

DEVELOPMENTS IN IRAQ

GOVERNANCE	66
SECURITY AND THE RULE OF LAW	77
ECONOMY	83

SECTION

4

GOVERNANCE

Although scattered protests occurred in Basrah, Baghdad, and Najaf this quarter, these gatherings—with the exception of the large Sadrist rally in Basrah in mid-March—were significantly smaller than the wave of protests that swept Iraq in February and March 2011. However, the main drivers of last winter’s disturbances, inadequate public services, unemployment, and widespread governmental corruption, remain among the most pressing problems facing the Government of Iraq (GOI) today.

Iraqi Democracy

The representative political institutions that have evolved since 2003 distinguish Iraq from most of its neighbors. In a January 2012 survey of democratic governance, *The Economist* ranked Iraq fifth of 20 countries in the Middle East and North Africa region. Among 167 countries worldwide, Iraq ranked 112. The GOI received an overall score of 4.03 out of 10, slightly higher than its 2010 score of 4.0. Citing relatively free and fair parliamentary elections in 2005 and 2010, as well as similarly well-administered provincial elections in 2009, the report gave Iraq high marks in the “political participation” category (7.22 out of 10) and middling grades for the electoral process (4.33) and civil liberties (4.41). But in the “functioning of government” category, Iraq scored 0.43 out of 10—in the bottom five of all countries ranked. The GOI’s poor performance in executing capital projects, providing essential services, and combating corruption were named as contributing factors in the grade. Figure 4.1 shows Iraq’s ranking relative to major powers and key regional players.²⁹⁰

Political Developments

Unresolved Intrigue

In mid-December 2011, hours after the last U.S. troops left Iraq, Prime Minister Nuri al-Maliki asked the Council of Representatives (CoR) for a vote of no confidence in Deputy Prime Minister Salih al-Mutlaq, a Sunni member of former Prime Minister Ayad Allawi’s al-Iraqiya bloc. Although the vote was never held, al-Mutlaq continues to absent himself from Council of Ministers (CoM) meetings.

Shortly after the Prime Minister moved against al-Mutlaq, the Higher Judicial Council issued an arrest warrant for Vice President Tariq al-Hashimi, who is also a Sunni member of al-Iraqiya, accusing him of involvement in a spate of assassinations allegedly committed by his bodyguards. According to al-Hashimi’s office, the GOI has detained dozens of members of his office in connection with the allegations. Current plans call for their trials to be held in Baghdad in early May. Al-Hashimi, who spent most of this quarter in the Kurdistan Region before traveling to Qatar, Saudi Arabia, and Turkey, continues to maintain that he cannot receive a fair trial in Baghdad. Figure 4.2 shows some of the key political events that have occurred since mid-December.²⁹¹

Postponement of National Reconciliation Conference

In late December, Iraqi President Jalal Talabani proposed a national conference that would bring all major Iraqi political groups together to discuss the challenges facing the GOI, including some issues that contributed to the December crisis. But despite at least two preparatory meetings, the conference has been repeatedly postponed because of the inability of all sides to agree on an agenda.²⁹²

FIGURE 4.1
DEMOCRATIC GOVERNANCE IN SELECTED COUNTRIES, 2011

Norway (1)	9.80
United States (19)	8.11
Israel (36)	7.53
Mexico (50)	6.93
Turkey (88)	5.73
Lebanon (94)	5.32
Pakistan (105)	4.55
Iraq (112)	4.03
Jordan (118)	3.89
Kuwait (122)	3.74
UAE (149)	2.58
Afghanistan (152)	2.48
Saudi Arabia (161)	1.77
North Korea (167)	1.08

Note: The higher the score, the better the performance.

Source: EIU, *Democracy Index 2011: Democracy under Stress*, 1/2012, pp. 3–8.

Security Ministries

This quarter also marked the second anniversary of Iraq's most recent national election. The March 2010 balloting resulted in Prime Minister al-Maliki retaining his office, despite his State of Law (SoL)

coalition finishing with two fewer CoR seats (89–91) than its leading rival, al-Iraqiya. The failure of either group to gain an outright majority in the 325-member CoR led to more than eight months of political negotiations, which culminated in a November 2010 power-sharing accord referred to as the Erbil Agreement. While the exact terms of this pact remain undisclosed, al-Iraqiya maintains that it was to have received control over appointment of a new Minister of Defense, with SoL exercising similar authority over the naming of a new Minister of Interior. However, al-Iraqiya and SoL have remained at loggerheads over these two posts, with neither side willing to accede to the other's selection. As of April 10, 2012, this situation persists, and both ministries are being managed on a temporary basis by officials handpicked by the Prime Minister: Saadoun al-Dulaimi at the Ministry of Defense and Adnan al-Asadi at the Ministry of Interior (MOI).²⁹³

Council of Representatives

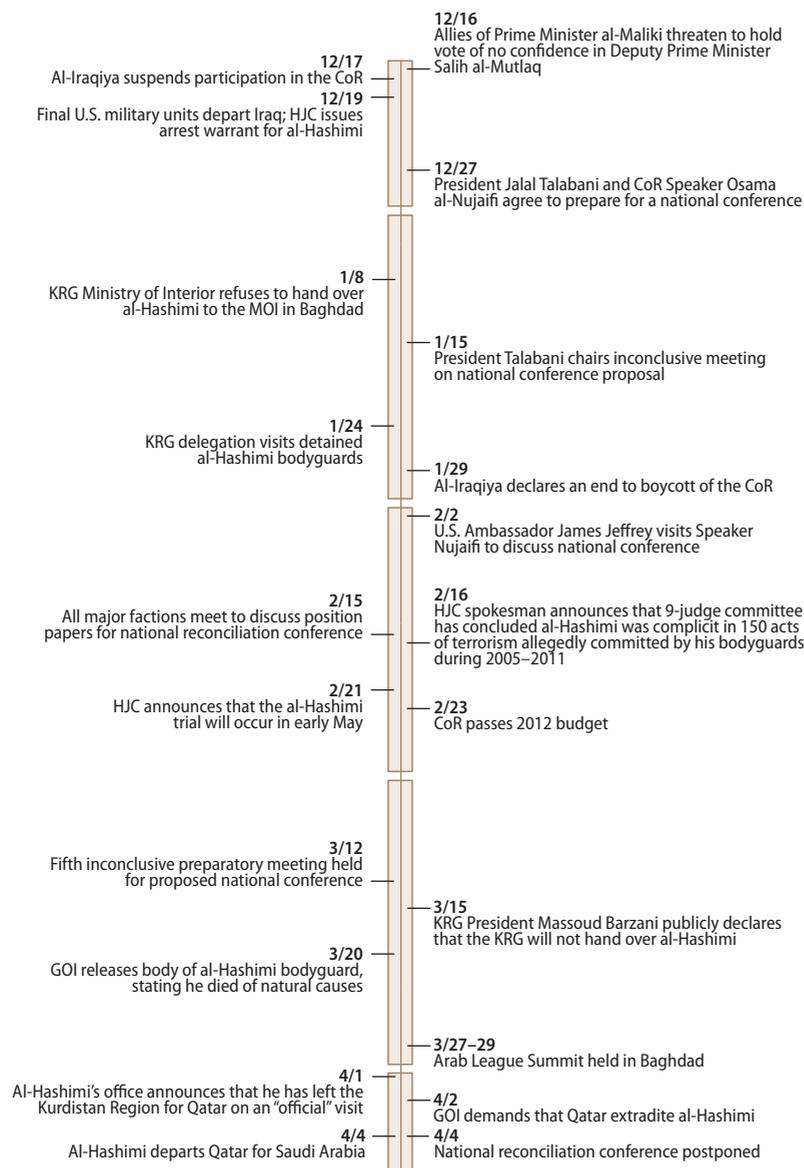
In late January, al-Iraqiya announced that it would be ending its boycott of the CoR's proceedings, allowing the parliament to conclude debate on its lead agenda item—the 2012 budget. About three weeks later, the CoR passed the Budget Law for 2012, authorizing a \$100.4 billion national budget for this year. Among the ministries receiving larger budgets this year are Transportation, Oil, Finance, Interior, and Electricity. Other features of the law include:²⁹⁴

- specific set-asides for members of the largely Sunni Sons of Iraq militia in the restive provinces of Ninewa and Diyala
- slightly enhanced powers for the provincial governors to implement projects
- provincial quotas for foreign scholarships
- armored vehicles for CoR members and their associates—a line-item that resulted in followers of Muqtada al-Sadr leading a large protest in Baghdad at the end of February

In a change from an earlier draft budget, the final Budget Law does not include a provision for

FIGURE 4.2

TIMELINE OF DISPUTE BETWEEN PRIME MINISTER AL-MALIKI AND MEMBERS OF AL-IRAQIYA, 12/15/2011–4/4/2012



Source: SIGIR analysis of open-source documents in English and Arabic, 12/2011–4/2012.

sovereign financial guarantees to reassure lenders financing large projects in Iraq. Article 36 of the CoM draft law would have provided for such guarantees, but it was stricken by the CoR before the final vote approving the budget.²⁹⁵

With the passage of the budget, the CoR has returned to consideration of other long-standing issues, including:²⁹⁶

- revisions to the Amnesty Law
- the long-delayed package of hydrocarbon laws
- provincial elections (scheduled for 2013) and the next CoR elections (scheduled for 2014)
- disputed internal borders to the south and west of the Kurdistan Region

Regionalism

Last quarter, provincial officials in Diyala, Anbar, and Salah Al-Din pushed the dormant issue of regionalism to the front of the GOI's agenda, declaring their intentions to form semi-autonomous regions with powers analogous to those possessed by the Kurdistan Regional Government (KRG). This quarter, those efforts appeared to have lost momentum. In a March interview with a Saudi Arabian media outlet, Prime Minister al-Maliki reiterated his position that provincial government institutions, as currently constituted, did not possess the capacities to exercise the more substantial powers of regions and that, thus, the formation of additional regions at this time would be premature. He added that while he did not oppose the eventual formation of regions by constitutional means, the current security situation in Iraq militated against such a significant reduction of the central government's powers. As of mid-April, no additional significant steps toward forming regions have been taken by any province or group of provinces.²⁹⁷

Split of Islamic Supreme Council of Iraq and Badr Organization

On March 11, the Islamic Supreme Council of Iraq (ISCI) and the Badr Organization issued a statement announcing that they were formally splitting into two parties. ISCI, which was previously known

as the Supreme Council for the Islamic Revolution in Iraq, had once been a prominent Shia party in Iraq, but its political position had declined after poor showings in the 2009 provincial and 2010 parliamentary elections, as well as the August 2009 death of its leader, Abdul-Aziz al-Hakim. Relations between the two factions had also been adversely affected by the fact that the leader of the Badr Organization, Hadi al-Amiri, backed a second term for Prime Minister al-Maliki after the 2010 elections (and was subsequently rewarded with the Ministry of Transportation), while the head of ISCI, Ammar al-Hakim, appeared to prefer Adel Abdul al-Mahdi.²⁹⁸

The Kurdistan Regional Government

New Prime Minister

On February 17, 2012, the Iraqi Kurdistan Parliament (IKP) nominated Nechervan Barzani for the post of Prime Minister of the KRG. The President of the KRG, Massoud Barzani, confirmed the IKP's decision on March 7. Nechervan Barzani, a long-time member of the Kurdistan Democratic Party (KDP), previously served as the first Prime Minister of the unified Kurdistan Region from 2006 to 2009. He returns to office pursuant to a power-sharing agreement between the KDP and the Region's other major party, the Patriotic Union of

Prime Minister al-Maliki added that while he did not oppose the eventual formation of regions by constitutional means, the current security situation militated against such a significant reduction of the central government's powers.



