

Business Guide for Iraq

U.S. Department of Commerce

TABLE OF CONTENTS

	<u>Page</u>
I. Recent Commercial Reforms	1
II. Reconstruction Contracts	2
Prime Contracts	2
Subcontracting Opportunities	3
III. Commercial Environment	4
Security	4
Investment	4
Ongoing Economic Reform	5
Trade	5
Taxes	6
Iraq and the International Environment	6
Trade Finance	7
Banking	8
Insurance	8
Intellectual Property Rights	8
Business Centers and Events	9
IV. Travel/Security Warning	9
V. Overview of Key Industry Sectors	9
Agriculture	9
Oil	11
Airports and International Travel	12
Seaports	13
Railways	13
Roads	15
Public and Commercial Transport	15
Power	16
Water	17
Telecommunications	18
Healthcare	19
Housing and Construction	21
Other Sectors	21
VI. Critical Contacts for Business	22

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This business guide is updated periodically to reflect the current situation in Iraq

Soon after the removal of Hussein's regime, Coalition Forces established the Coalition Provisional Authority (CPA) as a transitional administration to restore security in Iraq, create institutions for representative governance, and facilitate economic recovery.

In July 2003, the CPA established the Governing Council of Iraq. With broad membership from across Iraqi society, its 24 members named Iraqi Ministers, established budgets, and represent Iraq internationally. On November 15, 2003, the CPA and Governing Council agreed to end the occupation, dissolve the CPA, and restore Iraqi sovereignty by June 30, 2004. The Governing Council will lay the basis for a transitional Iraqi government, fully elected representation to a constitutional convention, and the establishment of a representative Iraqi government by the end of 2005.

This guide reports on the considerable progress and opportunities for trade and investment in Iraq's reconstruction. The U.S. Government, including the U.S. Department of Commerce, continues to work with Coalition partners, international organizations, and the business community to facilitate economic recovery through reconstruction contracts, private investment and other business. General information on Iraq can be found on the CIA website at www.cia.gov/cia/publications/factbook/geos/iz.html.

I. RECENT COMMERCIAL REFORMS

In October 2003, the Central Bank of Iraq authorized Iraq's private banks to process international payments, remittances, and foreign currency letters of credit. Following a request for applications issued in November, Iraq received fifteen applications for a foreign bank license. On January 31, the Central Bank Governor announced the three finalists for the first set of licenses to be awarded -- Hong Kong Shanghai Banking Corporation, the National Bank of Kuwait, and Standard Chartered Bank from the U. K. The Central Bank anticipates that all three will be granted a license by mid-March. Already, the National Bank of Kuwait has announced its intent to purchase 8 percent of one of the existing private banks.

As of January 15, 2004, Iraq's currency was successfully transitioned to the new Iraqi Dinar. By all accounts, the Iraqis have wholeheartedly embraced their new dinars. Not only are the new notes much more difficult to counterfeit -- a chronic problem under the old currency regime -- the Iraqis now have six denominations available, up from only two. The value of the currency has steadily appreciated since its introduction.

On February 11, 2004, members of the World Trade Organization approved Iraq's request for observer status. WTO observer status indicates the international community's confidence in Iraq and it sends a positive message of transparency and predictability to the business community.

Effective March 1, 2004, Iraq introduced a new personal and corporate income tax limit of 15 percent. The new customs duty of five percent on most imports has been delayed until at least the end of March 2004.

II. RECONSTRUCTION CONTRACTS

U.S. Government-funded contracts, as outlined in this guide, continue to be the leading business opportunities in Iraq. Opportunities for U.S. firms to participate in the reconstruction of Iraq are mostly associated with rehabilitating the country's infrastructure. The primary projects are being carried out by U.S. Government reconstruction contracts issued on behalf of the Coalition Provisional Authority (CPA). The CPA and Iraqi Ministries also issue their own shorter-term contracts, which are funded by Iraqi oil revenues and seized assets deposited in the Development Fund for Iraq (DFI).

Prime Contracts

The CPA's "Program Management Office" (PMO) is responsible for all procurement funded by the fiscal year 2004 U.S. Government appropriation of over \$18.6 billion for Iraq reconstruction. All contracting activities are reported on PMO's new website (www.rebuilding-iraq.net).

On January 7, 2004, the PMO released Requests for Proposals (RFPs) on 17 contracts, to be awarded in March 2004. Seven of the contracts are for program management services: one to support the PMO, and one for each of six sectors of work: 1) Electrical, 2) Public Works/Water Resources, 3) Security/Justice, 4) Buildings/Health, 5) Transportation and Communications, and 6) Oil. Ten major design/build construction RFPs will also fall under the six program sectors. A breakdown and values for these RFP's can be found in the January 6, 2004, Quarterly Report to Congress at www.whitehouse.gov/omb/legislative/20040105-sec2207_funding_table.pdf.

All PMO (and U.S. agency) solicitations, amendments and awards are posted on the Federal Business Opportunities website (www.fedbizopps.gov/). The PMO website posts copies of the RFPs. The Pentagon Renovation Program office,

which is the contracting agency issuing the seven program management solicitations on behalf of the PMO, also posts its RFPs along with helpful Q&As on its own website (<http://renovation.pentagon.mil/IIRO/IIRO.htm>).

Before preparing full proposals, the PMO is encouraging bidders to submit "Ability to Succeed" documents for initial feedback, which are due within days of the RFPs' release. In general, companies should demonstrate experience, financial capability, high competency of in-country personnel, the ability to positively impact the Iraq economy through capacity-generation and employment, and the capability to proceed quickly.

Companies from 63 Coalition and troop-contributing countries are eligible to compete as prime contractors on the U.S.-funded PMO contracts (see Defense Department statement for country listings at www.rebuilding-iraq.net/pdf/D_F.pdf). Companies from all countries are eligible for subcontracts with the exception of countries that support terrorist networks.

In addition to the U.S.-funded, PMO-managed contracts, the CPA and Iraqi ministries continue to issue Development Fund for Iraq (DFI)-funded solicitations, often with short deadlines. To view the latest RFPs, visit the CPA's Solicitations webpage (www.cpa-iraq.org/business/index.html). For information on approved funding and potential future contracts, refer to the minutes of the CPA Program Review Board (www.cpa-iraq.org/budget/program_review_board.html).

