to make vast numbers of Iraqis completely dependent on the state-run ration distribution system, forcibly evicted thousands from their lands, farms and livelihoods, and destroyed families and businesses. Iraq's agricultural production has plummeted; its vibrant business community consigned to either doing

business on the terms of the regime or going empty-handed; and its oil resources have been underdeveloped, literally held together by makeshift spare parts and the sheer ingenuity of Iraqi technicians. Saddam's rule turned Iraq's schools from honored centers of education into grotesque places of worship to the Ba'ath party and Saddam himself. A whole generation of Iraqis has been denied the skills necessary to compete in a modern world.

President Bush's determination to address the threat posed by Saddam Hussein's defiance of his disarmament obligations has liberated the Iraqi people from a murderous tyrant and created an opportunity for Iraqis to transform their political and economic landscape. Referring to the political and economic task ahead of Iraqis as "reconstruction" is largely inaccurate; a much more accurate description of the road ahead for Iraq is "rehabilitation, renewal and transformation." But to be lasting and successful, it will have to be a transformation led by Iraqis every step of the way.

Making the Transformation Work (And Stick)

Economic reform, like political reform will be a partnership between an emerging Iraqi leadership, the coalition, and international organizations. In this regard, we must set some fundamental goals to guide us as we confront the many difficult decisions ahead. Focusing on the immediate and the here-and-now is of critical importance, but to do so at the expense of the vision the President has outlined for Iraq would be unacceptable. Instilling transparency and accountability into the foundation of future Iraqi decision-making is central to our objective of ensuring that an Iraqi Government never again uses its political or economic power against its own people, to launch wars of aggression, or to develop WMD.

Transparency is at the core of our proposed UN Security Council Resolution that I will discuss later, and it stands in stark contrast to economic life under Saddam. The former Iraqi regime exported oil illegally to finance military and WMD procurements and, as we have discovered, hid the wealth of the nation in \$100 bills in the walls and floors of its palaces. Contracts were riddled with illicit kickbacks to the government and payments to front companies. The regime was so concerned about the ramifications of public awareness of its economic dealings that it made publishing economic data a crime punishable by death.

As security is restored, and an interim Iraqi authority established, we will assist Iraqis in establishing a unified national budget. My colleague at the Treasury Department, John Taylor, has been working hard on this subject, and has a number of Treasury advisers already in Baghdad. Oil sales in this interim period will be audited by independent international accountants, as will the use of oil proceeds. We will explore with Iraqis different mechanisms to publicize information related to the financial transactions of the state. Today we face a challenge in restoring basic communications within Iraq. However, we know that improvements in connectivity can and must develop quickly to facilitate increasing economic activity. Iraq has been largely shut out of the Internet age - as more Iraqis gain access to the Internet, we will explore ways to use technology to expand the public's access to information.

Transparency in Iraq - in all of its governing institutions - is important to the international community, and it is a key factor in attracting private foreign investment. More importantly, however, transparency for Iraqis will build confidence in the emerging political, economic and judicial systems and establish a precedent and expectations from which future Iraqi governments will have difficulty distancing themselves. Without exaggeration, Iraqis have an opportunity to establish a transparent system that is without parallel in the region, and could serve as a model for other countries rich in natural resources.

Another key component of Iraq's transformation will be the establishment of the legal and social framework for a market-based economy. We will not need to teach the Iraqis anything about entrepreneurship. As a report in the Washington Post last week noted, with Saddam's regime out of the way, Iraqis have been quick to establish booming businesses in once-banned goods like satellite dishes. Individuals with satellite telephones have been renting them out by the minute on street corners.

The international community, and particularly the expertise in the international financial institutions, will play an important role in helping Iraqis establish the ground rules for this new economy. After years of a planned, statist economy, we will now help Iraqis plan for the day when their economy is driven by the free choices of families and businesses, not the dictates of a corrupt elite. We have had discussions with officials and others from Central and Eastern European states, who led their economies through similar transitions over the past decade. These leaders and officials have a keen interest in sharing "lessons learned" with Iraqis as they move forward.

Involving experts from other countries that have gone through sweeping economic and political transformations will help underline a key point: economic freedoms and political freedoms are mutually reinforcing. Free markets require individuals to make rational informed choices, to think critically, and to act independently within the rule of law and the

rules of the marketplace. At the same time, unless there is a system of justice, and unless people feel they have a stake in the country and its system, there cannot be a lasting or prosperous free market.

In his speech at the University of South Carolina last week, President Bush outlined an ambitious plan of economic reform in the Middle East, and a commitment to strengthen our economic ties to the region. "By replacing corruption and self-dealing, with free markets and fair laws," the President said, "the people of the Middle East will grow in prosperity and freedom."