KRG President Massoud Barzani (second from right) greets new KRG Prime Minister Nechervan Barzani, March 2012. (KRG photo)

Kurdistan (PUK), which Barham Salih represented as Prime Minister during 2009–2012. According to the terms of this agreement, several high-level KRG posts will alternate between the KDP and PUK every two years, thereby preserving, for now, their continuing control over the Region’s key offices.²⁹⁹

President Barzani’s Kurdish New Year’s Address

On March 20, President Barzani delivered his annual Newroz (Kurdish New Year) address, in which he criticized the GOI for allegedly violating the terms of the Erbil Agreement and described the current state of GOI-KRG relations as “unacceptable.” He added that:³⁰⁰

- power-sharing among Kurds, Sunni Arabs, and Shia Arabs is “non-existent and has become meaningless”
- the KRG’s oil contracts are constitutional and the GOI opposes them because it does not want the KRG to “make progress and stride forward”
- the Kurds remain committed to alliances with some Shia groups, but do not support “this group of people who have monopolized power” in the current government

He closed his speech by urging all political leaders to find a solution to the current political crisis, stating that, otherwise, “we will return to our people and will decide on whatever course of action that our people deem appropriate.”³⁰¹

International Engagement

Arab League Summit

In late March, the 33rd summit of the League of Arab States convened—the largest international gathering in Baghdad since the Arab League last met there in 1990. The ongoing unrest in Syria topped the agenda, with several leading Sunni powers, including Saudi Arabia and Qatar, voicing their support for anti-regime insurgents combatting the Alawite (a Shia offshoot) government in



Some sessions of the Arab League summit in late March were held in a ballroom at the old Republican Palace. (GOI photo)

Damascus. The GOI, on the other hand, called for the violence to end and elections to be held, but refrained from providing overt rhetorical support to the mostly Sunni rebels in Syria, who oppose the Iranian-backed government in Damascus. On March 29, the summit’s final day, Prime Minister al-Maliki publicly rejected any foreign military intervention in Syria.³⁰²

Postponed in 2011 because of security concerns and regional unrest, portions of the summit were held at the newly refurbished Republican Palace (the former headquarters for the U.S. reconstruction effort). Representatives from 21 countries attended the summit, including the Emir of Kuwait and leaders from the new governments in Libya and Tunisia. However, many key Arab League members, such as Saudi Arabia, dispatched contingents led by more junior representatives. Table 4.1 lists the attendees and the ranks of their respective delegation heads.³⁰³

The GOI dedicated substantial resources toward securing the summit and beautifying Baghdad in preparation for the influx of foreign dignitaries and journalists. It reportedly deployed about 100,000 Iraqi Security Forces (ISF) personnel and spent several hundred million dollars. The GOI also closed Baghdad International Airport to civilian traffic, blocked off major thoroughfares for security reasons, and declared a five-day public holiday, leading one Iraqi employed by the U.S. Embassy to state

President Barzani described the current state of GOI-KRG relations as “unacceptable.”

TABLE 4.1
ARAB LEAGUE SUMMIT ATTENDEES, 3/27–29/2012

COUNTRY	HEAD OF DELEGATION	COUNTRY	HEAD OF DELEGATION
 Iraq	President and Prime Minister	 Jordan	Prime Minister
 Kuwait	Emir	 Bahrain	Minister of Foreign Affairs
 Lebanon	President	 United Arab Emirates	Minister of Foreign Affairs
 Sudan	President	 Egypt	Minister of Foreign Affairs
 Somalia	President	 Yemen	Minister of Foreign Affairs
 Djibouti	President	 Morocco	Minister of Foreign Affairs
 Comoros	President	 Oman	Head of the State Council
 Mauritania	President	 Algeria	Parliament Speaker
 Palestinian Authority	President	 Saudi Arabia	Permanent Representative to the Arab League
 Tunisia	Interim President	 Qatar	Permanent Representative to the Arab League
 Libya	President of the Transitional Council	 Syria	Not invited

Sources: GOI, MoFA, information provided to SIGIR, 4/2012; SIGIR analysis of open-source documents in Arabic and English, 3/2012–4/2012.

that Baghdad “seemed like a ghost town.” While minor security incidents took place away from the conference site, including near the Iranian embassy, the summit’s proceedings unfolded without significant interruption.³⁰⁴

Day one focused on financial and trade issues, including regional economic-development plans, water-security concerns, natural-disaster preparations, and oil and gas issues. Discussions on day two concerned foreign affairs, with the consequences of the Arab Spring, the unrest in Somalia and Yemen, and the Israel-Palestine conflict among the main topics of discussion. The final session covered a wide array of political, social, and economic issues and summed up the discussions held earlier in the week. Other topics addressed during the course of the summit included:³⁰⁵

- the Arab League’s endorsement of former UN Secretary General Kofi Annan’s Syrian peace plan
- the potential formation of stronger Arab League institutions, including an Arab Court of Justice
- plans to work toward a region-wide zone free of weapons of mass destruction

Internal Iraqi issues, such as the lingering differences between the KRG and GOI, were not on the summit’s agenda.

Regional Diplomacy

In the weeks leading up to the Arab League summit, the GOI deepened its engagement with neighboring Sunni Arab states:³⁰⁶

- **Saudi Arabia.** In February, Saudi Arabia named its first envoy to Iraq in more than two decades.

While minor security incidents took place away from the conference site, the summit proceedings unfolded without significant interruptions.



GOI and Kuwaiti government representatives signing an accord in March resolving the dispute between Iraq and Kuwait over aircraft and other equipment seized by the Ba'athist regime in 1990. (GOI photo)

The GOI settled a long-standing dispute with Egypt by agreeing to send about \$400 million as payment for debts owed to Egyptians.

The selection of Fahad Abdul Muhsin al-Zayd as the new ambassador to Baghdad marks restoration of formal diplomatic ties between the two countries—ties that were severed in the wake of Saddam Hussein's 1990 invasion of Kuwait. Al-Zayd is currently serving as the Saudi ambassador to Jordan and will manage relations with Iraq from his country's embassy in Amman. No timetable has been set for the reopening of a Saudi embassy in Baghdad.

- **Kuwait.** In mid-March, the GOI reached an agreement with Kuwait to settle a dispute involving Kuwaiti allegations that the Ba'athist regime stole 10 airplanes and a significant amount of aviation-related equipment during the 1990 invasion. Originally, Kuwait had sought more than \$1.2 billion in reparations but, according to the terms of the settlement reached this quarter, agreed to accept \$300 million from the GOI. The GOI also agreed to commit another \$200 million to set up a joint airline operated by both countries. Left unresolved by this partial rapprochement are several other bilateral issues, including border demarcation, shared oil fields, and maritime boundaries.
- **Jordan.** In late February, the GOI Minister of Planning met with Jordanian government

officials to discuss extending an oil pipeline between Jordan and Iraq and linking the two countries by rail.

- **Egypt.** In March, the GOI reportedly settled a long-standing dispute with Egypt by agreeing to send about \$400 million to Egypt as payment for debts relating to remittances owed to Egyptians who worked in Iraq during the 1980s and 1990s.

Displaced Persons

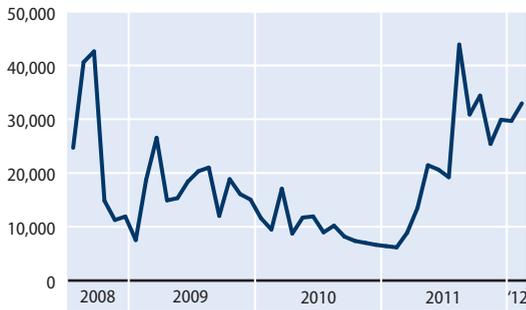
Ongoing Process of Relocating Camp Ashraf Residents

The December 25, 2011, memorandum of understanding between the GOI and United Nations Assistance Mission for Iraq calls for the relocation of approximately 3,400 members and associates of the Mujaheddin-e Khalq, an Iranian group, from Camp Ashraf to the former U.S. military base once known as Camp Liberty, near Baghdad International Airport. On February 18, 2012, the first group of 400 Ashraf residents moved to the new location, which is now known as Camp Hurriya and guarded by the ISF. As of March 28, according to the UN High Commissioner for Refugees (UNHCR), at least two subsequent transfers were completed, each of approximately 400 persons. The UNHCR further stated that the process of interviewing the transferred persons began in mid-February and that decisions are currently being made on refugee status and referrals to potential resettlement countries.³⁰⁷

Iraqi Returnees

Based on data compiled by the GOI and the UNCHR, 2011 saw the second highest annual total of Iraqi returnees since 2003. For 2011, UNHCR reported that 193,610 internally displaced persons (IDPs) returned to their home provinces and 67,080 refugees returned to Iraq (260,690 total)—more than double 2010's total IDP and refugee returnees (118,890). For the first two months of

FIGURE 4.3
**NUMBER OF RETURNING REFUGEES AND IDPS,
 BY MONTH, 7/2008–2/2012**



Source: UNHCR, *Monthly Statistical Update on Return*—February 2012.

2012, the UNHCR reported that returnee numbers remained high, with 47,280 IDPs returning to their home provinces and 15,350 refugees returning to Iraq during that time.³⁰⁸

The unrest in the Middle East, including the widespread violence in Syria, may have contributed to this increase, as may have the GOI’s decision to quintuple the level of financial assistance provided to returnees. According to the UNHCR’s February 2012 report, more than 37,000 Iraqis had registered as returnees from Syria since January 2011, almost as many as the 29,135 who returned in the two preceding years combined. Figure 4.3 shows the monthly level of all returnees from July 2008 to February 2012.³⁰⁹

In February, provincial officials in Anbar announced that they were preparing temporary housing facilities near the Syrian border in anticipation of a large influx of returning Iraqi refugees. According to a member of the Anbar Provincial Council, the GOI constructed the new camps in collaboration with international refugee organizations, including the Red Crescent. The GOI has stated that these facilities are only for persons able to demonstrate Iraqi citizenship; Syrian nationals are not permitted to take shelter there. For details of U.S.-funded efforts to assist the GOI in addressing the needs of refugees and IDPs, see Section 3 of this Report.³¹⁰

On March 14, the KRG announced that it would be opening a second refugee camp in the province of Dahuk to provide additional accommodations for Syrian Kurds fleeing the violence across the border. The intention of opening a second camp would be to ameliorate the overcrowding at the only operational refugee center, located at Qamishli. Several hundred Syrian Kurds have reportedly sought shelter there.³¹¹

Displaced Christians

Before 2003, about 1.4 million Christians lived in Iraq. But sectarian violence and anti-Christian attacks caused many of them to flee the country, with 2011 estimates placing the total number of Christians still residing in Iraq at between 400,000 and 600,000.³¹²

In its January 2012 update on the status of Christians displaced by violence in 2010 and 2011, the International Organization for Migration (IOM) reported that a total of 489 displaced Christian families were living in the Kurdistan Region (Dahuk, Sulyamaniyah, and Erbil provinces) and Ninewa province, as of January 31, 2012. This is down 64% from a year earlier, the when IOM reported 1,354 displaced Christian families in those four provinces. The IOM ascribed this decline to two factors—emigration and returns home.³¹³

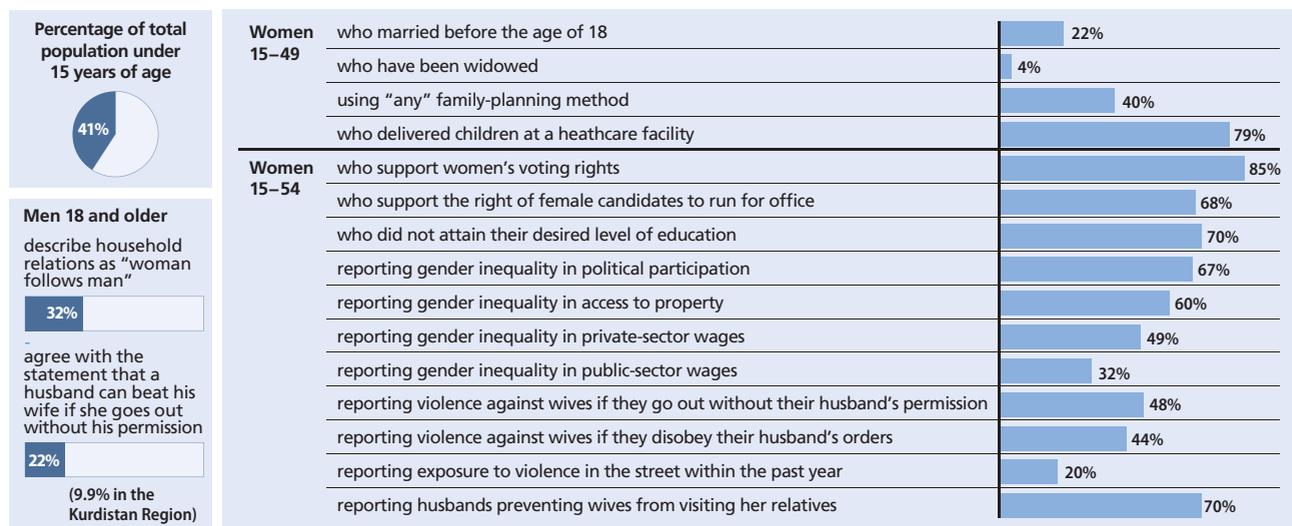
Violence against Christians, or the perceived threat of such violence, has also affected the real estate market in both Baghdad and northern

More than 37,000 Iraqis had registered as returnees from Syria since January 2011.



Displaced Christians in northern Iraq, 2011. (IOM photo)

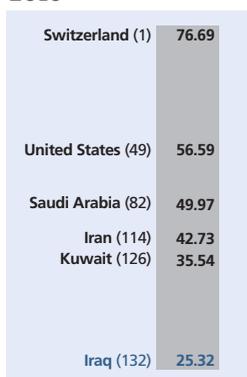
FIGURE 4.4
GOI'S "IRAQ WOMAN INTEGRATED SOCIAL AND HEALTH SURVEY, SUMMARY REPORT," SELECTED FINDINGS, 3/2012



Note: The findings are based on responses to a GOI survey of 10,523 households in all 18 provinces.