On January 16, the U.S. Army Corps of Engineers (USACE) awarded two contracts worth nearly \$2 billion to continue restoring Iraq's oil infrastructure to pre-war production levels. A north-region contract was awarded to a partnership between Parsons of Houston, Texas and Worley of Australia, and a south-region contract went to Kellogg Brown and Root (KBR) of Arlington, VA. The contracts were awarded on a fully open and competitive basis and replace the non-compete KBR contract to address emergencies awarded immediately after cessation of major conflict. The new contracts are funded by the \$18.6 billion appropriation and will help restore Iraqi oil production, oil refining, gas processing, and distribution.

CPA contracting efforts include helping to repair damaged facilities and to restore electricity and the supply of other disrupted goods and services to Iraqi State-Owned Enterprises (SOEs). For more information, contact Mark Huang at huangm@orha.centcom.mil and see the SOE company profiles at <http://www.cpa-iraq.org/business/industries/index.html>.

Subcontracting Opportunities

The best way to ensure consideration as subcontractors or suppliers on reconstruction contracts is to directly contact the prime contractors, who are entirely responsible for choosing their own business partners.

Comprehensive information on current reconstruction contracts and contractors funded by the initial FY2003 U.S. appropriation of roughly \$2.5 billion can be found at the websites of the U.S. Agency for International Development (USAID; www.usaid.gov/iraq) and the U.S. Army Corps of Engineers (www.hq.usace.army.mil/cepa/iraq/contracts.htm).

Additional contact information for U.S. Government agencies and the CPA is provided at the end of this guide. A complete listing of all U.S. Government contracts, including basic contact information of the prime contractors and known subcontractors, is also located at the U.S. Department of Commerce Iraq Reconstruction Task Force website (www.export.gov/iraq). Bechtel, the largest USAID Iraq reconstruction prime contractor responsible for capital construction, maintains information on their activities at www.bechtel.com/iraq.htm.

III. COMMERCIAL ENVIRONMENT

While most United Nations and U.S. economic sanctions against Iraq were lifted in May 2003, the Iraqi legal and regulatory system as well as an inadequate infrastructure and an unstable security situation pose numerous obstacles to doing business in Iraq. (The legal structure, as it existed at the end of the Hussein regime, is described in detail in the Commerce Department's "Overview of Commercial Law in Iraq", available at http://www.export.gov/iraq/pdf/iraq_commercial_law_current.pdf.)

The section below outlines the current commercial environment in Iraq. All referenced CPA Orders can be found at www.cpa-iraq.org. The CPA released its fiscal 2004 budget in October 2003, available at www.cpa-iraq.org/budget.

Security

The security situation in Iraq remains serious. Theft and violent crime persist in Iraq, and the potential for attacks against U.S. citizens and facilities remains high. Roads and other public areas can be dangerous for conspicuous foreign travelers. Law enforcement is limited, although Iraqi police units continue to emerge under the supervision of Coalition Forces. The U.S. Department of State issues up-to-date travel warnings for countries throughout the world, and U.S. companies and visitors are advised to carefully assess the situation in Iraq.

The new security RFP can be found on the Program Management Office website at www.rebuilding-iraq.net.

Investment

Under the Hussein regime, foreign investment in Iraq was restricted by statute to resident citizens of Arab countries. CPA Order #39, issued and effective on September 19, 2003, has significantly altered the international business environment in Iraq by permitting 100 percent foreign ownership and management of Iraqi business entities except in natural resources sectors,

including oil, and with respect to banks and insurance companies. The Order provides for equal treatment of foreign investors, foreign trade offices and branch registration, methods of investment, and dispute settlement. The Ministry of Trade is currently registering foreign companies and revising Company Commercial Law 21 to simplify incorporation of companies.

The Order introduces new regulations for foreign investors involved in retail sales, including the requirement for a \$100,000 deposit in an Iraqi bank for the duration of the retail activity.

CPA Order #39 also officially permits foreign investors to hold long-term leases of real property for up to 40 years, but not ownership. At the present time, foreign companies should proceed very cautiously before committing to any long-term lease. CPA is working to ensure an environment necessary to attract foreign investment is established and is fair to all investors, regardless of nationality.

The Coalition Provisional Authority with the concurrence of the Iraqi Governing Council has published Order No. 64, which significantly amends Iraqi Company Law #21 of 1997. Among other things, the amendments allow any Iraqi or foreign person or legal entity to establish or own an interest in a company in Iraq. The amendments also require the Registrar in the Iraqi Ministry of Trade to either approve or disapprove in writing within 10 days any application to register a new company.

Long-term investment opportunities may exist with the Iraqi State-Owned Enterprises (SOEs). For more information, contact Mark Huang at huangm@orha.centcom.mil and see the SOE company profiles at www.cpa-iraq.org/business/industries/index.html.

Ongoing Economic Reform

Under USAID's Economic Recovery and Reform contract, BearingPoint is assisting in the development of Iraq's competitive private sector and its transparent public sector by addressing current Iraq government policies, laws, regulations, and institutions that control trade, commerce, and investment. The contract includes support for the Central Bank of Iraq (see CPA Order #18) as well as the Ministries of Finance, Trade, Commerce, and Industry. The size and capacity of the public sector, the relationships between key industries and government, and constraints to sector export growth are being examined. Other activities include credit, micro-finance, and small business loans.

Trade

Under the Hussein regime, all trade with Iraq was subject to government licensing. Under CPA Order # 12, all tariffs, duties and fees for goods entering or leaving Iraq were suspended through December 31, 2003. The same Order prohibits several exports from Iraq, including many foods products and

machinery parts. (Manifests are checked for contraband goods.) A List of these products can be found in the Department of Commerce's Iraq Frequently Asked Questions (<http://www.export.gov/iraq/commercialenv/faq.html>).

CPA Orders #38 and #47 address the current trade regime. At the earliest, the end of March 2004, will see the beginning of a five percent Reconstruction Levy on all goods imported into Iraq. Exemptions from this import duty include food, medicine, clothing, humanitarian assistance, and UN Oil-For-Food program imports. Products for the CPA, Coalition Forces, and reconstruction contractors are also exempt. Order #38 contains the full list of exemptions.

