

The seal of the Office of the Special Inspector General for Iraq Reconstruction is a large, circular emblem in the background. It features an eagle with wings spread, perched on a shield with vertical stripes. The eagle holds an olive branch in its right talon and arrows in its left. The shield is positioned in front of the eagle's chest. The seal is surrounded by text in both English and Arabic. The English text reads "INSPECTOR GENERAL" at the top and "RECONSTRUCTION" at the bottom. The Arabic text reads "مفتش العام" at the top and "إعادة إعمار العراق" at the bottom.

UNCLASSIFIED SUMMARY OF
SIGIR'S REVIEW OF EFFORTS TO
INCREASE IRAQ'S CAPABILITY TO
PROTECT ITS ENERGY
INFRASTRUCTURE

SIGIR-06-038
SEPTEMBER 27, 2006



SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

September 27, 2006


MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ
DIRECTOR, IRAQ RECONSTRUCTION MANAGEMENT
OFFICE
COMMANDING GENERAL, MULTI-NATIONAL FORCE-
IRAQ
COMMANDING GENERAL, JOINT CONTRACTING
COMMAND-IRAQ/AFGHANISTAN

SUBJECT: Unclassified Summary of SIGIR's Review of Efforts to Increase Iraq's
Capability to Protect Its Energy Infrastructure (SIGIR-06-038)

We are providing this unclassified summary of a classified audit report we issued on July 27, 2006, on efforts to increase Iraq's capability to protect its energy infrastructure (SIGIR-06-014), for your information and use. We performed the audit pursuant to a commitment by the Special Inspector General for Iraq Reconstruction at a February 8, 2006, United States Senate Committee on Foreign Relations hearing to report on the capacity of the Iraqi government to protect its infrastructure.

We considered formal comments from the U.S. Embassy, Baghdad and Multi-National Force-Iraq on a draft of the classified report when preparing the final report. Their comments were addressed in the report where applicable. We also received technical comments from other organizations involved in Iraq's infrastructure security. All comments received were considered in preparing the final classified report. Because the underlying report was classified, we obtained an official classification review of this summary from the Commanding General, Multi-National Force-Iraq. The result of this review was a determination that this summary is unclassified.

We appreciate the courtesies extended to the staff. For additional information on this summary report or our classified report, please contact Steven Sternlieb (703-428-0240 / steven.sternlieb@sigir.mil); or via SIPRNET at steven.sternlieb@HQDA-S.army.smil.mil); or Joseph T. (Mickey) McDermott (914-822-4618 / joseph.mcdermott@iraq.centcom.mil); or via SIPRNET at joseph.mcdermott@S-Iraq.centcom.smil.mil).


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Inspector General

cc: See Distribution

Table of Contents

Unclassified Summary	1
Appendix A – Acronyms	6
Appendix B – Report Distribution	7
Appendix C – Audit Team Members	9



Unclassified Summary of SIGIR's Review of Efforts to Increase Iraq's Capability to Protect Its Energy Infrastructure

SIGIR-06-038

September 27, 2006

Unclassified Summary

Introduction

Iraq cannot prosper without the uninterrupted export of oil and the reliable delivery of electricity. The United States (U.S.) has invested about \$320.3 million over the past several years to improve Iraq's capability to protect its oil and electricity infrastructure. However, a number of factors, including insurgent attacks, an aging and poorly maintained infrastructure, criminal activity, and lack of rapid repair capability have combined to hold down Iraq's oil exports and the availability of electricity. To achieve overall victory in Iraq, the current Administration's strategy includes the protection of key infrastructure nodes and increasing the Iraqi government's capability to protect its key energy infrastructure. This review addresses the efforts by the U.S. to increase the Iraqi government capability to protect its energy infrastructure. It was undertaken pursuant to a commitment by the Special Inspector General for Iraq Reconstruction at a February 8, 2006, United States Senate Committee on Foreign Relations hearing to report on the capacity of the Iraqi government to protect its infrastructure.