Source: GOI, COSIT, "Iraq Woman Integrated Social and Health Survey (I-WISH), Summary Report," 3/2012, www.iauiraq.org/documents/1666/I-WISH%20Report%20English.pdf, accessed 4/2/2012.

FIGURE 4.5
ENVIRONMENTAL PERFORMANCE OF SELECTED COUNTRIES, 2010



Note: The Environmental Performance Index (EPI) score factors in multiple indicators. The higher the score, the better the performance.

Source: Yale University, "Table of Main Results," 2012 *Environmental Performance Index*, <http://epi.yale.edu/dataexplorer/tableofmainresults>, accessed 3/13/2012.

Iraq. Christians in Baghdad are largely unable to sell their homes for a fair price, with IOM monitors noting that some Iraqis spread rumors of impending violence against Christians to induce them to sell at depressed prices. The reverse is true in northern Iraq, where local landlords often can demand high rents from displaced Christian families. For example, in one town in Dahuk the cost of "modest" rental accommodations has risen 200%–300% since the influx of Christians began in late 2010.³¹⁴

Quality of Life

GOI Survey on Family Life and Women's Issues

In March 2012, the Ministry of Planning and Development Cooperation (MoPDC) released the GOI's first comprehensive survey addressing women's issues. Produced with assistance from the UN Population Fund, the Iraq Woman Integrated

Social and Health Survey collected a wide variety of statistical information from a random sample of 10,523 households located throughout Iraq (including the Kurdistan Region). The study found that the average household size was 6.1 persons, with about 11% of the households surveyed headed by females. The survey measured the female illiteracy rate at about 22% and found that about 11% of women between the ages of 15 and 54 were engaged in paid employment. Figure 4.4 summarizes some of the survey's other key findings.³¹⁵

Environmental Quality

A Yale University study released this quarter indicated Iraq's performance in improving the country's natural environment was substandard. As shown in Figure 4.5, Iraq received the lowest score among the 132 countries measured in 10 areas of environmental health. The study also found the GOI's efforts to improve environmental quality were deteriorating, albeit not as sharply as some other countries.³¹⁶

Public Services

Electricity

This quarter's total supply of government-controlled electric power set a new record for Iraq, reaching an average of 188,173 megawatt-hours (MWh) per day, or about 7,841 megawatts (MW). This was a 5% increase from last quarter and a 22% increase from the same quarter in 2011. Power plants in the Kurdistan Region (which only provide power to that region's three provinces and the city of Kirkuk) accounted for 65% of the 1,437 MW supply increase over the past year. Imports accounted for 20% of the growth in supply, and power plants on the Ministry of Electricity (MOE) grid contributed the remaining 15%.³¹⁷ Figure 4.6 shows the changes in Iraq's total government-controlled supply of electricity since 2004.

In February, the MOE claimed that it expected to add another 3,000 MW of generating capacity to the grid this summer, half of which would be new generating units entering service in May.³¹⁸ Nonetheless, a common theme in many of the ministry's statements this quarter was frustration over the slow pace of power-plant construction and rehabilitation. For example, the Minister of

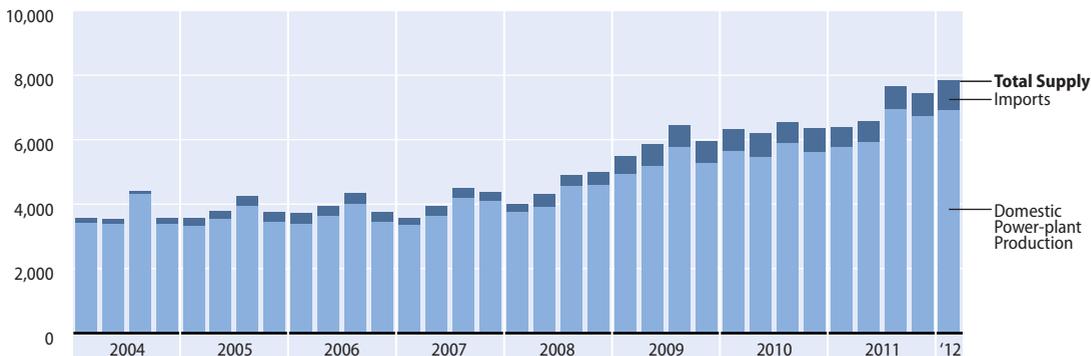
Electricity publicly chastised Hyundai for being behind schedule on its project to add 500 MW of new capacity to the Qudas plant in Baghdad, as well as for delays in completing work on diesel plants in Anbar. He also expressed displeasure at the slow progress in rehabilitating the Baiji thermal plant, which he said was operating at less than 30% of its 1,320 MW nameplate capacity, and called for faster construction work at all three GE "Fast Track" project sites (Taji, Hilla, and Kerbala), which together are expected to add 660 MW of capacity.³¹⁹

Imported electric power from Iran averaged 912 MW this quarter—a 29% increase from last quarter, and a 52% increase from the same quarter in 2011. These imports accounted for 16% of this quarter's total electricity supply on the MOE-controlled grid.³²⁰ For trends in electricity imports since 2003, see Figure 4.7.

Although some press reports this quarter stated that the MOE expects to stop importing electricity from neighboring countries by summer 2013,³²¹ recent MOE announcements suggest that Iraq's reliance on imports will continue to grow, at least in the near term. In February, Iran's Ministry of Energy agreed to increase the amount of electricity

Recent MOE announcements suggest that Iraq's reliance on imports will continue to grow, at least in the near term.

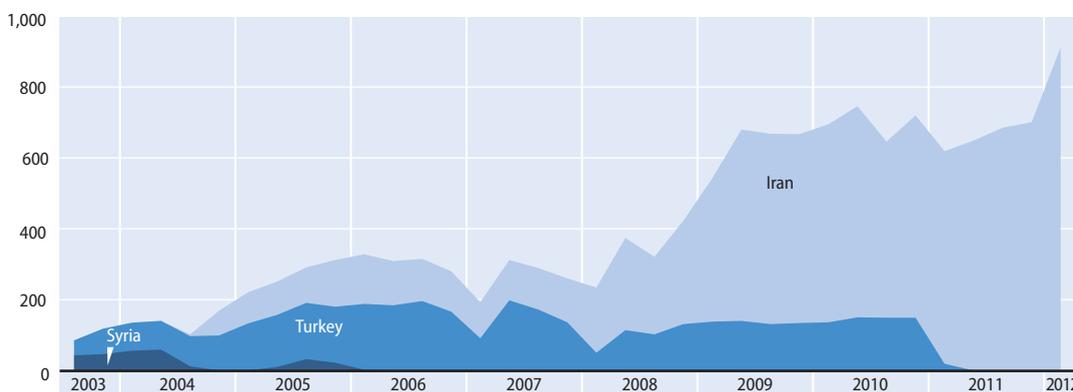
FIGURE 4.6
AVERAGE IRAQI ELECTRICITY SUPPLY, BY QUARTER, 1/2004–3/2012
MW



Note: Data for power-plant production this quarter is subject to revision. It includes full-quarter data for plants on the MOE-controlled grid but is missing 19 days of data for plants in the Kurdistan Region.

Sources: ITAO/ESD, *Electric Daily Performance Reports*, 6/1/2006–6/30/2011; DoS, *Iraq Status Reports*, 10/25/2006, slide 11, and 5/9/2007, slide 11; U.S. Embassy-Baghdad, responses to SIGIR data calls, 1/22/2012 and 4/13/2012.

FIGURE 4.7
ELECTRICITY IMPORTS, BY QUARTER, 2003–2012
MW



Sources: ITAO/ESD, *Electric Daily Performance Reports*, 6/1/2006–6/30/2011; DoS, *Iraq Status Report*, 10/25/2006, slide 11; U.S. Embassy-Baghdad, responses to SIGIR data calls, 1/22/2012 and 4/13/2012.

Iraq's per capita water consumption is the highest in the Middle East.

it exports to Iraq by 150 MW before this summer, which could bring the total to about 1,150 MW.³²² That same month, the MOE reported that it had reached an agreement with Egypt to start importing 150–200 MW by this summer. Undersea transmission lines will carry the power to Jordan, from where it will be transmitted through Syria to Iraq.³²³

Health

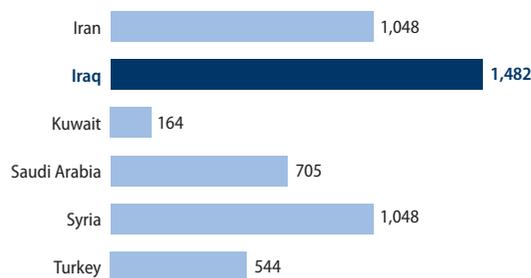
The United Nations Development Programme (UNDP) and World Health Organization transferred control of Iraq's first specialized tuberculosis clinic, located in the city of Sulaymaniyah, to Iraqi officials this quarter. The GOI and the KRG have committed to equipping and staffing the 30-bed clinic, which is expected to be fully operational by mid-2012.³²⁴

The results of Iraq's first major analysis of health-care expenditures revealed that, when measured both on a per capita basis and as a share of gross domestic product (GDP), Iraq spends less than countries with similar incomes. According to the analysis, healthcare costs were not a major burden on household budgets because Iraq's system of universal healthcare coverage places three-quarters of the cost on the state.³²⁵

Water

The Ministry of Water Resources is preparing to host the first Arab Water Conference in Baghdad at the end of May 2012. The conference is being organized in collaboration with the Arab League's Ministerial Council for Waters.³²⁶ Water rights continue to be a significant regional political issue and a potential flashpoint. Iraq's per capita water consumption is the highest in the Middle East (see Figure 4.8), with agriculture taking more than 90% of that consumption. The Ministry of Agriculture is encouraging farmers to adopt more

FIGURE 4.8
FRESH WATER WITHDRAWAL IN SELECTED MIDDLE EAST COUNTRIES
Cubic Meters/Person/Year



Source: MEES, *Energy and Geopolitical Risk*, Vol. 3 No. 3, 3/2012, p. 22.

water-efficient irrigation technologies. Iraq's fresh water comes mainly from the Euphrates and Tigris Rivers, but the GOI has no water-sharing agreements with upstream nations Turkey, Syria, and Iran—countries it claims take more than their fair share. A U.S. Intelligence Community Assessment on global water security released this quarter projected reduced water flows, as well as increased variability in water supply, in the Tigris-Euphrates basin for the near term.³²⁷

The European Union and the United Nations Educational, Scientific and Cultural Organization (UNESCO) are currently finalizing an agreement to finance Phase II of a hydrological survey of Iraq's existing water resources. UNESCO also worked with the UNDP and GOI on river-basin management issues, including regional strategies. Both initiatives are viewed as steps to prepare the GOI for regional negotiations on water-sharing. In addition, the two UN agencies worked with the GOI this quarter to develop a national framework for drought risk management.³²⁸

Education

As discussed in Section 3, the Department of State (DoS) hosted the second meeting of the U.S.-Iraq Joint Coordinating Committee on

Education and Cultural Cooperation (JCC) this quarter. The purpose of the meeting was to outline areas for collaboration in education, cultural heritage, and exchange programs. In connection with that meeting, DoS and U.S. Embassy-Baghdad sponsored a two-day conference in Washington, D.C., that brought together representatives from 11 Iraqi and 42 U.S. universities to explore ways of expanding partnerships and student exchanges. The two governments are working to strengthen Iraq's higher-education system through long-term links to U.S. higher-learning institutions. To date, seven such linkages exist. An English Language Institute established through a \$1 million grant to Ball State University in partnership with the GOI will provide English language instruction to hundreds of Iraqi scholarship students annually.³²⁹

Thirty-five Iraqi students and an equal number of faculty members are expected to be among the estimated 4,900 foreign students and scholars studying in the United States under the Fulbright Program during the 2012–2013 academic year. Representatives of U.S. universities attending the conference said scholars from Iraq tended to be more mature, with a high percentage of graduate students, many of whom had lectured at their own universities in Iraq.³³⁰ ♦

Thirty-five Iraqi students and an equal number of faculty members are expected to study in the United States under the Fulbright Program during the 2012–2013 academic year.

SECURITY AND THE RULE OF LAW

In an interview published March 5, Prime Minister al-Maliki commented on the state of Iraq's ethno-sectarian divide in the period since Saddam Hussein was deposed, saying that Iraq had "reached and entered into a civil war... the ugliest and most dangerous of wars to the stability of countries." But, in effect, he declared that war finished.³³¹

We have adopted the principle of national reconciliation... Today we do not fear civil war. Yes, we may have disagreements: the central government may disagree with the provinces or at times the central government with KRG, but naturally we refer to the Constitution.

The GOI reported that violence in March reached its lowest level since 2003.³³² To safeguard the Arab League summit, held at the end of the month, the GOI took extraordinary measures: nearly 100,000 Iraqi Army (IA) and police personnel were deployed to Baghdad to provide security,³³³ and the MOI ordered government employees not to report to work during March 20–29.³³⁴

Yet mass-casualty events continue, as do assassination attempts directed at government security

forces, state officials, and unsuspecting citizens whose ethno-sectarian profile appears to motivate violence. At the same time, tensions arising in the course of governance have spilled over into arrest warrants being issued for senior government officials who, in turn, have fled the jurisdiction of the national courts. Large-scale arrests and recent increases in court-sanctioned executions have raised human rights concerns.