Seeking Security Council Action To Lift Sanctions; Engaging the International Community

In the Atlantic Summit Declaration of March 16, President Bush, Prime Minister Blair and Prime Minister Aznar made clear they valued the assistance of the international community in meeting the "solemn obligation to help the Iraqi people build a new Iraq." President Bush subsequently reaffirmed this approach in his meeting at Hillsborough with Prime Minister Blair, where they called for the UN to play a "vital role" in post-Saddam Iraq.

A critical step moving forward is swift Security Council approval of the resolution introduced on May 9 by the United States, the UK, and Spain. Passage of the resolution will demonstrate clearly to Iraqis that the restrictions of the past are behind them, and that the international community will assist their efforts to reclaim their country, not punish them for the crimes of the fallen regime. Saddam treated the Iraqi people as pawns in his decades-long rule of tyranny; the international community must now come together to demonstrate that the needs of the Iraqi people come first as we move to address critical issues in a pragmatic way. Our resolution does just that.

Our proposal is designed to do three things: lift the burden of sanctions from the Iraqi people; define the vital role the UN should play in Iraq; and encourage the international community to play a constructive role in helping to build a free and peaceful Iraq. I would like to quickly sketch our vision and the importance of the first two objectives, and then address in more detail the third, where I have focused considerable energy along with my colleagues from the Departments of Treasury and Defense.

Our resolution lifts the economic sanctions that currently limit the freedom of Iraqis to benefit from participation in the global economy. UN economic sanctions on imports and exports of goods are outdated; they were imposed to contain the threat of a regime that no longer exists. They no longer serve a useful function. In fact, we know that it is the actions of individuals and businesses - operating in a transparent, just, and open system - that will set the course for Iraq's future, and establish the economic environment for a prosperous and optimistic life for all Iraqis. Continued imposition of economic sanctions only hinders Iraq's recovery.

Our resolution also fulfills President Bush's commitment to seek a vital UN role in all aspects of Iraq's reconstruction, through the appointment of a Special Coordinator. The Special Coordinator will coordinate participation by the UN and other international agencies in humanitarian assistance and economic reconstruction, and assist in the development of a representative government. The Coordinator will also support international efforts to contribute to civil administration, to promote legal and judicial reform and human rights, and to help rebuild the civilian police force. There is a tremendous amount of work to be done, and UN expertise will be instrumental. As a practical matter, the Coordinator will serve as a principal point of contact for the UN and UN agencies in working with the Coalition and the Iraqi people.

In addition, our proposal encourages the international community to support Iraq's political and economic transformation. The resolution calls on the UN Special Coordinator and the international community to support the Iraqi people in their effort to establish a representative government based on the rule of law that affords equal rights to the people of Iraq without regard to ethnicity, religion, or gender. It also encourages the international community to support the Iraqi people in building a free, prosperous and secure Iraq, including by responding to UN funding appeals and providing resources for reconstruction and rehabilitation of Iraq's infrastructure. It welcomes the assistance of international financial institutions to the people of Iraq, and mandates the seizure and return of assets stolen by Saddam and his regime to Iraq.

We already are engaged in active consultations with countries around the world, stressing the need for governments, the UN and international financial institutions such as the World Bank and the International Monetary Fund to bring their assets and experience to bear in helping Iraqis rebuild their country. Many hands will be needed to make this effort a success. Although we are still in the initial stages of building this global effort, the response to date is heartening. I and others in the State Department have met with numerous foreign ministers, economic and finance ministers, foreign assistance officials, ambassadors and special representatives to talk about how we can best help the Iraqi people. There is intense interest in an international event to build donor support for Iraq, although we are still early in the process. And there appears to be strong interest in supplying the contributions - financial as well as in kind - that will be needed. A

number of countries have indicated to us the importance of UN Security Council action to facilitate post-conflict contributions beyond immediate humanitarian relief assistance.

Challenges and Opportunities "Down the Road" in Iraq

As the new Iraqi leadership moves forward to build a better future for all the citizens of Iraq, there are a number of areas that pose both important challenges and present real opportunities.

Iraq's abundant natural resources, particularly its oil wealth, were misused by the previous regime as a political and economic tool of regime power, internationally and within Iraq. In addition to using oil income for wars, weapons of mass destruction and their own personal comforts, Saddam and his regime created a sizeable level of debt which will need to be managed. A new Iraqi regime will face the challenge of developing Iraq's abundant natural wealth for the benefit of all Iraqis.

Following the conflict, it has been talented Iraqi technicians, engineers and ministry officials, supported by the Corps of Engineers and U.S. funded contractors, who have quickly restored oil production capability for domestic use and are steadily increasing production. Future management of this sector will be a key factor in the success of the emerging and future Iraqi political and economic leadership.