Because of the importance of infrastructure integrity to Iraq's future and the challenges being confronted in securing it, this is one in a series of reports addressing Iraq's capability to maintain its oil and electrical infrastructure integrity. In future reviews we plan to address Iraq's capacity to (i) invest in improving the frail existing infrastructure, (ii) sustain effective and efficient operation and maintenance of the infrastructure, and (iii) prevent, detect, and prosecute those responsible for smuggling and corruption in the electricity and oil sectors.

Objectives

This report provides the unclassified summary of a classified audit report we issued on July 27, 2006¹, that addresses U.S. efforts to increase the capacity of the Iraqi government to protect its critical oil and electricity infrastructure. Specifically, this report addresses:

- Factors affecting Iraq's infrastructure, including attacks, physical condition, and criminal activity. This is an expansion of our original objective of focusing on attacks in recognition of the importance of factors other than attacks. This objective's purpose is to identify the scope of requirements/needs.

¹ Special Inspector General for Iraq Reconstruction, *Review of Efforts to Increase Iraq's Capability to Protect Its Energy Infrastructure*, SIGIR-06-014, July 27, 2006.

- The extent to which the Iraqi government can perform independently to protect its oil and electricity infrastructure. This is to identify a baseline metric.
- The support the United States is providing the Iraqi government to increase its capability to protect its oil and electricity infrastructure. This is to identify the current and future investment of resources needed to attain the desired capability.

Results

A number of factors, including attacks, aging and poorly maintained infrastructure, and criminal activity are adversely affecting Iraq's ability to develop a viable energy sector. These factors have combined to hold down Iraq's oil exports and the availability of electricity. As a result, we estimate that between January 2004 and March 2006, due to limitations on its ability to export oil, Iraq lost a potential \$16 billion in revenue from oil exports. In addition to lost export revenues, Iraq is paying billions of dollars to import refined petroleum products to support the consumption needs of its citizens.

Multi-National Force-Iraq (MNF-I) and the Iraqi Ministries of Oil and Electricity maintain and report data on attacks against infrastructure. MNF-I attack data is classified. The Iraqi Ministries of Oil and Electricity report unclassified data. The Iraq Reconstruction Management Office, working with the Ministry of Electricity, has taken steps to improve the Ministry of Electricity's data on attacks on electric infrastructure. Prior to this effort, data for attacks was categorized in an *ad hoc* manner along with all other causes for power outages, such as weather related incidents or equipment failures. The Iraqi Ministry of Oil's attack data is limited to attacks against pipelines, and as such, excluded attacks against the nodal portions of the infrastructure. Its data therefore does not provide a clear picture of infrastructure vulnerabilities.

Attacks against Iraq's oil infrastructure have ebbed and flowed between January 2005 and April 2006. Like attacks against oil infrastructure, attacks against the electric power infrastructure have also ebbed and flowed between January 2005 and April 2006.

Protecting Iraq's critical energy infrastructures from attacks is a combined effort involving three Iraqi ministries: Ministry of Defense, Ministry of Oil, and Ministry of Electricity. Each ministry contributes to the mission by providing, respectively, the following forces: Strategic Infrastructure Battalions as well as Iraqi Army forces, the Oil Protection Force, and the Electrical Power Security Service. The current capabilities of the forces vary.

Security, however, is only one factor in addressing infrastructure protection. While much attention has been focused on insurgent attacks, it must be recognized that even if attacks ceased, other factors, such as criminal activity and the affect of aging and poorly maintained infrastructure on operating capability, would continue to affect oil exports and the availability of electricity. For example, attacks have had a limited impact on the failure to reach Iraq's achievable electric capacity. In fact, while there were few attacks against oil and electricity infrastructure between late April 2006, and early June 2006, oil exports were below established targets and electric power generation was far below

demand. Further, once damage or disruptions occurs, it is critical that it be repaired quickly, but more needs to be done to enhance rapid repair capability.