CPA Order #16 details current regulations with respect to Iraqi borders, points of entry, and current Iraqi passports. CPA Public Notice #3 authorizes Iraqis to establish direct relationships with international trading agencies and companies.

United States export licensing requirement for products entering Iraq can be found in the Frequently Asked Questions document (<http://travel.state.gov/iraq.html>).

Taxes

CPA Order #37, issued on September 19, 2003, addresses taxation within Iraq. Income tax and property rental taxes were suspended through the end of 2003 along with all other taxes not continued by the Order. Taxes identified to continue in force include the hotel and restaurant tax, the property sales tax, and the car sale fee and petrol excise duties. The CPA, Coalition Forces, and reconstruction contractors are exempt from these taxes.

As of March 1, 2004, individual and corporate income taxes have been reinstated but at a rate of 15 percent for companies and a maximum rate of 15 percent on individuals. Please see Order #37 and Order #49 for a full discussion of the current taxes and their functions.

Iraq and the International Environment

A meeting of donors to raise funds for rebuilding Iraq took place in Madrid, Spain on October 23-24, 2003. The World Bank and the UN presented their needs-assessments for Iraq to the conference, including the areas of health, education, agriculture, water supply and sanitation, economic management, and investment climate. The assessments and cost estimates can be found at www.worldbank.org/iq. These assessments are expected to guide the priorities and direction of Iraq reconstruction by donor countries.

In addition to U.S. contributions, 73 countries and 20 international organizations participating in the Donor's Conference pledged over \$13 billion in loans and grants, including: \$5 billion from Japan, \$1.44 billion from members of the European Union, \$200 million from South Korea, over \$150 million from Canada; and between \$3 and \$5 billion in loans from the World Bank and between \$2.5

and \$4.25 billion in loans from the International Monetary Fund. Countries can choose to channel their funding through a trust fund facility to be managed by the World Bank and the UN. (The United States administers its contributions through the CPA Program Management Office.)

Iraq's large international debt could negatively affect economic growth and future funding of reconstruction by international lenders. President Bush appointed former Secretary of State James Baker to negotiate debt reduction with countries and entities that provided loans to Iraq under Hussein's regime.

Baker has secured pledges from four Persian Gulf nations (Saudi Arabia, Kuwait, the United Arab Emirates and Qatar) to reduce their holdings of Iraq's debt, a senior State Department official said on January 21. Among Paris Club nations, the goal has been to reduce Iraq's total debt of about \$116 billion by two thirds or more. The Ministry of Finance, with the assistance of the Central Bank of Iraq, will issue a Request for Proposals (RFPs) for a private accounting firm or financial services firm to provide accounting and debt reconciliation services on Iraq's external sovereign debt. The purpose of the RFPs is to identify a consulting firm that can assist Iraq with rebuilding its ledger of debt owed to foreign sovereign entities and, potentially, other claims from individuals, corporations, or other entities located outside of Iraq.

Trade Finance

While the U.S. Export Import Bank (Ex-Im) is still closed to routine trade finance transactions with respect to Iraq, it will consider applications for exports to Iraq that involve buyers or letters of credit from banks located in third countries.

Ex-Im also is accepting applications under its Working Capital Guarantee Program for subcontractors providing goods and services to Iraq under U.S. Government reconstruction contracts.

The CPA established the Trade Bank of Iraq (TBI) as a separate Iraq government entity and export credit agency to facilitate the import and export of goods and services to and from Iraq. The TBI provides expertise and a point of contact within Iraq to bolster confidence between trading partners that funds will be received in exchange for goods delivered. The TBI will work with Iraqi commercial banks and the Operating Consortium, led by J.P. Morgan Chase with the participation of 15 countries. The Trade Bank of Iraq has issued over \$175 million in letters of credit to international suppliers in order for ministries to import essential goods and equipment. There are over \$120 million more in letters of credit pending issuance.

TBI will also cooperate with other export credit agencies, such as Ex-Im and the Export Credits Guarantee Department of the United Kingdom. Ex-Im approved a \$500 million facility that will provide short-term insurance for TBI to cover imports from U.S. suppliers. The TBI is discussed in detail in CPA Order #20.

Banking

On October 28, 2003, the Central Bank of Iraq authorized Iraq's private banks to process international payments, remittances, and foreign currency letters of credits. A list of participating Iraqi banks, with points of contact, is available from the CPA website at http://iraqcoalition.org/economy/iraq_private_banks.html.

On January 31, 2004, the Central Bank of Iraq (CBI) announced that on March 1, 2004, it would fully liberalize interest rates on deposits, loans, credits, securities, and all other domestic financial instruments. The CBI previously set these rates. CPA has yet to announce that this transition has occurred. The CBI currently sets these rates. This represents a major step in the development of Iraq's financial system. The decision to liberalize interest rates will facilitate the modernization and development of Iraq's financial system based on market principles.

The International Finance Corporation, the private sector arm of the World Bank, approved plans to establish an Iraq Small Business Finance Facility of up to \$200 million to help Iraqi banks finance small business. More information can be found in its December 19, 2003 press release at www.ifc.org.

CPA has sent out a draft of the proposed changes to the bankruptcy law for interagency coordination in Washington, as well as coordination with London, Canberra, the International Monetary Fund (IMF), and the World Bank. CPA contractor MCI continues to install the communications system and hardware for the Iraq Stock Exchange.

Insurance

Currently, many insurance companies will not cover business activities in Iraq. Although there are some private sector firms providing insurance for projects in Iraq, when it is offered, premiums can be very high. The Overseas Private Investment Corporation (OPIC) currently offers three kinds of political risk insurance for Iraqi projects: currency inconvertibility, expropriation, and political violence. In addition, OPIC is also offering coverage more appropriate to contractors, exporters and those providing technical assistance and management services in Iraq. Finally, OPIC all offers stand-alone terrorism coverage.

