

Task Force for Improved Business and Stability Operations -Iraq
Industrial Revitalization Initiative



Overview of
Effort December
2006

Task Force for Improved Business and Stability Operations -Iraq Industrial Revitalization initiative

Purpose

To facilitate the reemployment of the Iraqi people, by restarting idled public and private industrial enterprises via direct contracting for goods, reestablishment of intra-Iraqi demand, and connections to global supply relationships with U.S. and international industry.

Background

As a result of Coalition Provisional Authority policy implemented in 2003, approximately 200 industrial enterprises were declared "state-owned" and shut down. Long term intent was to sell or lease these industrial operations to private investors. These industries employed over 10% of the Iraqi population prior to 2003. Much of the private industrial activity in Iraq served to supply these state-owned operations. On site assessments of a number of these factories have revealed that many could be quickly restarted and transitioned to private status at the discretion of the Iraqi government, have relatively modern facilities and equipment, and existing bases of idle employees waiting to return to work.

There continues to be debate within the various U.S. Government organizations in Iraq regarding policy on state-owned factories. At a time when instability is rampant and increasing across the country, it is essential that esoteric debates regarding free-market establishment in post-Soviet style economies immediately cease. Furthermore, it is a fact that private investors do not invest in idled plant and equipment -investors apply capital to working industrial enterprises. Regardless of the intent, it is a fact that three years after the occupation of Iraq, not one industrial enterprise has been privatized. Continuing to leave the Iraqi industrial workforce idle serves only to foster resentment, encourage insurgent sympathies, and increase security risks to our armed forces.

This document is intended to clearly define the activities and intent of the Task Force, and to alleviate misconceptions and confusion about the effort.

Why is DOD Involved in Economic Development?

DOD is facing an insurgency fueled in no small part by rampant unemployment and lack of economic development since 2003.

Economic development in Iraq is an industrial engagement activity-a preexisting industrial base in Iraq sits idle and must be restarted, putting Iraqis back to work.

The Department of Defense is the largest industrial organization in the world, and via primary, secondary, or tertiary supply relationships, engages almost every significant industrial organization in the world today.

DOD can quickly engage the most senior level American and international economic interests, marshal tactical industry resources to assist in rapid revitalization of industrial activity in Iraq, and in doing so put Iraqis back to work.

US Government Agencies must work to collaboratively leverage this DOD capability to facilitate market economy establishment in Iraq.

How is DOD Going to Generate Demand for Iraqi Industry?

There are three "levers" we are applying to generate demand for Iraqi industry:

1. DOD Contracts for goods and services. To sustain our forces in Iraq, we currently contract for several billion dollars a year for a variety of materiel goods and services. Much of this materiel and services are imported from outside of Iraq. Directing a percentage of this demand to Iraqi industry would provide a highly significant stimulus to the Iraqi economy, generating as much as 20-25% GDP impact.
2. Re-establishment of Iraqi demand De-Baathification purged a significant portion of the bureaucracy that managed the demand for goods and services in Iraq. Natural "marketing" of goods by industrial enterprises did not exist in many cases. By assessing the state of Iraqi industry and the "catalog" of goods that can be produced in Iraqi factories, we can facilitate connections between sources of demand in Iraq and these potential Iraqi factory suppliers. This effort is now underway.
3. Linkages to US and International Industry. The Task Force has held engagements with senior executives from American and International industry, appealing for their support in the following manner. We are not seeking investment, or personnel to engage on the ground. We only ask that they consider purchasing goods from Iraqi factories that we have assessed and validated are of a quality level suitable for consumption. This is a key role DOD can play given its industrial leverage and relationships with US and international industry. To date the favorable response from American industry has been overwhelming.

We believe that by taking these three key steps, we can quickly reengage Iraqi industry and restore employment for thousands of Iraqi workers.

Why is DOD Engaging State Owned Enterprises?