Both the U.S. Embassy and MNF-I have done considerable planning that addresses Iraq's energy infrastructure. There are a variety of individual plans at different levels from the U.S. Embassy and MNF-I's Joint Campaign Plan; to MNF-I and Multi-National Corps-Iraq plans and orders to their subordinate commands; to the U.S. Embassy's Critical Infrastructure Integrity Plan and Summer 2006 Energy Sector Action Plan. Each pertains to the implementing organization's mission and responsibilities.

Conclusion

Over the past year, the U.S. government has done much to improve the capability of Iraqi infrastructure security forces, including training and equipping the Strategic Infrastructure Battalions and partnering coalition forces with Iraq's Strategic Infrastructure Battalions, the Oil Protection Force, and the Electrical Power Security Service. The U.S. government has also developed an array of initiatives designed to both protect the energy infrastructure and facilitate transition of the responsibility for protecting it to the Iraqi government.

The Iraqi government has much to do if it is to implement U.S. proposals as well as proposals put forth by its ministries. Progress in acting on them has been slow, in part due to the lack of a permanent government and in part to the limited initiative of some Iraqi ministries. Now that there is a permanent government in place it must take bold action. The new Iraqi government is pursuing initiatives to enhance the security and performance of the oil and electricity sectors, including increasing oil exports and providing electricity as top priorities. The Iraqi government's plan identifies a number of steps that it says it will take to achieve these ends. The challenge for the United States is to help the Iraqi government move forward to undertake the tasks that need to be done if infrastructure integrity is to be improved.

One way to encourage the Iraqi government to take needed action is to focus U.S. Congressional attention on what the new government is doing and still needs to do to address the integrity of its energy infrastructure. Current reporting by the Departments of State and Defense² to Congress does not provide adequate information to inform Congress on progress being made by the Iraqi government and the status of specific steps the new Iraqi government has taken and what further specific steps remain to be taken. Currently the Departments of State and Defense reports only contain a general description of progress in Iraq, but not specific information on actions that need to be taken by the Iraqi government to enhance infrastructure integrity and the progress it is making in taking those actions.

² The Department of State provides a quarterly report to Congress required under section 2207 of Public Law 108-106. In addition, on behalf of the President, the Department of State began providing a quarterly report to Congress on United States policy and military operations in Iraq under section 1227 of the National Defense Authorization Act for Fiscal Year 2006, Public Law 109-163. It issued the first report in April 2006. The Department of Defense provides a quarterly report required under section 9010 of the Department of Defense Appropriations Act 2006, Public Law 109-148.

Management Actions

Working with SIGIR staff, the Iraq Reconstruction Management Office (Electric sector) has developed and implemented a new methodology for recording data on attacks against the electric infrastructure in response to concerns we raised about its existing methodology for recording attack data. Data based on the new methodology will enable the Iraq Reconstruction Management Office to better track and analyze input from the ministry.

Recommendations

We made a number of recommendations to the Commander MNF-I and the U.S. Ambassador to Iraq in several areas to further advance protection of Iraq's infrastructure and transition the responsibility for protecting it to the new Iraqi government. The recommendations included but were not limited to:

- encouraging action by the Iraqi government by continuing to emphasize the actions that the newly formed Iraqi government must take to enhance infrastructure integrity, making actions that need to be taken by the new Iraqi government part of subsequent U.S. action agendas, and emphasizing the capacity building process in discussions with the new government, and
- to support transition plans, working with the Iraqi ministries to develop a performance-based reporting capability to identify their measurable events and to gauge progress in their infrastructure integrity capabilities.

To improve Iraqi reporting on attacks against oil infrastructure, we recommended that the Director, Iraq Reconstruction Management Office, work with the Ministry of Oil to expand its reporting to include attacks against nodal infrastructure.

To keep the U.S. Congress advised, we further recommended that the Secretaries of State and Defense enhance their existing quarterly reports to focus attention on progress being made by the new Iraqi government in addressing critical infrastructure integrity challenges. To the extent that such information is classified it should be reported in classified annexes.