Intellectual Property Rights

The United States and Iraq currently provide access to each other's patent and trademark laws and application procedures under the terms of the Paris Convention for the Protection of Industrial Property. However, U.S. copyright owners have no access to Iraqi copyright protection, as the United States and Iraq are not members of any of the same copyright treaties.

Business Centers and Events

The CPA and the Iraqi Ministry of Trade established the Iraqi Business Center in Baghdad to provide business services to a growing and eager Iraqi business community. To further assist local companies in identifying Coalition reconstruction and Iraqi public sector opportunities, and establish partnerships with foreign companies, its website provides extensive listings of Iraqi Ministry and Coalition tenders (www.iraqibusinesscenter.org/). The Business Center also maintains a database of Iraqi companies interested in international partners at www.ibcguide.org.

The City of Kirkuk, located in the heart of the northern oil industry, formed a robust Kirkuk Business Center that publishes highly informative newsletters (www.kirkuk-business-center.org).

The Iraqi-American Chamber of Commerce is organizing the first international exhibition to be held in Iraq since the fall of the Hussein regime. Destination Baghdad Expo (DBX) is being held April 5-8, 2004. More information can found at <http://www.dbxexpo.com/index1.htm>.

IV. TRAVEL/SECURITY WARNING

Both the Department of Commerce's Frequently Asked Questions on Iraq (www.export.gov/iraq/commercialenv/faq.html) and the State Department's Iraq Travel Warning (travel.state.gov/iraq_warning.html) and Consular Information Sheet (travel.state.gov/iraq.html) contain the essential security and safety information on travel to Iraq.

V. OVERVIEW OF KEY INDUSTRY SECTORS

Agriculture, petroleum, and infrastructure are the prime sectors that should provide a firm foundation for trade and investment in Iraq. Iraq has a generally well-educated and well-trained population of over 24 million. The country's natural resources are diverse. Endowed with two major rivers, Iraq has fertile soil in much of the country. Most notably, Iraq possesses 11 percent of the world's proven oil reserves, second only to Saudi Arabia.

Saddam Hussein's defiance of the international community over the past decade largely isolated Iraq's economy from the international marketplace, with consequences to all sectors.

Agriculture: Iraq has abundant resources of land and water, which makes agriculture one of the largest sectors of the country's economy. It constitutes 29 percent of GDP and 20 percent of employment. However, over the last 20 years the sector has collapsed. On average, agricultural production levels have been declining by 2.6 percent per year since 1990. More than 50 percent of the population is affected by food insecurity. The Oil-For-Food Program, while essential to the humanitarian situation in

Iraq, was a severe disincentive to food production. Over half of Iraq's total food requirement is imported, and a large portion of the population is dependent upon government-financed food rations for survival. The water supply is currently depleted due to inefficient use and sewage contamination.

The sector holds tremendous potential for the future however. Twenty seven percent of Iraq's total land area is suitable for cultivation, over half of which is rain-fed while the balance is irrigable. The U.S. Department of Agriculture (USDA) estimates that only half of this irrigable land is currently under cultivation, leaving room for tremendous growth. This lack of resource utilization is attributed to a lack of farm machinery, equipment, water shortages, low technology uptake, and a lack of profit incentive. The cost of the annual Oil-For-Food rations provided to Iraqis is estimated at over \$2 billion per year. Wheat, barley, and chickpeas are the primary staple crops. Iraq was once self-sufficient in agriculture and was also the world's number one exporter of dates.

The World Bank has estimated the sector recovery cost for 2004 to be \$3.6 billion. Capital expenditures in 2004 by the Iraqi budget are listed at \$2.4 billion, leaving \$1.2 billion in external funding needed.

The monetization of the UN Oil-For-Food program and the establishment of a profitable market for agricultural products are intended to provide proper growth incentives for Iraqi farmers. Research and training activities are needed to initiate market liberalization, competitive production, and phasing out of state subsidies.

The Ministry of Agriculture is beginning to actively work with its stakeholders to improve the operating environment. For example, it recently held its first technical workshop through its Crop Technology and Management Demonstrations Program in Mosul. Twenty scientists and farmers attended the session, which aims to revitalize production and increase farmer's access to vital inputs. USAID and its contractors are also demonstrating winter crops throughout the country in order to expand the growing season. The Ministry is renovating veterinary hospitals and clinics through grants. The Baghdad University School of Agriculture recently received a \$75,000 grant to benefit its 4,509 students.

A \$5 million USAID contract for agricultural reconstruction and development, announced on October 21, 2003, was awarded to Development Alternatives, Inc. (www.dai.com). The one-year program is referred to as the "Agriculture Reconstruction and Development Program for Iraq" (ARDI). The primary goals are to support Iraqi initiatives to revitalize production, stimulate income and employment through agro

enterprise and market development, develop rural financial services (and rural micro finance organizations), and rehabilitate natural resources.

The first phase of ARDI focuses on the distribution of seed and fertilizer, equipment and other quick impact activities. The project will concentrate on Iraq's main agricultural sectors: cereals, horticulture, livestock, dairy, and poultry. The program also focuses on water resources development and soil reclamation, with an emphasis on restoration of the Iraqi marshlands in the south. The second phase will last eight months and focus on longer-term rehabilitation and sustainability.

Oil: The oil sector dominates Iraq's economy, with oil exports historically accounting for about three-quarters of gross domestic product (GDP) and more than 90 percent of foreign exchange earnings. Iraq has an estimated 112 billion barrels of proved, probable, and possible oil reserves - the world's second largest after Saudi Arabia. Many petroleum specialists believe that Iraq's undiscovered resource potential could increase the country's holdings to as much as 200 billion barrels. Iraq also has world-class natural gas reserves that are both associated with oil fields and held in separate accumulations. Iraq's natural gas reserves are pegged at 110 trillion cubic feet, but this estimate could grow much larger as more exploration occurs.

Iraq has the potential to earn between \$10 billion and \$15 billion annually over the next several years. As of January 31, 2004, estimated crude oil export revenue is \$1.3 billion. Reestablishment of Iraq's pre-1991 production capacity of 3.5 mbd is a high economic priority. Based on its existing reserves and undiscovered resources, Iraq has the potential to produce 6 mbd, although this production level likely will not be achieved until after 2010.