Notwithstanding the challenges that persist, the MOI announced that Iraq's armed forces would relinquish their role in internal security and shift to protecting the borders of the country by July 2012.³³⁵

Recent Violence

The GOI reported that 413 Iraqis were killed in terrorist attacks this quarter—a 15% decrease from the number of fatalities reported by United States Forces-Iraq for the same period in 2011. The casualty total in March 2012 reportedly fell to 112, the lowest monthly level since the 2003 Coalition invasion.³³⁶

According to data compiled by the UN, however, 1,048 Iraqis died this quarter, more than 150% higher than the total attributed to the MOH.³³⁷ The Washington Institute for Near East Policy also has reported higher casualty numbers, emphasizing the "rapid and widespread deterioration of security in Iraq since the mid-December end of the U.S. military mission there."³³⁸ Analysis by the International Institute for Strategic Studies notes that violence in specific areas is on the rise:³³⁹

The latest bombings—in Kirkuk, Kerbala, Samarra, Baghdad and other cities—are part of an upsurge in violence following the withdrawal of U.S. troops.... In the first three months since troops left... there were 204 bombings—a 70% increase on the same period last year. With no more real U.S. military targets in the country, the spike necessarily means that Iraqi-on-Iraqi violence has increased, and illustrates the need for a strengthened local security force.

Nearly 100,000 Iraqi Army and police personnel were deployed to Baghdad to provide security.



An MOI ceremony commemorating the 90th Anniversary of the formation of the Iraqi Police, January 9, 2012. (GOI photo)

Although violence around the Arab League summit was low, the ISF faced a wave of co-ordinated mass-casualty attacks earlier in the quarter. On January 19, a suicide car bombing at the Baghdad Police College killed 15 people. On February 23, more than 21 bombings around Iraq killed at least 42 Iraqis and wounded approximately 285.³⁴⁰ Other mass-casualty and coordinated attacks this quarter included:³⁴¹

- January 24—A car bomb killed 11 people in Sadr City; multiple vehicle-borne improvised explosive device (VBIED) and improvised explosive device (IED) attacks killed 12 and wounded 80 in predominately Shia areas of Baghdad.
- January 27—A suicide car bomb killed 12 in Baghdad.
- February 19—A suicide car bomb killed at least 14 police and recruits in Baghdad.
- February 29—A VBIED killed 3 and wounded 11 in Baghdad.
- March 5—Coordinated attacks targeting ISF members killed 26 officers and wounded 3 in and around Haditha.

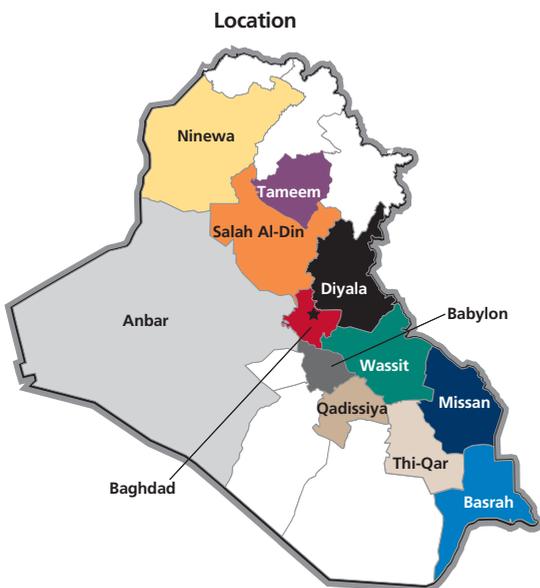


TABLE 4.2
SELECTED ACTS OF APPARENT TARGETED VIOLENCE, 1/11/2012–4/10/2012
Non-security Officials and Other Prominent Civilians

TARGETS/VICTIMS	LOCATION	DATE	CIRCUMSTANCES	RESULT
MOF official	●	1/29	Gunman attack	Killed
Deputy of al-Bayda' party	●	1/31	IED and VBIED attack on home	Unharmd; many others injured
Correctional deputy	●	2/7	Gunman attack	Killed
Baghdad Investment Commission Chairman	●	2/11	Gunman attack (silencers used)	Unharmd; guard injured
Tribal sheik	●	2/11	Gunman attack on family	Killed; wife, child, and brother killed
Tribal sheik	●	2/18	Gunman attack on home	Killed; son wounded
Criminal judge	●	2/18	Gunman attack on home	Killed
College professor	●	2/25	Gunman attack on home	Unharmd; 2 sons injured
Criminal judge	●	2/25	IED attack on home	Unharmd
Deputies to Ayatollah al-Sistani	●	2/27	Hand grenade attack on home	3 unharmd
Tribal sheik	●	2/28	Gunman attack on convoy	Killed; wife and 2 children injured
Lawyer	●	3/2	Gunman attack	Killed
Deputy to Ayatollah al-Sistani	●	3/3	IED	Unharmd
Assistant director of Civilian Affairs	●	3/4	SVBIED attack on car	Unharmd; daughter unharmd
Investigative judge	●	3/6	IED attack on office	IED disarmed
Doctor	●	3/7	Gunman attack on home	Unharmd; 2 family members injured
Al-Iraqiya deputy/MP	●	3/11	IED attack on convoy	Unharmd

Security Officials

TARGETS/VICTIMS	LOCATION	DATE	CIRCUMSTANCES	RESULT
SOI commander	●	1/18	Gunman attack on home	Killed; 4 children killed
SOI member	●	1/19	Gunman attack on home	Killed; wife and mother killed
MOI intelligence officer	●	1/24	IED attack on home	Killed; 10 family members killed
Iraqi Police officer	●	1/24	Gunman attack on home	Killed; 4 family members wounded
Police officials	●	1/25	Gunman attack on home	2 killed
Iraqi Army officer	●	1/29	SVBIED attack	Injured; 2 students injured
Iraqi Army officer	●	1/31	SVBIED attack	Injured
SOI commander	●	1/31	IED attack on home	Injured
SOI member	●	2/1	Gunman attack	Killed
Iraqi Army officer	●	2/7	Gunman attack on home	Unharmd; wife killed; child injured
MOI official	●	2/11	Gunman attack on car	Killed

- March 20—Attacks across Iraq killed more than 40 and wounded over 200; the deadliest strike in Kerbala killed 13 and wounded 50.

TARGETS/VICTIMS	LOCATION	DATE	CIRCUMSTANCES	RESULT
Iraqi Army officer	●	2/13	Gunman attack	Killed; 2 assistants killed
Iraqi Police officers	●	2/13	Gunman/grenade attack on home	Killed; wife and sons killed
Iraqi Army brigadier general	●	2/14	Gunman attack (silencers used)	Killed
Iraqi Army brigadier general	●	2/18	Gunman attack on car	Injured
MOD brigadier general	●	2/18	Gunman attack on car (silencers used)	Several injured
Police officials	●	2/19	Gunman attack on SOI Checkpoint	2 SOI killed; 1 Iraqi Police officer killed
Police colonel	●	2/20	SVBIED attack	Killed
Iraqi Army officer	●	2/26	Gunman attack on checkpoint	Killed
SOI commander	●	2/26	IED attack on SOI convoy	Killed; 1 soldier injured
Witness protection official	●	2/27	Gunman attack on Criminal Court	Killed
Iraqi Army officers	●	2/27	IED attack on convoy	2 injured
Correctional security officer	●	2/29	Explosives attack on convoy	Killed; 3 others injured
MOI officer	●	3/1	Gunman attack on home/car	Killed
MOD officer	●	3/4	IED attack	Injured
Iraqi Police officers	●	3/5	Gunman attack on checkpoint	3 killed; 3 injured
Iraqi Police officers	●	3/6	Suicide bomb	4 injured
Iraqi Police officers	●	3/7	IED attack on convoy	1 killed; 2 injured
Iraqi Police investigator	●	3/8	SVBIED attack on car	Killed
Iraqi Police officer	●	3/10	IED attack on home	Unharmd; 1 other killed, 4 injured
SOI member	●	3/10	Gunman attack	Killed
Iraqi Police officers	●	3/12	Gunman attack	5 killed; 2 wounded
Iraqi Police officers	●	3/14	Gunman attack	2 killed; 3 wounded
SOI member	●	3/15	IED attack on home	Killed
SOI member	●	3/18	IED attack	3 killed
SOI member	●	3/19	Gunman attack on home	Killed; 4 family members killed
Iraqi Police officers	●	3/20	Explosives attack on convoy	1 killed; 2 wounded
Iraqi Army officer	●	3/27	IED attack on Army patrol	1 killed; 1 injured
Iraqi Army colonel	●	3/28	IED attack on home	Unharmd
SOI member	●	3/31	Gunman attack on home	Killed; wife and son killed

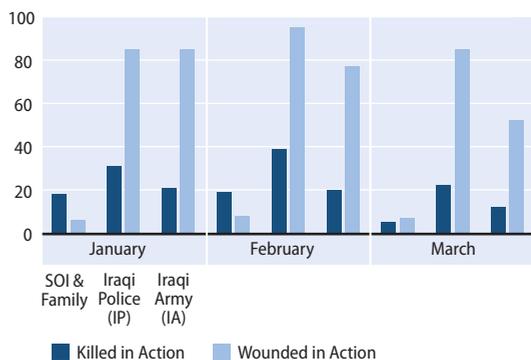
Note: This table provides examples of assassinations, attempted assassinations, and other small-scale acts of violence that appear to have been aimed at specific persons or groups this quarter. It does not purport to be all-inclusive, nor presume to imply the attackers' respective motives.

Source: SIGIR analysis of open-source documents in Arabic and English, 1/2012–4/2012.

Attacks continue against members of the Sons of Iraq (SOI) and their families, but reports indicate that they sustained lower total casualties this quarter than last. The largest MOI force, the Iraqi Police, and the largest Ministry of Defense (MOD) force, the IA, sustained higher wounded totals this quarter, but the number killed in action reportedly dropped.³⁴² See Figure 4.9 for the total killed and wounded in action, by month, from January through March 2012.

Apparent targeted political violence against civilian and military officials continued this quarter. During January 11–April 10, 2012, at least 73 government officials (including some SOI commanders and their families) were assassinated.³⁴³ Table 4.2 summarizes these killings and other apparent targeted violence. As a result of assassinations and attempted assassinations over the past year, the CoR budgeted for the purchase of armored sedans and sport-utility vehicles for senior government officials, drawing sharp criticism from cleric Muqtada al-Sadr.³⁴⁴

FIGURE 4.9
SOI & FAMILY, IRAQI POLICE, AND IRAQI ARMY CASUALTIES, 1/2012–3/2012



Sources: *al-Ittihad*, "Victims of Violence during March the Lowest Since 2012," 4/3/2012, <http://nmc.gov.iq/ArticlePrint.aspx?ID=3990>, accessed 4/10/2012; *al-Quds*, "151 Victims of Violence in Iraq in January," 2/1/2012, <http://nmc.gov.iq/ArticlePrint.aspx?ID=3559>, accessed 4/10/2012; SIGIR analysis of open-source documents in Arabic and English, 1/1/2012–3/31/2012.

Iraqi Security Forces

In the aftermath of the March 2010 elections, the major political blocs were unable to agree on who should serve as Minister of Defense and Minister of the Interior, and it remains an open issue. Both the MOD and MOI are administered by officials selected by Prime Minister al-Maliki in 2011—Acting Minister of Defense Saadoun al-Dulaimi at MOD and Principal Deputy Minister Adnan al-Asadi at MOI.

As of March 31, 2012, approximately 930,000 ISF personnel were under the direct control of the Prime Minister.³⁴⁵

Ministry of Defense

According to DoD, the IA developed a well-functioning force for conducting counterterrorism and counterinsurgency operations, and the U.S. troop withdrawal was to coincide with the IA possessing “minimum foundational capabilities to defend against external threats.”³⁴⁶ The IA has played a significant role in domestic security, but it has begun transitioning to focus on building its capability to mount an external defense—its primary mission. The GOI announced this quarter that the transition of responsibility for internal security to the MOI would be complete by July 2012,³⁴⁷ concomitant with the build-out of the ISF ground; aviation; and intelligence, surveillance, and reconnaissance capabilities supported in part by the U.S. Foreign Military Sales (FMS) Program.³⁴⁸ Notwithstanding the planned transition, the timeline for completing such a build-out or for reaching the capability to mount an independent external defense remains unclear.