In commenting on a draft of the classified report, the U.S. Embassy, Baghdad, suggested that we add two additional recommendations to the U.S. Ambassador and Commander, MNF-I regarding encouraging the Iraqi government to take additional actions regarding Iraq's oil and electricity infrastructure involving facilitating foreign investment in Iraq's oil industry and encouraging developing a rapid repair capability. We believe that the suggested recommendations are consistent with the results of the audit and have merit; therefore, we added them to our report.

Management Comments and Audit Response

We received written comments on the classified report from the U.S. Embassy, Baghdad, Iraq, and from MNF-I. The Embassy stated that the report accurately captures the key issues that the Iraqi government needs to address to better protect its infrastructure as well as the U.S. mission's engagement efforts with the Iraqi government on these matters.

MNF-I stated that it concurred with the overall findings of the report and had no major issues with its content.

Because the underlying report was classified, we obtained an official classification review of this summary from the Commanding General, Multi-National Force-Iraq. The result of this review was a determination that this summary is unclassified.

Appendix A – Acronyms

Acronym	Definition
MNF-I	Multi-National Force-Iraq
SIGIR	Special Inspector General for Iraq Reconstruction
U.S.	United States

Appendix B – Report Distribution

Department of State

Secretary of State

Senior Advisor to the Secretary and Coordinator for Iraq

U.S. Ambassador to Iraq

Director, Iraq Reconstruction Management Office

Mission Director-Iraq, U.S. Agency for International Development

Inspector General, Department of State

Department of Defense

Secretary of Defense

Deputy Secretary of Defense

Director, Defense Reconstruction Support Office

Under Secretary of Defense (Comptroller)/Chief Financial Officer

Deputy Chief Financial Officer

Deputy Comptroller (Program/Budget)

Inspector General, Department of Defense

Director, Defense Contract Audit Agency

Director, Defense Finance and Accounting Service

Director, Defense Contract Management Agency

Department of the Army

Assistant Secretary of the Army for Acquisition, Logistics, and Technology

Principal Deputy to the Assistant Secretary of the Army for Acquisition,
Logistics, and Technology

Deputy Assistant Secretary of the Army (Policy and Procurement)

Director, Project and Contracting Office

Commanding General, Joint Contracting Command-Iraq/Afghanistan

Assistant Secretary of the Army for Financial Management and Comptroller

Chief of Engineers and Commander, U.S. Army Corps of Engineers

Commanding General, Gulf Region Division

Auditor General of the Army

U.S. Central Command

Commanding General, Multi-National Force-Iraq

Commanding General, Multi-National Corps-Iraq

Commanding General, Multi-National Security Transition Command-Iraq

Commander, Joint Area Support Group-Central

Other Federal Government Organizations

Director, Office of Management and Budget

Comptroller General of the United States

Inspector General, Department of the Treasury

Inspector General, Department of Commerce

Inspector General, Department of Health and Human Services

Inspector General, U.S. Agency for International Development

President, Overseas Private Investment Corporation

President, U.S. Institute for Peace

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

U.S. Senate

Senate Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on State, Foreign Operations and Related Programs

Senate Committee on Armed Services

Senate Committee on Foreign Relations

 Subcommittee on International Operations and Terrorism

 Subcommittee on Near Eastern and South Asian Affairs

Senate Committee on Homeland Security and Governmental Affairs

 Subcommittee on Federal Financial Management, Government Information and International Security

 Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia

Select Committee on Intelligence

U.S. House of Representatives

House Committee on Appropriations

 Subcommittee on Defense

 Subcommittee on Foreign Operations, Export Financing and Related Programs

 Subcommittee on Science, State, Justice and Commerce and Related Agencies

House Committee on Armed Services

House Committee on Government Reform

 Subcommittee on Management, Finance and Accountability

 Subcommittee on National Security, Emerging Threats and International Relations

House Committee on International Relations

 Subcommittee on Middle East and Central Asia

Permanent Select Committee on Intelligence

Appendix C – Audit Team Members

This summary report was prepared and the review was conducted under the direction of Joseph T. McDermott, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. The staff members who contributed to the review and the summary report include:

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