CPA has set a current production goal of 2 mbd (million barrels per day). For the week of February 5-11, 2004, the average total crude oil production was 2.321 mbd. The average crude oil exports for the month of January were 1.54 mbd.

Although Iraq was able to increase oil production in the 1990s, this was accomplished largely through the use of improvised maintenance techniques, scavenged spare parts, and the cannibalization of equipment, especially at the country's refineries. Iraq's upstream and downstream oil and gas infrastructure is outdated and requires a sizable investment in repair, rehabilitation, and upgrading. In addition, large-scale investment is required to develop dozens of oil fields that have been identified and appraised, but are as yet undeveloped.

The Ministry of Oil needs to improve management of the oil sector to meet international best practices. The oil industry's 70,000 workers may need to be reorganized and retrained to function efficiently.

Currently, domestic production of kerosene, gasoline, LPG, and diesel fuel does not meet domestic demand. Significant investment is needed to reach levels of self-sufficiency.

The U.S. Army Corps of Engineers (www.hq.usace.army.mil/cepa/iraq/contracts.htm) has been assigned to undertake the rehabilitation of Iraq's oil sector. To date, the Corps has contracted with Kellogg, Brown and Root (KBR), Fluor Intercontinental, Washington Group International, and Perini Corporation. Their contracts include oil field repair, logistics support services, and oil well fire damage control. The Iraqi Ministry of Oil is also beginning to publish tenders on its website at www.uruklink.net/oil/.

Airports and International Travel: Iraq has approximately 108 airports and airfields throughout the country. International airports exist in Baghdad and Basra while major domestic airports exist in Mosul, Kirkuk, and Irbil.

All airports in Iraq are severely outdated. Systems had gone without maintenance for years and suffer from a lack of spare parts. International commercial airlines have not operated in Iraq for thirteen years. Iraqi Airlines operated domestically during the Saddam regime but its antiquated and partially destroyed fleet is no longer in service.

Non-military arrivals and departures are being successfully processed at Baghdad International Airport (BIA). More than 4,500 passengers have arrived and departed since July. Renovations continue to expand BIA's commercial capability. Basrah airport's commercial preparations are substantially completed while evaluations of reconstruction requirements at Mosul airport have just been completed.

As with many areas of Iraq, these airports suffered from insufficient availability of power, water, sewage and telecommunications. These problems are being addressed by the USAID Capital Construction contract to Bechtel and include the installation of a number of communication systems necessary for safe and effective air traffic control of commercial air service.

Bechtel maintains information on all their transportation activities at www.bechtel.com/iraq.htm. The PMO Transportation RFP can be found on the Program Management Office website at www.rebuilding-iraq.net.

The CPA currently administers air traffic control and security at the Baghdad and Basra airports. The responsibility of running the airports will eventually shift to the Ministry of Transport.

Seaports: While Iraq has six separate ports, its single deep-water port is at Umm Qasr. The new port section of Umm Qasr can now accommodate 12 five-meter-draft ships. Previously, only four-meter-draft ships could enter the port due to heavy siltation. In addition to siltation, a number of shipwrecks and pieces of debris in the port waters were removed. All 21 berths are now open and available. At Umm Qasr over 40 ships per month are offloading. Over 200,000 tons of grain have been unloaded since November using the newly rehabilitated grain-receiving facility.

A ferry service operates three times a week, moving people, vehicles, and cargo between Umm Qasr and Dubai, UAE.

Umm Qasr has over 175,000 square feet of covered warehouse and 800,000 square feet of storage location. The grain facility is now capable of mechanically unloading up to 60,000 tons of grain at a time. Both road and rail lines link these storage facilities with outside transportation paths, although the rail line is still undergoing reconstruction.

There is ample land around the current port site for expansion. In addition to general restoration, the Umm Qasr port is in need of improved cargo and container moving equipment, support vessels such as tug boats and response vehicles, and an administrative overhaul. Fencing has been installed around the perimeter of the port. All power substations have been repaired and the port is entirely lit at night.

Iraq's other five ports are smaller in scale, narrowly specialized, and generally considered a lower priority in comparison with Umm Qasr. Three of these five ports are located on the Shatt al Arab waterway that poses severe river travel challenges. The Shatt al Arab has low water levels, silting problems, security issues, and is intersected by a number of obstructive pontoon bridges that lay flat in the water.

Oil terminals are located at Al Baker and Khawr Al Amaya. The Ministry of Oil governs these two terminals, while the Ministry of Transport and Communications operates the ports.

The PMO Transportation RFP can be found on the Program Management Office website at www.rebuilding-iraq.net.

Railways: Iraq has approximately 1,525 miles of rail line, though about half of it is considered to be in poor condition. A lack of signals and poorly

maintained tracks cause considerable delays as train travel speeds are significantly reduced.

Five main rail lines exist: 1) Baghdad to Basra and Umm Qasr; 2) Baghdad to Mosul and Syria; 3) Baghdad to Al Ramadi to Al Qaim; 4) Al Qaim to Akashat; and 5) Kirkuk to Baiji and Haditha. Along these lines are 107 stations. Many of these stations, as well as maintenance shops and offices, were looted. Service has resumed at a moderate level, with about ten trains running per day.

Iraq's rolling stock has deteriorated severely over the past few decades. A lack of maintenance has caused an accumulation of inoperable stock. Of the stock that does function, there are roughly 150 locomotives, 150 passenger cars, and 8,000 flatbeds and cargo cars, a small number of which transport oil.

The most important priority in refurbishing and improving the rail lines is establishing a reliable line from Umm Qasr to Shuiaba Junction near Baghdad. This line will be used to transport large amounts of goods coming in from the port at Umm Qasr. The existing Umm Qasr-Baghdad line has not been upgraded since the 1950's and is being replaced by a new 72-kilometer, European-standard line built by Bechtel and Iraqi Republic Railways (IRR). This line will provide service of up to thirty trains per day and will offer affordable, high capacity transport for goods arriving at Umm Qasr. An additional sixteen kilometers of rail will be added to the already substantial rail network that exists within the port itself.

Track-laying equipment owned by IRR is being repaired and used for the construction of the new line. New signals and modern equipment will dramatically reduce the occurrence of mishaps, accidents, and derailments. Training in modern rail operations would also be provided to IRR employees.