Ministry of Interior

As the MOI prepared to assume a greater share of the responsibility for Iraq’s internal security, it continued this quarter to hire and train security personnel in violence-prone areas and to provide for the continued integration of various forces into the MOI through training programs:

- In northern Iraq, at the direction of the Prime Minister, the MOI hired 1,000 Ninewa police officers and 178 Facilities Protection Service contractors.³⁴⁹ Of the total hired, 859 have graduated from a two-month training program in Mosul.³⁵⁰
- The MOI hired 230 police in Salah Al-Din province.
- In Tameem province, the MOI is training 97 contractors to fill permanent police positions in Kirkuk.
- In southern Iraq, 1,870 Federal Police graduated from an MOI facility in March,³⁵¹ and an additional 549 police were reportedly to begin training in April.³⁵²

Sons of Iraq

According to Iraqi officials, an estimated 70,000 former SOI members had been successfully integrated into positions within the GOI as of January 31, 2012. The status of the remaining SOI (approximately 30,000) is less certain, although budgetary support for their continued services is reportedly secure.³⁵³

During the last days of December 2011, 130 SOI members left their positions in Diyala province because of disagreements with the MOD. On February 5, however, the SOI commander in the province announced that all personnel had returned after receiving letters of guarantee from senior security officials declaring the need for SOI support.³⁵⁴

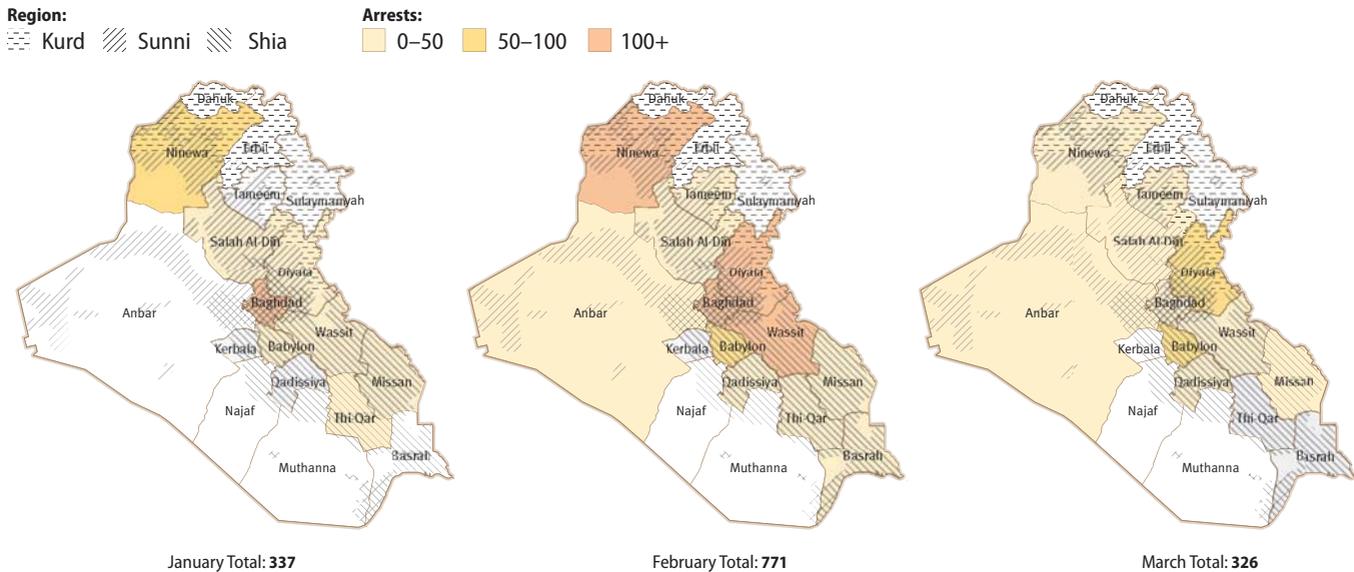
In early February, IA General Ali Ghidan announced a freeze in hiring SOI for security positions, saying that they would be employed in other positions. The commander of Iraq’s ground troops said that the MOD was “coordinating to have SOI sustain their current positions and work alongside the Iraqi Army” until it could find new positions for them.³⁵⁵

Rule of Law

The rule of law remains a work in progress in Iraq, with corruption at all levels of government

The IA has begun transitioning to focus on building its capability to mount an external defense—its primary mission.

FIGURE 4.10
**SELECTED ARRESTS ON TERRORISM CHARGES,
 1/14/2012–4/10/2012**



Note: This table provides examples of arrests this quarter. It does not purport to be all-inclusive, nor presume to imply the guilt or innocence of those arrested. Analysis of incidents based on best available information, as of 4/10/2012.

Source: SIGIR analysis of open-source documents in Arabic and English, 1/2012–4/2012.

continuing to be a significant hurdle. According to Transparency International’s Corruption Perception Index for 2011, Iraq ranks 175 out of 183 countries and territories, tied with Haiti, as one of the most corrupt countries in the world.³⁵⁶

Anticorruption Developments

The Commission of Integrity (COI) announced that during 2011 it convicted 1,661 defendants on corruption charges.³⁵⁷ That is up from 1,368 convicted in 2010³⁵⁸ and more notable still because the COI imposed a three-month moratorium on investigations when the previous acting Commissioner resigned on September 9, 2011.³⁵⁹

On March 14, a special commission established by the KRG released the findings of its year-long assessment of corruption in the Kurdistan Region. The report acknowledges that there is widespread corruption and mismanagement in several ministries, singling out the health, contracting, housing, and energy sectors as the most

vulnerable to the theft and misuse of public funds. According to the commission, about 95 KRG officials had engaged in corrupt practices and were removed from their positions.³⁶⁰

The Justice System

Arrests for Terrorism

Prime Minister al-Maliki commented in October that arrests conducted by the ISF have been based on ample information and evidence.³⁶¹ Many of those arrested allegedly targeted the country’s security and stability—accused al-Qaeda in Iraq members among them. Arrests appear to be centered in those areas where there is a historical pattern of insurgent or militia activity, either Shia and Sunni. However, there does not appear to be a direct correlation between recent terrorist attacks and numbers of people detained in a particular province.³⁶² Figure 4.10 shows selected arrests on terrorism charges this quarter, by province.

Executions

The notable rise in death sentences in Iraq has garnered international attention recently. Under Saddam Hussein, the death sentence was commonly applied, but on June 10, 2003, the Coalition Provisional Authority Administrator suspended its use. However, a week after the CPA terminated on June 28, 2004, the Iraqi government restored capital punishment, which is carried out by hanging.³⁶³

In all of 2011, at least 68 people were reported to have been executed as sentenced by a court³⁶⁴—most convicted of charges under Section 4 of the Counter Terrorism Law. During the first two months of 2012, at least 65 more people were executed. In January, there were 34 executions (32 men and 2 women) stemming from cases dating back to 2006, 2007, and 2008.³⁶⁵ A ministry spokesperson commented, “Implementing just punishments and executions against terrorists and murderers is part of Iraqi law.”³⁶⁶ On February 1, executions were carried out against 17 people sentenced for terrorist acts. Three days later, Iraq’s Office of the President ratified 23 more executions, including an order for 14 people to be put to death on February 7 for committing acts of terrorism, armed attacks, kidnappings, and murders.³⁶⁷

United Nations High Commissioner for Human Rights Navi Pillay expressed shock at the number of executions, criticizing the lack of transparency in court proceedings and calling for an immediate suspension of the death penalty in Iraq.³⁶⁸ Iraq’s Minister of Human Rights defended the death sentences, saying, “We consider the increase in the number of verdicts a normal

TABLE 4.3
COURT-ORDERED EXECUTIONS IN SELECTED COUNTRIES, 2011

COUNTRY	POPULATION	EXECUTIONS	EXECUTIONS PER 1M PEOPLE
 Iran	78,868,711	360*	4.56
 Saudi Arabia	26,534,504	82*	3.09
 Iraq	31,129,225	68	2.18
 United States	313,847,465	43	0.14
 Yemen	24,771,809	41*	1.66
 Egypt	83,688,164	1*	0.01
 United Arab Emirates	5,314,317	1	0.19
 Jordan	6,508,887	0	0.00
 Kuwait	2,646,314	0	0.00
 Bahrain	1,248,348	0	0.00

Note: *Indicates the minimum number of executions reported. Iran, Iraq, and Saudi Arabia accounted for 99% of all recorded executions in the Middle East and North Africa.

Sources: CIA, *The World Factbook*, www.cia.gov/library/publications/the-world-factbook/, accessed 4/3/2012; Amnesty International, “Death Sentences and Executions 2011,” 3/27/2012, www.amnesty.org/sites/default/files/ai_global_dp_2011_stats_report_act5000/2012.en.pdf, accessed 3/28/2012.

matter, in accordance with the number of victims... Actually, we ask the security apparatus to exert more efforts to defy terrorism.”³⁶⁹

For a comparison of Iraq’s execution rate for 2011 to those of other countries, see Table 4.3. ♦

A ministry spokesperson commented, “Implementing just punishments and executions against terrorists and murderers is part of Iraqi law.”

ECONOMY

The IMF and CBI both project GDP to grow by more than 12% in 2012.

On the surface, Iraq's economy looks robust. The International Monetary Fund (IMF) and the Central Bank of Iraq (CBI) both project GDP to grow by more than 12% in 2012. In March, the Minister of Oil reported that crude oil production briefly topped 3 million barrels per day (MBPD) for the first time in more than two decades. In 2011, foreign commercial activity jumped 40% to nearly \$56 billion, and the CoR recently approved the largest single-year budget in the country's history—\$100.4 billion, with nearly \$32 billion of that earmarked for infrastructure investment.³⁷⁰

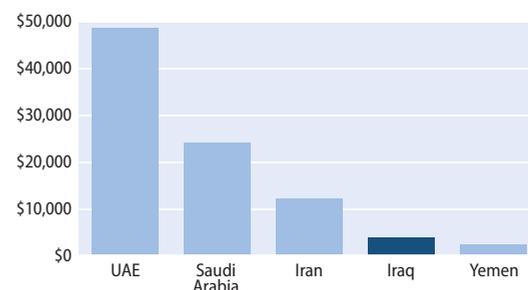
But significant challenges persist. Political tensions cloud the investment climate and block agreement on legislation crucial for economic development, while bureaucratic delays continue to slow key oil-field projects. Despite the addition of new crude oil export capacity this quarter, infrastructure bottlenecks still constrain the shipment of Iraq's most vital resource to world markets. The rapid increase in foreign commercial activity of recent years is projected to plateau in 2012, and there are concerns that an overheating economy could spark inflation.³⁷¹

Key Indicators

Oil Export Receipts

The GOI earned \$19.27 billion in receipts from the sale of crude oil this quarter, \$73.6 million below the previous quarter. However, the first quarter 2012 receipts were \$2.96 billion (18%) above the same quarter of 2011.³⁷² For 2012, the IMF projects crude oil will account for about 98% of Iraq's export earnings and contribute more than 90% of government income. The figures reflect both Iraq's gradually increasing crude-oil export capacity and continued strong oil prices on global markets. They also represent the inability of other sectors of the economy to compete internationally.³⁷³

FIGURE 4.11
2011 GDP PER CAPITA, IRAQ AND SELECTED MIDDLE EAST COUNTRIES



Note: Figures are estimates calculated using Purchasing Power Parity (PPP) to more accurately compare living standards between countries.

Source: IMF, World Economic Outlook Database, 9/2011, www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx, accessed 3/27/2012.

Gross Domestic Product

According to the IMF, Iraq's 2012 GDP growth is projected to be more than twice the average of other oil-exporting countries in the region, yet that growth stems from a low base. Iraq's GDP per capita is well below that of many countries in the Middle East (see Figure 4.11).³⁷⁴

Inflation

Year-on-year core inflation rose slightly in February to reach 6.30%, but still remained below both December's 6.97% and the IMF's most recent 2012 projection of 7.7% for oil-exporting nations in the Middle East and North Africa (MENA) region. However, the significant growth of Iraq's money supply, which in recent months reached an annual rate of around 20%—roughly twice GDP growth—has generated concerns about a potential spike in inflation. The high volume of petrodollars flowing into Iraq's economy could push up the price of goods and services, a dynamic exacerbated by continued growth in public-sector wages. The CBI's base policy rate held steady at 6% for the eighth consecutive quarter, and the

official exchange rate for Iraqi dinar strengthened marginally against the U.S. dollar, selling at 1,166 per dollar through much of the quarter. That rate is down slightly from 1,170—a level that had held constant for the past three years. However, a spike in demand for dollars generated by merchants from neighboring Iran and Syria—suddenly unable to procure sufficient amounts of the U.S. currency at home because of international sanctions—helped drive the unofficial street exchange rate above 1,320 dinar in mid-April.³⁷⁵

In April 2012, the CoM postponed indefinitely plans for a currency reform that would have removed three zeros from the Iraqi dinar in 2013 and required the issuance of new currency notes. The reform would have made the dinar’s value slightly less than \$1. It is currently worth less than one-tenth of a cent.³⁷⁶

Unemployment

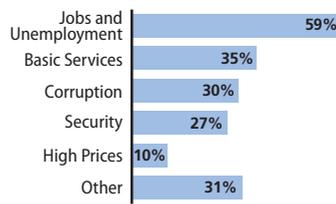
This quarter, the MoPDC reported an official unemployment rate of 12%, down from the previous official rate of 15.3% that dates from March 2008. More recent non-GOI estimates have ranged from 8% to 30%. The 2011 Iraq Knowledge Network survey placed the percentage of jobless youth at 30%.³⁷⁷ At the same time, those emigrating from Iraq tend to be gainfully employed professionals seeking opportunities elsewhere.³⁷⁸

Results of a public attitudes survey released this quarter showed Iraqis believe unemployment is the most pressing single social issue facing the country. By a wide margin, those questioned put unemployment at the top of nine listed challenges facing the government—including security, corruption, and the supply of basic services, such as electricity and water. More than 8 in 10 questioned believed that the job situation is getting worse, and about half blamed either Prime Minister Nuri al-Maliki or “government ministers” for the problem.³⁷⁹ Figure 4.12 provides more on the survey results.