It is Iraqis that control the day-to-day decisions in the Iraqi oil sector. That is true today, and will be true for the future. The coalition has identified a senior Iraqi oil sector officer, Thamir Abbas Ghadhban, to serve as interim administrator of the oil sector. He will consult closely with both the coalition authorities and an international advisory board, but he and his team will make decisions on production, sale and marketing of oil. During this interim period, the Coalition and the Interim Management Team will not engage in new development or act on development contracts signed under the Saddam regime. Decisions related to future development of the sector, including the establishment of new export routes, will be left for a new Iraqi government, elected by and responsible to all Iraqis.

And oil revenues must return to Iraq. Working with Iraqi officials, we will help establish an Iraqi Assistance Fund in the Central Bank of Iraq. All disbursements will be made with direct Iraqi participation, and the fund will be subject to full transactional transparency by the international advisory board and audited by independent public accountants. Funds in this account will be used to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of indigenous civilian administration, and for other purposes benefiting the people of Iraq.

It is vitally important now that Iraqis be allowed to sell oil and use the proceeds to fund their humanitarian and reconstruction needs. Outdated provisions relating to the sale of oil and restricting the flow of funds to the Iraqi people need to be abolished. In the interim period, transactions related to oil will be audited by independent public accountants, who will report their findings to an international advisory board that will include representatives from the UN, World Bank, and IMF. To ensure that the Iraqi people are not penalized because of Saddam and can receive the benefits of their national patrimony, oil sales should continue to be immunized against attachment by international creditors or others with claims against the former regime.

Another challenge for Iraqis is to transition from the ration distribution system. This system provides all Iraqis a basic food basket every month, but it has decimated local agricultural production and the market for food products. It will take time to convert this centrally controlled economy to a free market. During the transition, we will support food distribution through a public distribution system. We also need to help Iraqis develop a social safety net to help those who are truly needy. But we will work with the emerging Iraqi political and economic leadership to lay the foundation for a system in which the market - not the bureaucrat - determines the prices and supplies of basic commodities.

State Department on the Ground in Iraq

Creating a stable environment means ensuring that Saddam's entire ruling infrastructure and security apparatus is dismantled and disarmed, including irregulars and paramilitary forces, locating and securing WMD, and eliminating any residual terrorist infrastructure. The situation on the ground in Iraq remains highly unstable. We, along with our coalition partners, have created the Coalition Provisional Authority, which includes ORHA, to exercise powers of government temporarily in Iraq, including to provide security, allow the delivery of humanitarian aid, and eliminate WMD.

The President's appointment of Ambassador L. Paul Bremer is an important step in our efforts to rebuild Iraq. Ambassador Bremer will report directly to Secretary Rumsfeld, and will oversee all U.S. assistance programs in Iraq,

including ORHA. There are currently dozens of State Department employees working with ORHA, from a wide range of bureaus. Deputy Assistant Secretary of State Ryan Crocker continues to support efforts to establish a new political dialogue and has supported ORHA's and Presidential Envoy Zalmay Khalilzad's efforts in the two regional political conferences that have started the process of establishing an inclusive, representative Iraqi Interim Authority.

In addition, the State Department's Bureaus of Near Eastern Affairs (NEA), International Narcotics and Law Enforcement Affairs (INL), Economic and Business Affairs (EB) and Democracy, Human Rights and Labor (DRL) have been actively involved with ORHA for some time in a wide range of efforts, including supporting Iraqi efforts in the reconstruction of the criminal justice sector, the development of a prosperous, market-based economy, the establishment of democratic processes and protection of human rights. In all of these areas, and many more, the Department of State works closely with other federal agencies in support of our overall objectives in Iraq.

Along with USAID, the State Department's Bureau of Population, Refugees, and Migration (PRM) is heavily involved in assisting UN, other international organization, and NGO humanitarian efforts on behalf of the Iraqi people. Prior to the conflict, PRM supported contingency planning and prepositioning for refugees, internally displaced persons (IDPs) and other conflict victims through contributions to the UN High Commissioner for Refugees (UNHCR), the International Committee of the Red Cross (ICRC), the International Federation of Red Cross and Red Crescent Societies (IFRC) and the International Organization for Migration (IOM). PRM has also circulated guidelines for individual NGO proposals, and will seek to fund a number of NGO programs that fill gaps in the efforts of the UN and other international organizations, particularly in the area of refugee returns.

The stakes are high. The men and women of the United States Armed Forces, and those of our coalition allies, performed magnificently and bravely in protecting America from a grave threat and liberating a people. Now it is necessary to establish the foundation of a prosperous Iraq, built around transparent and open political and economic systems, and governed by the rule of law so that we can ensure that Iraq never again poses such a threat to the civilized world. Iraqis have an opportunity to unleash a force for good in the region - inspiring political reforms, invigorating markets and stimulating growth.

Saddam's regime continually put political favoritism and personal enrichment above the needs of the Iraqi people. That way of doing business is now over. The U.S. and our coalition partners will put the Iraqi people first. We are confident that a new, representative Iraqi authority will do the same.

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