The U.S. Trade and Development Agency held a conference on reconstruction needs in Iraq's rail sector and met with U.S. firms in one-on-one meetings in February 2004. Under the fiscal year 2004 budget, \$210 million has been allocated for the reconstruction of the Iraqi railway sector. Export opportunities for U.S. firms exist in the areas of reconstructing and upgrading rail track systems, track maintenance equipment, procuring and refurbishing rolling stock, intermodal and container handling equipment, rail control and signaling equipment, and communications and information technology.

The PMO Transportation RFP can be found on the Program Management Office website at www.rebuilding-iraq.net.

Roads: Iraq has a fairly extensive network of roughly 24,000 miles of roads and highways, 85 percent of which are paved. Most of these roads were constructed in the 1970's and 1980's and have received little maintenance since. Heavy military use and overloaded trucks have compounded the problems, producing mediocre road conditions in many areas. Many miles of road will need to be repaired in the near term.

The main artery of the country is a six-lane expressway that connects the Jordanian border in the west to Baghdad, and then Baghdad with Basra in the south (near Umm Qasr). North of Basra, on this expressway, is a missing section 94 miles long that is in need of completion. Also, a number of links to the expressway could be built from cities that currently have no direct access.

Primary roads link Baghdad to various cities throughout the country. These are often four-lane roads. A network of military roads facilitated troop movement along the borders for defense purposes. Beyond these roads exist smaller, secondary roads as well as village roads, many of which are unpaved. Several of these primary and secondary roads are in need of repair. It is believed many village or town roads are also in need of expansion.

Over 1,100 bridges exist in Iraq to provide crossings over the Tigris and Euphrates rivers and their tributaries. Many of these bridges, including the main ones, require rehabilitation. Three main bridges that are currently targeted for repair are the Al Mat, Tikrit, and Khazir bridges. A handful of bridges are temporary, pontoon bridges that need permanent replacements. Many locations could benefit from the building of new bridges.

Road safety is not ideal given road conditions, missing signage, congested areas, and poor interchanges. Government road administration and maintenance is getting back on track, but will require considerable funding and work. The State Commission for Roads and Bridges (SCRB), located within the Ministry of Housing and Construction (MOHC), is responsible for the expressway and all national roads and bridges not within municipalities.

The PMO Transportation RFP can be found on the Program Management Office website at www.rebuilding-iraq.net.

Public and Commercial Transport: Iraq has a comparatively small private vehicle fleet that, given its population of 25 million, will likely change as the lifting of economic sanctions permits more automobiles into the country. As a result of the small number of vehicles, buses are highly utilized. An extensive number of bus routes exist, ranging from intra-city

to international. Taxi services are readily available. A number of private car owners will pick up passengers on the side to make extra income. Increasing traffic problems are anticipated as the number of cars in the country increases before road systems can be expanded.

Trucks handle much of the freight shipping services in Iraq. Main routes are: 1) Umm Qasr to Baghdad; 2) Aqaba, Jordan to Baghdad; and 3) Tartous, Syria to Baghdad. These trucks were mostly laden one way during the Hussein regime as they delivered goods to Baghdad as part of the UN's Oil-For-Food program. The trucks are often old and in fair to poor condition. Ownership of these trucks is currently at a variety of levels, many with at least partial government ownership. Private company monopolies exist through widespread leasing of individual trucks. Government involvement will most likely decrease as privatization of the trucking industry is encouraged.

The PMO Transportation RFP can be found on the Program Management Office website at www.rebuilding-iraq.net.

Power: In early October 2003, Iraq's electricity production exceeded demand for the first time in years. However, to satisfy Iraq's peak demand for electricity, the country will need 50 percent more generation by summer 2004. Decades of fuel shortages and lack of regular maintenance have severely curtailed dependable electrical supply. Post-war looting and sabotage rendered seven of the country's major transmission lines inoperable. Given these needs for reconstruction, companies may have numerous and wide-ranging opportunities in the power sector.

The United Nations has several projects underway in Iraq, one of which is electricity rehabilitation. In the three northern governorates (Erbil, Dohuk, and Suleimaniya), the UN Development Program (UNDP – www.undp.org) implemented the Electricity Network Rehabilitation Program (ENRP – www.enrp.undp.org) to rehabilitate the electricity network across four main sectors: generation, transmission, substations, and distribution. Through ENRP, the UNDP has built up capacity to implement an operation of \$800 million. Its work has resulted in power stability for about 380,000 households (2.7 million people). Thus far, ENRP has awarded 25 contracts worth \$238 million. The ENRP provides information on current vacancies, invitations for expression of interest, and procurement notices.

At the Iraq Donors' Conference in Madrid, the Ministry of Electricity (MOE) proposed construction of combined cycle power plants, transmission line additions, completion of thermal power stations begun under the Oil for Food Program, and training of technicians. The Minister expressed concerns for environmental sensitivity and security for workers in the

electricity sector. The CPA is transitioning securing forces to the MOE. Over 20 electrical facilities have been transferred.

During the week February 6 – February 11, 2004, the average peak electricity production was 4034 MWpd. Total megawatt production for the week was an increase of 1.0 percent over the previous week. Electricity production Iraq-wide since November had been relatively steady.

Nine 500kV transmission lines and seven 132kV transmission lines continue to be out of service. As of February 6, 758 MWpd of generating capacity was on forced outage and 874 MWpd was on scheduled outage. The Ministry returned two generators to service during the January 31 – February 6 period.

Major power infrastructure projects are incorporated within the potential scope of USAID's Capital Construction contract. Information on Bechtel's work in the electricity sector, including support for CPA and UNDP efforts in Iraq, is available at www.bechtel.com/PDF/Iraq_Power.pdf. The PMO Electrical RFP can be found on the Program Management Office website at www.rebuilding-iraq.net.

Water: The Ministry of Public Works recently announced that average daily availability of water services in Iraq is one-hour above pre-war levels. Over 90 percent of the urban population is thought to have access to water, but quantities per capita are insufficient. It is estimated that 60 percent of the overall population has access to potable water. In many neighborhoods, leaking pipes have contaminated potable water networks.