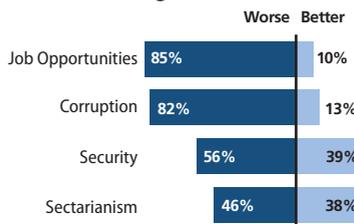
FIGURE 4.12
IRAQI PUBLIC ATTITUDES ABOUT UNEMPLOYMENT IN 2011

Percentage of Respondents

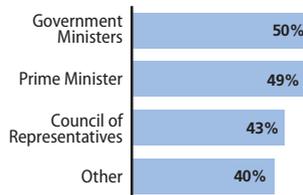
Which Issues Are Most Important for the Government To Address?^a



Is the Issue Getting Worse or Better?



Who Is To Blame for Current Unemployment Conditions?^a



^a Respondents were asked to select two of the choices listed.

Source: Greenberg Quinlan Rosner Research for the National Democratic Institute, “Iraq Enters a Critical Period: Graphs for the Report on the October 2011 Survey,” 11/2011, pp. 2–3, 24, www.ndi.org/files/Iraq-survey-presentation-Oct2011.pdf, accessed 3/1/2012.

Iraq Stock Exchange

Iraq’s stock exchange (ISX) performed below that of a composite index of 11 other equity markets in the MENA region this quarter, although its growth over the past two years remains well above the regional average (see Figure 4.13). The ISX is small relative to other markets in the region, and its performance is seen more as an indicator of relative confidence in, and longer-term potential of, Iraq’s economy than an actual comparison of equity market strength. Initial

By a wide margin, those questioned put unemployment at the top of nine listed challenges facing the government.

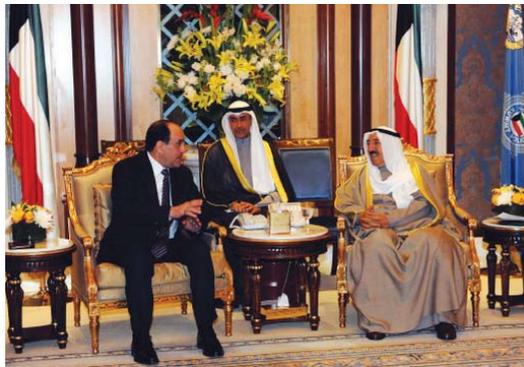
FIGURE 4.13
IRAQ STOCK EXCHANGE VS. S&P PAN ARAB COMPOSITE INDEX, 1/2010–3/2012
% Change



Note: The S&P Pan Arab indices include stocks from listed companies in the countries of Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the UAE.

Sources: Standard & Poor's, "S&P Pan Arab-Indices," 12/2010, www.standardandpoors.com, accessed 10/4/2011; Standard & Poor's Indices Client Services, information provided to SIGIR, 4/7/2011, 7/18/2011, 10/3/2011, 1/3/2012, and 4/3/2012; Iraq Stock Exchange, "Indices," www.isx-iq.net/isxportal/portal/sectorProfileContainer.html?sectorId=1, accessed 4/3/2012.

In January 2012, the GOI made a payment of \$1.02 billion to Kuwait, reducing the balance still owed to just over \$17 billion.



Prime Minister Nuri al-Maliki meeting in Kuwait with the Emir of Kuwait Sheik Sabah al-Ahmad al-Jaber al-Sabah. (GOI photo)

public offerings of shares in the country's major mobile telephone carriers would provide a significant boost to ISX volume if they take place as anticipated later this year.³⁸⁰

Debt

The CBI estimated Iraq's external debt at \$87.7 billion in early April 2012. About \$45 billion of this amount is eligible for a negotiated reduction of up to 80%, according to the terms of the 2004 Paris Club settlement. This quarter, the GOI approved payment of \$408 million owed to Egyptian workers

who fled Iraq in the wake of Saddam Hussein's 1990 invasion of Kuwait and the Persian Gulf War.³⁸¹

In addition, Iraq still owes war reparations, mainly to the Kuwaiti petroleum industry for damage caused during the invasion and subsequent Persian Gulf War. In January 2012, the GOI made a payment of \$1.02 billion to Kuwait, reducing the balance still owed to just over \$17 billion. Payment of the outstanding reparations constitutes one of several UN-mandated conditions stemming from the invasion and that remain binding on Iraq under Chapter VII of the UN Charter.³⁸²

Oil and Gas

Tensions intensified this quarter between the GOI and KRG over the issue of who controls oil exploration and extraction in and adjacent to the Kurdistan Region. Several international oil companies with interests in Iraq's oil-rich south have also pursued investments in the Kurdistan Region—a step welcomed by the KRG, but strongly opposed by the GOI pending GOI-KRG agreement over oil revenues. Although the Kurdistan Region has less proved oil

reserves than southern Iraq, favorable working conditions and contract terms make it attractive to oil companies. ExxonMobil, Total, and BP have all been affected by the GOI-KRG dispute.³⁸³

ExxonMobil, lead operator at the West Qurna-1 field north of Basrah, confirmed this quarter that it had signed production-sharing agreements with the KRG for the development of six fields. The confirmation came shortly after Deputy Prime Minister for Energy Affairs Hussein al-Shahristani declared any foreign oil company investing in the Kurdistan Region before the GOI-KRG impasse was resolved would be excluded from investing elsewhere in Iraq. That stance led the GOI to exclude ExxonMobil from participating in the Ministry of Oil's fourth round of bidding for oil and gas licensing, now planned for late May. The ministry also removed ExxonMobil from its leadership role in developing the multibillion-dollar Common Seawater Supply Project (CSSP), which is key to the water injection required to boost production levels in the southern fields. There was no known attempt to replace ExxonMobil at West Qurna-1, and the company ended a yearlong dispute with the GOI when the two sides reached a negotiated settlement over payment for its work at West Qurna.³⁸⁴

Despite al-Shahristani's warning, French oil company Total remained in discussions with the KRG about possible crude oil investments there. The GOI invited South Korea's SK Innovation to participate in the fourth oil and gas licensing round after the Korean company sold its stake in a Kurdistan Region oil field.³⁸⁵

BP's decision this quarter to negotiate with the GOI to help boost production at the large Kirkuk oil field in northern Iraq drew the British company into a different KRG-GOI dispute. After learning of the talks, the KRG declared that no GOI entity had the right to award contracts unilaterally "to develop currently producing fields in Kirkuk province or in other adjacent areas."³⁸⁶

The GOI publicly stepped back from its previously stated goal to raise crude oil production to 12 MBPD by 2017—a target long viewed skeptically

by international oil experts. Al-Shahristani stated Iraq's revised goal would be to produce less than half that amount, between 5 and 6 MBPD in the next three to four years. He said Iraq hoped to expand its capacity to export crude oil at an even faster rate, having the capability to handle between 6 and 8 MBPD within the same time period.³⁸⁷

Crude Oil Development and Production

The Ministry of Oil reported that crude oil production for the first two months of the quarter averaged 2.59 MBPD, a decline of just under 2% from the 2.64 MBPD recorded for the same period of 2011 and 3% below the average of 2.66 MBPD for December 2011.³⁸⁸ As of April 15, the ministry had not posted production data for March. On March 5, however, Minister of Oil Abdul Kareem al-Luaibi announced that crude oil production had exceeded 3 MBPD. He also set a target level of 3.4 MBPD for 2012. But there were indications that export bottlenecks and insufficient crude oil storage capacity were among the factors that kept production below 3 MBPD throughout most of the quarter. Al-Rumaila field, for example, reportedly operated far below previous peak output rates.³⁸⁹ Figure 4.14 shows Iraq's crude oil production and export levels since 2003.

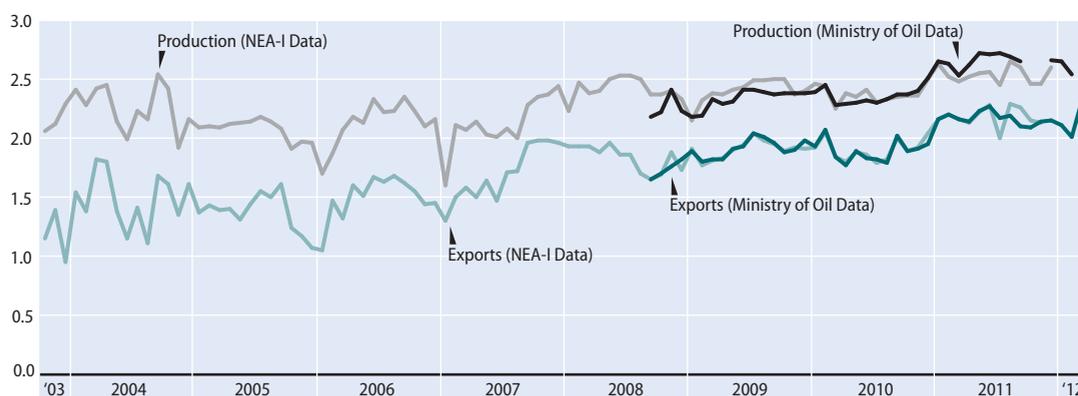
International oil companies claim bureaucratic holdups on visas for key personnel and customs clearance of important production equipment also slowed progress in developing the southern fields. Decision-making delays on large projects raised questions about Iraq's ability to meet future production targets. For example, the Ministry of Oil has yet to award initial design contracts for the CSSP, although they have been ready to let for several months.³⁹⁰

BP's talks with the GOI center on reversing a major output decline at the Kirkuk field in northern Iraq, where production has reportedly fallen from a peak output of 400,000 BPD five years ago to about 260,000 BPD in late February 2012. State-owned operator North Oil Company reportedly has developed a five-year plan to increase production to 700,000 BPD.³⁹¹

Decision-making delays on large projects raised questions about Iraq's ability to meet future production targets.

FIGURE 4.14
CRUDE OIL PRODUCTION AND EXPORTS, BY MONTH, 10/2003–3/2012

Million Barrels per Day



Note: In previous Quarterly Reports, the data that SIGIR reported on crude oil production and exports was obtained from NEA-I. Because NEA-I is no longer able to provide that data, SIGIR is now using data reported by the Ministry of Oil. Both sets of available data are shown in this figure. Exports include crude oil from the Kurdistan Region; production figures do not.

Sources: NEA-I, responses to SIGIR data calls, 6/4/2010, 7/6/2010, 1/11/2011, 4/5/2011, 7/7/2011, 10/17/2011, and 1/6/2012; GOI, Ministry of Oil, "Domestic Consumption" and "Crude Oil Exports," www.oil.gov.iq, accessed 4/23/2012.

The GOI this quarter approved the sale of Statoil's 18.75% stake in the West Qurna-2 field to the lead project operator Lukoil, which awarded South Korea's Samsung a \$1 billion, 31-month contract to develop the central processing facility at this field.³⁹²

Fourth Licensing Round

This quarter, the Ministry of Oil announced it had altered the terms of the fourth licensing round, scheduled for late May, to make exploration contracts more attractive to international oil companies that have qualified for bidding. No details were made public, but the ministry apparently eased terms of a provision that allows the GOI to prevent development of any field on offer for up to seven years. With the addition of the Syrian General Oil Corporation in early April, the ministry had qualified 47 companies to participating in the bidding.³⁹³ Figure 4.15 shows the locations of oil and gas fields awarded in the first three bidding rounds and exploration blocks offered in the upcoming fourth round.