DOD will buy goods from any Iraqi factory-private, or state-owned, that can produce items DOD consumes, to support reemployment of the idled Iraqi industrial workforce.

State owned factories employed over 10% of the Iraqi population. On average, one employed Iraqi supported thirteen extended family members. These workers have been largely idled since 2003.

Excluding non-industrial agriculture and retail operations, most private-sector industry in Iraq supported state-owned industry.

Several of the state owned factories visited thus far (approximately 30) are in relatively good shape for third-world operations, can be restarted with minimal investment mostly in power restoration, restoring normalcy in areas of great unrest.

There is no ubiquitous Soviet-style state-owned industrial base in Iraq. Every factory had a

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unique relationship with Baghdad and its provincial tribal leadership, and must be assessed on its independent merits.

Any privatization strategy for Iraqi industry must begin by restarting idled factories. Companies and investors buy working operations, not idle capacity.

Is the Task Force Advocating U.S. Investment in State Owned Enterprises?

The Task Force is not advocating U.S. Government investment in Iraqi factories-our objective is to buy what they can make, and to connect them to global industry.

We are seeking to have the Iraqi Government make the required investments. The first ten priority job restorations require approximately \$5M in initial spending to restart operations. The Government of Iraq has committed to fund these costs and fully supports this effort. We seek to incent, through demand for goods and services, the Iraqis to invest in their own capabilities.

We are firmly committed to the long term policy of economic privatization. Our team is composed of business leaders who have broad experience in private industry. No one believes a statist economy is a desirable outcome for the Iraqi people. However, no one believes that idling the Iraqi industrial base is a rational step on a path to economic privatization. Any effort to privatize Iraqi industry by shutting it down is misguided.

Is the Task Force Working to Improve Operations in Iraqi Factories?

No. Our initial priority is to do the minimal amount necessary to restart Iraqi factories and restore the employment levels present prior to 2003. We have been asked by many factory managers to provide consultative support to them as they begin their efforts to restart operations, and we are open to limited engagement in this activity. But the scope of effort required to assess and restart industries is very large, and our focus is on restarts at this time.

Will Factories That are Restarted Be Targets for Insurgent Violence?

After three years, instability has increased to a point where we must expect some retaliatory activity by insurgents once factories are restarted. However, there are two reasons for optimism:

- 1 Restarting a factory puts people back to work indefinitely. This incepts the local population to act to prevent violence and resist insurgent coercion and intimidation.
- 2 Even in areas where extreme unrest exists, in a number of cases we have assessed idle factories that have remained untouched -with new equipment, computers, inventory, all still in place with nothing stolen or damaged. This indicates that leadership exists in the local population to prevent looting of that particular operation. In these cases, if we can restart these factories, they may very well be left alone, and the local population reemployed.

Regardless of violence, there is no alternative to restarting Iraqi industry. Stability will continue to worsen the longer we wait, and the risk of violence will only increase. If violence takes place after we restart a factory, it is critical that we not abandon the effort.

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No one knows better than Iraqis what the risks of violence are on a daily basis. If resilient Iraqis are willing to report to work in the face of potential violence, we should be willing to stand with them and restore what was lost after 2003.

MNFI/MNCI Command has driven the establishment of this initiative. The security risks are well understood by our forces, who see this initiative as a key stabilizing element in the overall campaign plan for Iraq.

Where Will the Money Go for Products Purchased From Iraqi Factories?

In almost every case, revenue for state owned Iraqi industries will go to the Iraqi Government. For private industries, revenue will be paid to the appropriate financial institution. Defining how to render payment for goods received will be a key element of the restart strategy for each factory operation. Each factory manager we have met with has explained the nature of their relationship to the Iraqi Government and how funds transact to and from the GOI. We will exercise appropriate full due diligence to ensure funds accrue to the factory, and not to support insurgent activity.

What is the Status of this Effort?