The water treatment system in Iraq consists of 218 traditional water treatment plants and 1,191 mobile compact water treatment plants that mainly serve rural areas. Baghdad's water distribution system consists of nine large dams, 18 major barrages, and 275 pump stations. The equipment used in these pumps stations is over 20 years old.

The Ministry has plans to ensure that the 90 percent of Iraqis who currently have access receive clean water by 2004, and that all Iraqis have access to clean water by 2005.

The Ministry's plan also calls for extending sewage treatment to 15 percent of the country by the end of 2004 and to 30 percent by the end of 2005. Only eleven percent of Iraqi citizens nationwide currently have proper sewage facilities. Only half of the country's sewage treatment plants are operational. In Baghdad, deteriorating sewage treatment installations are unable to handle increasing flows caused by population growth. Steps taken by the CPA and various non-government organizations (NGOs), in cooperation with the Baghdad city water

authorities and the Army Corps of Engineers, averted an immediate water crisis in Baghdad.

Projects aimed at improving Iraq's irrigation systems, potable water availability, and wastewater treatment facilities are included within the scope of USAID's Capital Construction contract. Bechtel is currently working on a project to increase water capacity on the eastern side of Baghdad, increasing flow from 580 million liters per day to 780 million. Work has also begun in Basrah, Diwaniyah, and Hillah on sewage treatment plants.

The Ministry has announced plans to hire 100,000 Iraqis in temporary positions to proceed with basic public works projects: cleaning the cities, refurbishing the gardens, and collecting garbage. Private humanitarian groups are also contributing to the treatment of damaged water facilities. Veterans for Peace, a nonprofit educational and humanitarian group, managed to raise close to \$200,000 to repair six water treatment facilities, which serve a population of more than 85,000 people. The World Bank estimates a total cost of 1.8 billion in 2004 for improvements to water sanitation and solid waste, and \$4.9 billion in years 2005 through 2007.

The PMO Water and Wastewater RFPs can be found on the Program Management Office website at www.rebuilding-iraq.net.

Telecommunications: U.S. companies will find opportunities in resuscitating Iraq's telecommunications ("telecom") sector. There were as of April 2003 less than three phones for every 100 people. The state-owned Iraq Telecommunications and Posts Company is the sole provider of both landline telecom and postal services in Iraq. Given the current state of Iraq's telecommunications infrastructure, quickly establishing a functioning telecom system in Iraq is an economic development priority. The World Bank estimates that in 2004, telecom rebuilding will need \$1.04 billion, and from 2005 through 2007, the sector will need \$2.3 billion. At the Madrid Donors' conference on Iraq, a goal of increased teledensity to 10 percent was set for 2007. To reach it, private investment will be required.

Since the fall of the Hussein regime, sales of satellite receivers and other digital equipment has been explosive. Anecdotal evidence points to thousands of DVDs, CDs, Digital Video Broadcast equipment, and media players making their way to Iraq. Harris Corporation recently won a \$96 million contract through the Department of Defense to restore Iraq's media outlets, including its television networks.

CPA Order # 11 provides for the Iraqi Ministry of Transportation and Communications to be the licensing and regulatory body for all

commercial telecommunication services in Iraq. The PMO Communications RFP can be found on the Program Management Office website at www.rebuilding-iraq.net. Since May 2003, CPA has reinstated telephone service for 52,300 subscribers, and continues to make progress in restoring service to customers, especially in Baghdad. There are now 635,000 active telephone subscribers in Iraq, giving a penetration rate of 2.5 percent. CPA has repaired 16 telephone switches since May 2003. Six switches out of 203 are still inoperable. ITPC is now fully crewed and equipped at all of these switches and is able to connect as many as 2000 lines per day per switch. The satellite gateway for international calling is fully operational, however ITPC continues to block outgoing calls. Inbound calls are being received.

The Communications Minister announced the winners of the competition for mobile licenses in late 2003. The northern region license was awarded to Asia-Cell, a Kurdish Iraqi company. An Egyptian company, Orascom, won the central region license. A Kuwaiti company, Atheer, won the license for the South. Cell phones are now being distributed and the network, although now small, has begun to function.

Two hundred sixty-three post offices have been restored and are now functioning. Estimated daily mail volume at the Central Post Office is 1,000 pieces per day. The CPA has completed the assignment of 10,000 radio frequencies for the Iraqi police forces.

There are opportunities for U.S. firms to establish Internet access in Iraq. Since the previous Iraqi regime considered the Internet a direct threat to the status quo, it was scarcely available. The State Company for Internet Services has 60,000 subscribers, of which only half were operating before the war. Internet centers charged a \$55 annual membership fee and Iraqi companies had to pay between \$2,500 and \$8,000 per year to install the Internet in their offices. Computer equipment was also restricted, with only 15 percent of the population thought to be able to use a computer. Dramatically increasing the number of computers in Iraq and accelerating Internet access throughout the country will facilitate economic development in Iraq.

Healthcare: The Iraqi health care system suffers from a lack of equipment, depletion of trained professionals (many of whom left the country), and poor standards. Some of the areas that are particularly lacking are cardiovascular treatment capability, general hygiene products, dialysis, and a lack of functional laboratories.

The health system that Saddam Hussein supported was corrupt and the quality of healthcare varied according to ethnic region. Shiites in the south

have higher infant death rates than Baghdad, and in Kirkuk, health standards were manipulated. Any company wanting to sell drugs to the Ministry of Health had to pay a 10 percent service charge, which would eventually end up in a Baathist treasury account in Amman. In 2002, doctors were paid \$20 a month while pharmacists were making only \$1 a month.

There are approximately 240 hospitals and 1,200 primary health care clinics operating in Iraq. Since March 2003, 49 hospitals and clinics have been rehabilitated with another 131 planned. Most equipment is broken, outdated or inadequate. Services and quality of the healthcare system vary by region, with better services available in and around Baghdad and the northern areas. The Ministry of Health has around 100,000 healthcare professionals and staff, of which over 80 percent are women. Iraq tends to have a relatively high number of specialists but lacks an adequate number of primary health care workers. The country has very few first-tier pharmaceuticals available.