Crude Oil Exports and Capacity Expansion

According to the Ministry of Oil, crude oil exports in March reached 2.32 MBPD—a post-2003 monthly record. The previous single-month high of 2.27 MBPD was set in June 2011. Exports in the first two months of 2012, however, averaged only 2.06 MBPD, resulting in a quarterly average of 2.15 MBPD—a 1% increase from the previous quarter, but less than all other quarterly averages in 2011. Both the March record and the quarterly average remained below the GOI budget projection of 2.60 MBPD for the year.³⁹⁴

Below-target export volume can be attributed to several factors, including bad weather in the southern ports, sabotage on the Kirkuk-Ceyhan pipeline in the north, and lower-than-expected exports from the Kurdistan Region. Crude oil exports from the Kurdistan Region were expected to average 175,000 BPD in 2012, but instead averaged less than half that—about 65,000 BPD—during the quarter, according to Minister Abdul Kareem al-Luabi. In late March, the KRG declared it remained committed in principle to the 175,000 BPD export target, but in early April announced it had halted exports

The Ministry of Oil announced it had altered the terms of the fourth licensing round to make exploration contracts more attractive to international oil companies.

completely because the GOI had withheld payment for oil produced in the Kurdistan Region over the preceding 10 months. The KRG statement claimed it was now owed close to \$1.5 billion.³⁹⁵

The first of five planned single-point mooring (SPM) facilities off al-Faw Peninsula was inaugurated in mid-February, but technical delays and bad weather combined to reduce its contribution to export volume until March. Although the SPM has a potential capacity of about 850,000 BPD, upstream infrastructure shortfalls, including an inadequate pipeline system for transporting oil from the southern fields to the export facilities, are expected to reduce its effective capacity to about half that level for the duration of 2012. A second SPM is planned to be ready by mid-2012, with two more to come online in 2013 and a fifth after that. At that point, Iraq's theoretical export capacity would expand by about 4.25 MBPD.³⁹⁶

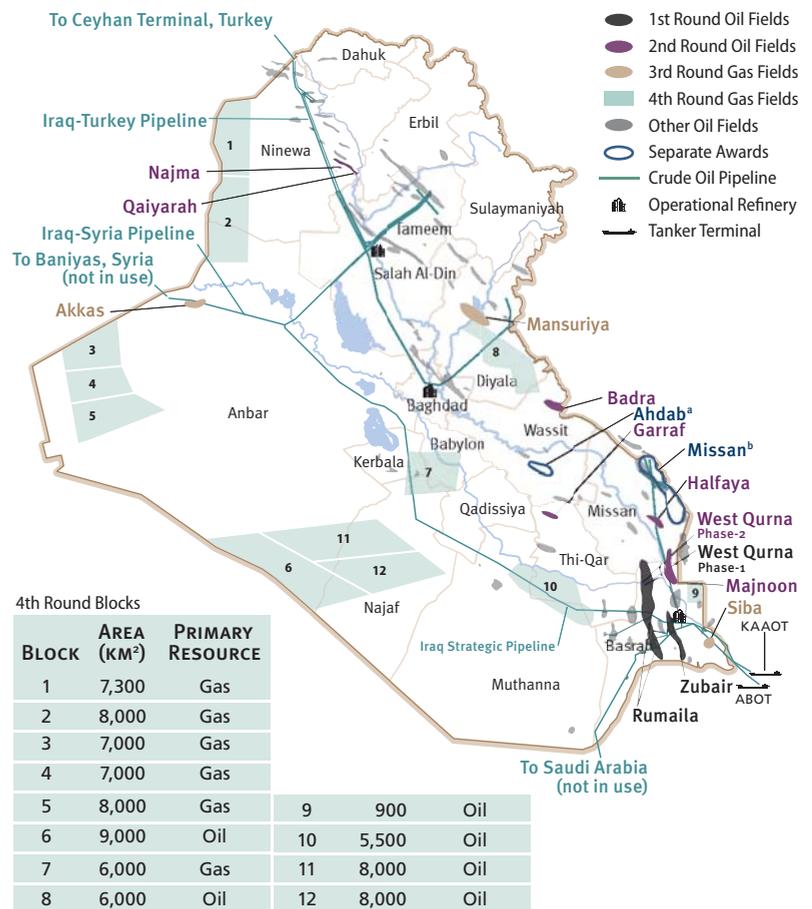
Australian police this quarter reported it had opened an investigation in connection with the SPM contracts on allegations that an Iraqi official was involved in taking a bribe from the Australian-based contractor Leighton Offshore.³⁹⁷

U.S. import of Iraqi crude oil rose sharply to 569,000 BPD during the final week of the quarter, although the amount accounted for only about 6% of total U.S. crude-oil imports.³⁹⁸

OPEC

In his role as President of the Organization of Petroleum Exporting Countries (OPEC), Minister of Oil al-Luaibi this quarter worked to ease regional tensions linked to Iran's refusal to open its nuclear program to international inspection. Tehran's threat to close the Straits of Hormuz as a retaliatory measure affects the primary oil export route for Iraq as well as other Persian Gulf oil-exporting countries. In March, the CoM approved the nomination of former Oil Minister Thamer Ghadban as a candidate for OPEC's next Secretary General.³⁹⁹

FIGURE 4.15
OIL AND GAS FIELDS AWARDED IN FIRST THREE BIDDING ROUNDS AND EXPLORATION BLOCKS OFFERED IN FOURTH ROUND



Note: These second-round fields or projects received no bids: East Baghdad (north and central); Middle Furat (Kifl, West Kifl, Merjan); and Eastern Fields (Gilabat, Khashem al-Ahmar, Nau Doman, Qumar).

^aThe Ahdab field contract was first negotiated as a joint-venture in 1997 then reaffirmed and signed as a technical services contract in 2008.

^bThe Missan contract was signed in May 2010.

Sources: GOI, Ministry of Oil, www.pclid-iraq.com/, accessed 1/4/2010, and "CNOOC Reviews Its Plans To Develop Maysan Oil Fields," www.oil.gov.iq/moo/feeds.php?lang=en&page_name=news&id=29, accessed 4/4/2012; China National Petroleum Corporation, "CNPC in Iraq," www.cnpc.com.cn/en/cnpcworldwide/iraq/, accessed 4/4/2012; The Washington Institute for Near East Policy, "Gulf Energy Exports: Existing Alternative Pipeline Routes," www.washingtoninstitute.org/mapimages/48581abd0f6f8.pdf, accessed 4/4/2012, and "Iraq: Oil Infrastructure," www.washingtoninstitute.org/mapimages/41f15dc3ed8cd.pdf, accessed 4/4/2012; "Fourth Time Lucky?" *Oil & Gas Middle East*, Iraq Supplement, 11/2011, www.arabianoilandgas.com/emagazines/oe_81php, accessed 4/4/2012.

Refineries and Petroleum Products

The GOI is considering steeper price discounts on crude oil to potential refinery operators as part of a renewed effort to attract foreign contractors to build four planned refineries in the country.

Although a major crude oil producer, Iraq is also a significant importer of refined products. In 2011, a group that included Italian companies ENI and Saipem was offered a \$5-per-barrel discount as part of a bid on a \$10 billion project to build a refinery and 2,000 housing units for workers in Kerbala, but was unable to attain the necessary financing. Discounts of at least \$9 per barrel are currently among the options under consideration to make the project more attractive to potential investors. A refinery project at Missan is also stalled. In mid-April, Deputy Prime Minister al-Shahristani said if foreign investors could not be attracted, the GOI would build the refineries on its own.⁴⁰⁰

Iraq's North Refinery Company announced plans to add 95,000 BPD of new capacity to three existing refineries operating at Baiji, Siyinia, and Kisik. It also reported that it would complete an initial design study this quarter for a new 150,000 BPD refinery at Kirkuk—one of the four planned across the country.⁴⁰¹

Natural Gas

Iraq produced an average of 1,540 million cubic feet per day (MCFD) of associated natural gas during the first two months of 2012—1,103 MCFD in the south and 437 MCFD in the north. However, Iraq also flared an average of 962 MCFD of gas during the same period, 62% of the amount produced. The majority of this flared gas—806 MCFD—was from the

southern oil fields. The production figures do not include gas produced in the Kurdistan Region.⁴⁰²

This quarter, a subsidiary of Royal Dutch Shell awarded a \$60 million contract to Swiss engineering company ABB for construction of a power plant to supply electricity to one of Iraq's largest projects: the long-delayed \$17 billion effort to capture associated natural gas currently flared from the southern oil fields. The contract award signaled that the project, first agreed in 2008 but not finalized until late 2011, was finally moving forward. Iraq has the world's tenth largest proved natural gas reserves, estimated at 112 trillion cubic feet.⁴⁰³

Pipelines

The two northern pipelines linking Kirkuk with the Turkish export terminal at Ceyhan have operated at no more than one-third of their combined 1.5 MBPD potential capacity since 2003 and require major upgrades. The GOI this quarter elevated the priority of a pipeline through Syria that would become its primary northern crude export route—one that would ease its reliance on Turkey. Iraqi politicians this quarter also issued calls to explore reopening a pipeline to Saudi Arabia that has been closed for more than two decades. There were reports this quarter that the KRG is contemplating new pipeline routes, including one option that would link the region's oil fields directly to export outlets in Turkey without passing through other parts of Iraq.⁴⁰⁴

The two northern pipelines linking Kirkuk with the Turkish export terminal at Ceyhan have operated at no more than one-third of their combined potential capacity since 2003 and require major upgrades.



Tanker berthed at new SPM off al-Faw peninsula. (Leighton Offshore Photo.)

Communications

The Ministry of Communications signed a memorandum of understanding this quarter with other Arab countries to participate in a regional fiber-optic cable project that would link Arab Middle East countries and Turkey with Europe in a high-speed international telecommunications network.⁴⁰⁵

Transportation

Ports

Iraq's Minister of Transportation announced this quarter that the Italian firm Technital had completed the preliminary design for the major new port at al-Faw and would complete the final design "in the coming months."⁴⁰⁶

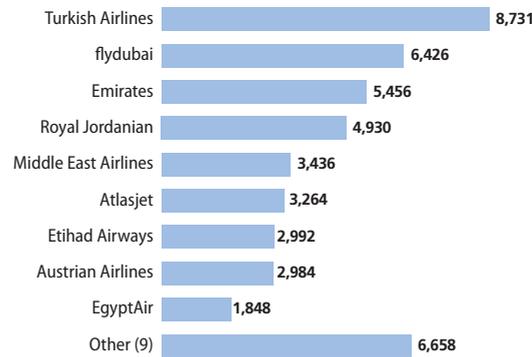
Aviation

Iraq's international commercial aviation links expanded this quarter with two UAE airlines, Etihad and flydubai, and Qatar Airways all announcing or inaugurating new routes. Iraq's Civil Aviation Authority also announced the resumption of commercial air service between Iraq and Kuwait for the first time since 1990, with Kuwait's Jazeera Airways requesting four flights per week to both Baghdad and Najaf. Etihad said it planned to begin flights to Basrah in mid-April, while flydubai began service in January to Baghdad and Najaf. Qatar Airways said it would begin service to Erbil and Baghdad in May and June. More than 20 airlines have added service to Iraq in the past three years, including seven in the past six months.⁴⁰⁷ See Figure 4.16 for the number of weekly passenger seats offered, by company.

Railroads

Iraq's passenger rail network is expanding its passenger capacity, with the Baghdad-to-Basrah line one of the most popular.⁴⁰⁸ This quarter, the Ministry of Transportation allocated \$340 million for construction of a 600-kilometer (km), or 372-mile,

FIGURE 4.16
FOREIGN AIRLINES SERVING IRAQ
Weekly Number of Seats for Sale



Note: Figures are for the week commencing March 19, 2012.

Source: CAPA & Innovata, "Air Services Expansion to Iraq Accelerating this Summer," 3/21/2012, www.centreforaviation.com/analysis/air-services-expansion-to-iraq-accelerating-this-summer-70246, accessed 3/23/2012.

high-speed rail link between those two cities. The route will also pass through the cities of Kerbala, al-Musayab, Najaf, and al-Samawa. Speaking at a conference on Iraq's infrastructure needs, the Minister of Transportation said Iraq planned to build more than 2,000 km (1,240 miles) of a new high-speed rail line that will run through Syria, Iraq, and Jordan, to link Arab countries on the southern and eastern Mediterranean.⁴⁰⁹

Finance

Nearly nine months after a June 2011 CBI deadline, 4 of 22 private banks listed on the ISX were still unable to meet the central bank's minimum reserve requirement of 100 billion Iraqi dinar (\$85.8 million). The CBI reportedly placed one of those banks, Warka, under closer control to supervise it through bankruptcy. The CBI's next reserve requirement deadline is June 2013, when all private banks are supposed to have minimum reserves of 250 billion dinar (\$213.7 million).⁴¹⁰

A 2011 World Bank review of Iraq's financial sector envisioned a greater role for privately owned banks; however, it was the state-owned banking

The Minister of Transportation said Iraq planned to build more than 1,240 miles of a new high-speed rail line that will run through Syria, Iraq, and Jordan.

sector that expanded this quarter. Rasheed and Rafidain banks (which together account for about 85% of all bank transactions in the country) added staff, and the CoR considered draft legislation that would expand the role of a third state-owned bank, the Trade Bank of Iraq. The CoM also approved the establishment of Iraq's first state-owned Islamic bank, known as al-Nhreïn (Two Rivers). Ministry of Finance action to enable government ministries and other GOI entities to conduct business with private banks in addition to state-owned banks appeared to have had little impact.⁴¹¹

Bank loan-to-equity ratios for both public and private-sector banks remained low this quarter, in part because potential borrowers lacked the knowledge necessary to apply for loans and because no credit bureaus operate in Iraq to enable banks to assess risk.⁴¹²

Although state-owned and private-sector banks are ill-prepared to offer the type of large loans contractors require to undertake multibillion-dollar projects, the CoR decided to cut off an alternative financing method this quarter when it removed a \$15.43 billion provision in the 2012 budget prior to passage that would have offered sovereign finance guarantees to private-sector international contractors undertaking such work.⁴¹³

In other developments, the few Iraqi banks that have cooperative agreements with international financial institutions continued to benefit from their exposure to state-of-the-art banking methods, and there was evidence that electronic deposit of government salaries is beginning to take hold. The Ministry of Higher Education and Scientific Research began distributing headquarters staff salaries onto smart cards that can be used at bank ATMs. The ministry announced that staff at all educational institutions in the country would eventually be paid in a similar manner.⁴¹⁴

The GOI is in discussions with the Canadian company FreeBalance to build a successor to the earlier Iraq Financial Management Information System (IFMIS), a tool that was intended to provide the GOI with efficient, transparent management

The GOI is in discussions to build a successor to the earlier Iraq Financial Management Information System, a project terminated in 2009 following a series of technical and management difficulties.