The task force leadership has been engaged in Iraq monthly since May 2006, with onsite multi-day engagements in Baghdad, Fallujah, Basra, Rarnadi, Taji, Mosul, Nil, A1 Hillah, A1 Qaim, Iskandiriyah, Sinjar, Bayji, Samarra, and Najaf. As of November, a permanent rotating presence of industrial leaders and business analysts has been established.

A new contracting system and unified contracting command under Joint Contracting Command - Iraq I Afghanistan have been implemented, enabling far easier access to DOD contracts for Iraqi industries.

Ten factory restarts have been identified as highest initial priority for employing Iraqis. These are geographically distributed across the country. Our objective is to follow these initial "top-ten" with a rolling series of factory restarts in 2007, restoring employment and normalcy to a significant number of Iraqis.

The Task Force is fully aligned to command leadership within Multi-National Forces Iraq (MNFI). Prioritization of effort, transportation, and logistical support is provided by MNFI resources. Industry team members are sewed by our soldiers and marines in their site visits across the country. Civil Affairs Groups and C9 leadership provide a significant base of existing knowledge, supplemented by information from the U.S. Embassy -Baghdad, the Iraq Reconstruction Management Office, USAID, and the Special Inspector General for Iraq Reconstruction.

What Inter-Agency Engagements Have Taken Place in Support of this Effort?

The following DOD and U.S. Government organizations have been actively engaged in reviewing and offering feedback regarding this effort.

MNF-I (Multi-National Force -Iraq)

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Commanding General and Staff Deputy Commanding General Strategic Effects

MND-B (Multi-National Division -Baghdad)

Commanding General and Staff

MNF-W (Multi-National Force-West)

Commanding General and Staff

Deputy Commanding General (Support)

Deputy Commanding General (Maneuver)

MNF-N (Multi-National Force -North)

Commanding General Coalition Forces (ROK)

MNC-I (Multi-National Corps -Iraq)

Commanding General and Staff

MNSTC-I(Multi-National Security Transition Command -Iraq)

Commanding General and Staff

GRD (Gulf Regional Division –US Army Corps of Engineers)

Commanding General and Staff

JCC -I/A (Joint Contracting Command -Iraq/Afghanistan)

Commanding General and Staff

USCENTCOM (United States Central Command)

Department of State

US Ambassador to Iraq

US Ambassador to Jordan

Assistant Secretary of State,

Political Military Affairs Minister Counselor for Economic Affairs

Deputy Minister Counselor for Economic Affairs

Senior Consultant for Private Sector Development,

Strategic Investment, and Housing Advisor,

Ministry of Industry and Minerals Regional Coordinator,

Provincial Reconstruction Team -Hillah, Iraq

Provincial Reconstruction Team -Anbar Team Leader

IRMO (Iraq Reconstruction Management Office)

Director, IRMO

Deputy Director and Director of Development

Director of Operations Director,

National Coordination Team

Senior Consultant -Ministry of Industry and Minerals

IRMO -Agriculture

Senior Consultant, Office of Agriculture

Department of Agriculture

Council for Iraq Reconstruction, Foreign Agriculture Service

Department of Treasury

Deputy Secretary Deputy Assistant Secretary for Africa and the Middle East

Deputy Director, Task Force for Reconstruction and Stabilization,

Iraq International Economist on Iraq and Jordan, Middle East and North America Treasury

Attaché -Baghdad

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Deputy Treasury Attaché -Baghdad

Department of Commerce

International Trade Administration

Under Secretary for International Trade, Iraq Investment and Reconstruction Task Force Special Assistant to Under Secretary Lavin

SIGIR (Special Inspector General for Iraq Reconstruction)

Inspector General for Iraq Reconstruction

Deputy Inspector General for Iraq Reconstruction and Staff

USAID (United States Agency for International Development)

Mission Director

Deputy Mission Director

Advisor, Private Sector Development –Office of Economic Growth

USACE (United States Army Corps of Engineers)

Commanding General and Staff

Deputy Commander, Gulf Region Division Project and Contracting Office

Director of Interagency and International Services