Through quick action by the Coalition, Iraqis, USAID, and international relief organizations, a public health crisis in the wake of the war was avoided. The healthcare system is up and running at pre-war levels. Over \$40 million has been spent on 128 generators for healthcare sites. More than 13,000 tons of pharmaceuticals and supplies have been delivered since late May 2003. Medical equipment is being surveyed and repairs made where possible. The Ministry has begun an "Adopt a Hospital Program" to foster international assistance. Three million children have been vaccinated under the "Monthly National Immunization Day" program. From January 18-21, DOC and the U.K. Government jointly hosted a delegation of ten Iraqi health delegates to meet with U.S. and U.K. exhibitors at Arab Health in Dubai. Discussions are underway for continued joint U.S./U.K. initiatives in this sector.

Abt Associates (www.abtassoc.com) was awarded a \$40 million contract to assist in stabilizing and strengthening the health system. Abt is responsible for helping to rebuild almost all sub-sectors of the healthcare system. The company is assessing and implementing emergency relief, planning, process improvements, health economics, data collection and information systems.

The PMO Public Buildings, Housing, and Health RFP can be found on the Program Management Office website at www.rebuilding-iraq.net. In addition, the Iraqi Ministry of Health website can be found at www.kimadia.com.

UNICEF has been active in delivering basic vaccines, and the Ministry of Health currently promotes a monthly "Vaccine Day," delivering over 1.4

million doses of vaccinations since July 2003, with another 30 million procured with the help of USAID and UNICEF. Almost one-third of children in the south and central regions suffer from malnutrition. Women suffer from high rates of anemia (estimated to be as high as 60-70 percent). Low breastfeeding levels, low birth weights, diarrhea, and acute respiratory infections all contribute to high child mortality rates (125 per 1,000). Over 8,000 Iraqi workers have begun training to screen and manage malnourished children. (The World Health Organization contributed \$10 million.)

Prior to 2003, the highly centralized Iraqi health system tended to concentrate more on curing illnesses rather than prevention. The Ministry of Health is placing decentralization of the management structure as one of its highest priorities in the coming year. Currently, there is a great need for the development of a system of standards, and the need to license health care professionals to ensure that these standards are enforced. There is little existing health legislation in Iraq, and the legislation that does exist needs to be strengthened. Also, up-to-date training and education programs are needed, along with new professionals in the fields of healthcare management, planning, and finance.

Housing and Construction: The lack of housing and the existing low quality housing create one of the largest potential markets in Iraq. Unfortunately, it only recently started getting significant media coverage and funding. The current housing shortage is estimated at 1.4 million units. In addition, prison and school construction is desperately needed. Like much of the Arab world, deeds and titles are unclear or non-existent making ownership of land and other property unclear. This also affects financing, mortgages and other banking functions.

The 2004 budget funds two new projects of 504 apartments each. Three low-income projects (1,320 apartments) are underway with 2003 budget funds. In addition, CPA made a special allocation of \$100 million for 13 additional projects of 504 apartments each. Bids on these contracts opened on January 10. Construction should begin by the end of February. Access to housing is also essential. CPA has completed 23 road and bridge projects with 112 projects underway in addition to the road projects falling under USAID and Bechtel.

Other Sectors: The non-oil industrial sector also includes such industries as petrochemicals, phosphate, sulfur, fertilizers, minerals, cement, paper, consumer goods, light manufacturing, electronics, machinery and transport equipment, textiles, leather and shoes, and food processing and packaging. Most major industrial enterprises were state-owned.

VI. CRITICAL CONTACTS FOR BUSINESS

Contract Resources

Coalition Provisional Authority
www.cpa-iraq.org/

CPA Program Management Office
www.rebuilding-iraq.net/

Iraqi Business Centers
www.iraqibusinesscenter.org/
<http://kirkuk-business-center.org/>

U.S. Department of Commerce
Iraq Reconstruction Task Force
Business outreach website & hotline
Tel: 1-866-352-4727
Fax: (202) 482-0980
E-mail: IraqInfo@mail.doc.gov
www.export.gov/iraq

U.S. Agency for International Development
www.usaid.gov/iraq/activities.html - for USAID Iraq opportunities

U.S. Army Corps of Engineers
Tel: 1-866-461-5171, the Defense Department Iraq contract hotline
www.hq.usace.army.mil/cepa/iraq/contracts.htm - for USACE Iraq opportunities
www.hq.usace.army.mil/cepa/iraq/faq.htm - for USACE Iraq contract FAQ

United Nations Iraq Programs
www.devbusiness.com
www.iapso.org
www.iq.undp.org

United Nations
Office of the Iraq Oil-for-Food Program
www.un.org/Depts/oip/

Oil-for-Food Contract Inquiries
Office of Peacekeeping and Humanitarian Operations
U.S. Department of State

(202) 736-7733

Government Resources

U.S. Foreign Commercial Service
American Embassy, Kuwait
Tel: 965-539-5307/8, Ext. 2392
Fax: 965-538-0281
E-mail: Kuwait.City.Office.Box@mail.doc.gov
www.buyusa.gov/kuwait/en/

U.S. Foreign Commercial Service
American Embassy, Amman, Jordan
Tel: 962-6-592-0101, Ext. 2632
Fax: 962-6-592-0146
E-mail: ammanoffice.box@mail.doc.gov
www.buyusa.gov/jordan/en

U.S. Department of Commerce, Bureau of Industry and Security
Export Counseling Division
Tel. (202) 482-4811
www.bis.doc.gov

U.S. Department of Agriculture
Foreign Agricultural Service
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Tel: 1-202-690-1180
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U.S. Department of State
Office of Commercial and Business Affairs
www.state.gov/e/eb/cba/iraq

U.S. Department of State
Travel Warning and Updated Security Information for Iraq
travel.state.gov/iraq.html

U.S. Department of State International Police Recruiting Program
www.state.gov/g/inl

U.S. Department of Treasury
Office of Foreign Assets Control
Tel: 1-800-540-6322
www.treas.gov/offices/enforcement/ofac/

U.S. Department of State, Defense Trade Controls
www.pmdtc.org

U.S. Central Command
www.centcom.mil/