In February, Dr. Sinan al-Shabibi, Governor of the Central Bank of Iraq (seated left) and architect Zaha Hadid (seated middle) signed an agreement for the design of a new CBI headquarters building. (CBI photo)

of its financial accounts. The IFMIS was financed by \$37.4 million from the Economic Support Fund (as part of USAID's Economic Governance I and Economic Governance II programs) plus DoS funds. However, the project was terminated in 2009 following a series of technical and management difficulties. FreeBalance, a subcontractor on the original project, is working with the Ministry of Finance to finalize the terms of reference for a new prototype system that would use much of the data from the IFMIS.⁴¹⁵ For information on a recent audit of USAID information technology systems, including IFMIS, see Section 3 of this Report.

SOE Reform

This quarter, the World Bank presented the results of a six-month study setting out a path for reforming and reviving Iraq's non-oil industrial sector. The study, conducted by McKinsey & Company, focused on about 70 state-owned enterprises (SOEs) controlled by the Ministry of Industry and Minerals (MIM). The plan calls for the MIM to create a restructuring unit dedicated solely to the task of reform. The unit would develop annual restructuring plans that would be implemented by individual SOEs as pilot projects. In a related development, U.S. Embassy-Baghdad provided a \$1 million grant to the Ministry of Finance to establish a unit to value SOE assets.⁴¹⁶

The World Bank also initiated a major reform program for SOEs under control of the Ministry of Housing and Construction. The program calls for joint ventures with international investors, rather than equity stakes, because most of the SOEs under the ministry are unattractive to private-sector investors. Another World Bank project is focused on reform of SOEs that fall under the Ministry of Water Resources.⁴¹⁷

A large industrial SOE established ties with a foreign company this quarter. United Brothers, a Turkish producer, agreed to invest \$120 million in one of Iraq's largest steel mills—the State Company for Iron and Steel (SCIS), located in al-Zubair, south of Basrah. The accord is expected to increase SCIS production capacity to about 1.5 million tons per year and ensure jobs for the majority of the mill's 5,500 employees. Current ministry plans call for those laid off to undergo retraining.⁴¹⁸

Agriculture

Iraq's 2012 wheat crop is projected to be lower than the 2011 harvest mainly due to below-average winter rains across much of northern Iraq. The Foreign Agricultural Service of U.S. Department of Agriculture (USDA) projects a harvest of 1.87 million metric tons (MMT), which would be 11% below the 2.1 MMT yield for 2011. If the projection holds, USDA estimates Iraq would need to import more than 3 MMT during the new marketing year, which runs from late spring 2012 through winter 2013. The Ministry of Trade lifted a ban that had briefly excluded the United States from offering wheat tenders earlier in 2012. In 2011, Iraq ranked as the 37th largest purchaser of U.S. agricultural products, with imports valued at approximately \$700 million.⁴¹⁹

The Ministry of Agriculture (MOA) reported that Iraq increased its consumption of home-grown food products over the past two years. Growth included moving from meeting 25% of demand for vegetables in 2010 to 50% in early 2012. Domestic producers have also met higher shares

of demand for eggs, red meat, and fish as part of a medium-term GOI objective of 60%–70% food self-sufficiency. To support this goal, the GOI has provided interest-free loans to farmers for modernization projects, encouraged more efficient water usage by replacing age-old flood irrigation techniques with more modern drip and spray technologies, and offered higher quality seed and more fertilizers. There are also plans to extend irrigation to northern wheat-growing areas currently reliant solely on rainwater. In western areas of the country, the GOI is working to contain desertification and encourage international investors to engage in both food growing and food processing.⁴²⁰

As part of Iraq's goal to reclaim its earlier role as a major global supplier of dates, the MOA is introducing new breeds of date palm trees as it works to rebuild and strengthen the total population to around 30 million trees. That is about the level of the late 1970s, before the date palms were depleted by decades of war, sanctions, and neglect. The ministry reported in February that 150,000–200,000 tons of dates would likely be exported in 2012, a level not reached since the 1980s.⁴²¹

Investment and Trade

Investment

The National Investment Commission (NIC) reported that foreign and domestic investment (including GOI funds) hit \$50 billion in 2011, although it noted not all work linked to those investments was completed during the calendar year. About 50% of the investment licenses issued in 2011 were for residential housing projects 35% for industrial sector projects, 10% in the services sector, and 2%–3% in agriculture.⁴²²

Improved investment incentives and a shift of greater decision-making power to provincial investment commissions has led the NIC to predict a doubling of investment levels in 2012, if political and security conditions are calm. For the 2008–2011 period, these provincial investment commissions

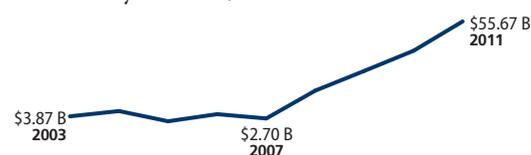
The Ministry of Trade lifted a ban that had briefly excluded the United States from offering wheat tenders earlier in 2012.

issued 780 licenses, totaling more than \$32 billion of investments, in non-oil sectors. Table 4.4 shows investment licenses by sector granted by Iraq's provincial investment commissions. Security conditions and political tensions led to several project delays in 2011, including a 60,000-unit housing development in Baghdad's Rusafa District and a 75,000-unit housing development in Kerbala. The NIC is currently working with the MoPDC and other ministries to review strategic investment planning in areas of oil, health, transportation, communications, and electricity.⁴²³

Iraq announced plans to spend about \$400 million to build three large sports stadiums in the capital. The largest, seating 60,000, is planned for the Tajjiyyat area of the city and will be built by the Iranian company Baland Baya. A second, planned for Sadr City, has been contracted to the Turkish company Nurof for \$99.5 million. The third was awarded to the

Spanish contractor Tri Arena for \$98 million. Total capacity of all three stadiums is 120,000.⁴²⁴

Using a definition of foreign commercial activity that extends beyond direct capital investment to include categories such as public works and private-sector service contracts, lease agreements, and other revenue-generating activities, international commercial involvement in Iraq rose by more than 40% in 2011 to top \$55 billion, according to research conducted by Dunia Frontier Consultants. Since 2007, foreign commercial activity has increased by almost 2,000%.⁴²⁵



Activity was greatest in the residential housing, oil and gas, and electricity sectors, which collectively accounted for more than two-thirds of the total. Companies from South Korea (almost \$12 billion) and the United States (almost \$7 billion) made up the two largest investor blocs in terms of value. Turkish companies had the largest number of individual contracts with 37. In general, the number of total contracts involving foreign companies increased by more than 80%, while the average value of those contracts declined.⁴²⁶ For a more detailed breakout of foreign commercial activity by sector, see Figure 4.17.

U.S. companies more than tripled their foreign commercial activity in Iraq in 2011, and the size of recently signed contracts indicate a strong U.S. commercial presence will continue in 2012. The volume of this activity grew from around \$2 billion in 2010. The presence of prominent U.S. engineering, construction, and oil services companies—particularly in the oil and gas sector—has helped drive the increase. Honeywell subsidiary UOP, for example, is supplying technology for the design of a catalytic cracker—a system that converts crude oil into higher-value petroleum products such as gasoline—at a planned refinery in Nassiriya and upgrading electronic control systems at a refinery in Baiji.⁴²⁷

TABLE 4.4
PROVINCIAL INVESTMENT COMMISSION LICENSES GRANTED, BY SECTOR, 2008–2011

SECTOR	NUMBER OF LICENSES	VALUE OF LICENSES \$ Millions
Housing	155	16,250
Industry	136	6,392
Tourism	192	4,416
Trade	146	1,596
Agriculture	62	1,053
Communication	9	951
Services	37	317
Transportation	2	298
Education	15	279
Health	19	263
Electricity	3	213
Media	4	136
Total	780	32,164

Note: Table does not include investment licenses for oil-related projects, which are handled by the Ministry of Oil.

Source: GOI, NIC, information provided to SIGIR, 4/13/2012.

U.S. companies more than tripled their foreign commercial activity in Iraq in 2011.

Although foreign commercial activity has risen by an average of \$13.2 billion annually since 2008, Dunia expects this level of growth to ease in 2012 as investment volume in the electricity and the oil and gas sectors begins to taper.⁴²⁸

Trade

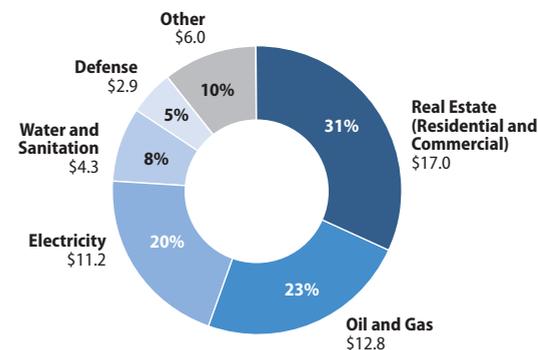
Companies exporting goods to Iraq, including those based in the United States, reported a worsening of bureaucratic delays this quarter related to customs clearance procedures, processing of visa applications, and cumbersome, often obsolete, trade regulations. Although delays have long been an accepted part of trading with Iraq, the political tensions that dominated the early part of the quarter and high trade volume combined to exacerbate conditions. Tensions between and within key government entities involved in trade—including the CoM, KRG, and the Ministries of Interior, Trade, and Oil—slowed visa processing.⁴²⁹

One businessman reported having to scrap plans to conduct a demonstration of his company's industrial equipment at a trade fair in Iraq after failing to get either his product through customs or visas for the technicians required to demonstrate it. A leading global producer of consumer products was unable to gain approval to import its latest offerings because Iraq had not yet updated 30-year-old standards to cover products developed during the intervening period.⁴³⁰

The United States, which expects to ship about \$120 million–\$130 million worth of poultry to Iraq in 2012, expressed concern about spoilage of imported food products delayed at Iraqi ports.⁴³¹

The GOI's precertification system for imports continues to be problematic for U.S. food exporters to Iraq. Iraq also reportedly altered requirements for certificates of origin on imports, requiring the document to be issued prior to shipping rather than at the point of entry. The decision left uncertainty about the status of goods already shipped to Iraq but not yet through customs. New import rules also require certificates of origin for each of a manufactured product's component parts—a requirement likely to complicate the import of

FIGURE 4.17
FOREIGN COMMERCIAL ACTIVITY IN IRAQ, 2011
\$ Billions



Note: Data not audited. Numbers affected by rounding.

Source: Dunia Frontier Consultants, "Foreign Commercial Activity in Iraq: 2011 Year in Review," 2/2012, p. 14.

sophisticated items, such as a modern turbine, which can have myriad components.⁴³²

The absence of a certificate verifying adherence to internationally agreed security standards—called an International Ship and Port Facility Security (ISPS) certification—greatly increases the costs of moving goods through the port of Umm Qasr. Without this seal of approval from the UN's International Maritime Organization certifying that a port is safe and secure, underwriters levy exorbitant fees on shipping companies doing business in non-compliant ports. U.S. officials estimate that it could cost Iraq up to \$100 million to implement the needed upgrades.⁴³³

Among U.S. companies active in Iraq this quarter, the Harris Corporation was awarded a \$51 million contract for tactical communications systems completed under the Foreign Military Sales program. U.S.-based companies were also active in other areas, including real estate, electricity, and hotel construction in the Kurdistan Region.⁴³⁴

A new U.S.-Kurdistan Business Council was founded in April 2012 to facilitate trade for U.S. companies doing business in the Kurdistan Region. The group becomes the third U.S. business group active in Iraq. The Iraq-based U.S. Business Council in Iraq was created in 2011, while the U.S. Chamber of Commerce supports a U.S.-Iraq Business Initiative in Washington, D.C.⁴³⁵ ♦

Companies exporting goods to Iraq reported a worsening of bureaucratic delays this quarter related to customs clearance procedures, processing of visa applications, and cumbersome, often obsolete, trade regulations.