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## **“Playing the Course:”**

# **A Strategy for Reshaping US Policy in Iraq and the Middle East**

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**Fourth Draft: November 22, 2004**

*Note: This is an initial working draft being circulated for discussion purposes. The author would greatly appreciate comments, criticisms, and suggestions.*

## **Executive Summary**

The odds of lasting US success in Iraq are now at best even, and may well be worse. The US can almost certainly win every military battle and clash, but it is far less certain to win the political and economic war. US success is also heavily dependent on two variables that the US can influence, but not control. The first is the emergence of a government that Iraqis see as legitimate and which can effectively govern. The second is the ability to create Iraqi military and security forces that can largely replace US and other Coalition forces no later than 2006.

### **Improving the Odds in Iraq**

This paper argues that US success in Iraq is too important for the US to withdraw in spite of the present odds and that it should “play the course” as long as it has a credible chance of success. It also argues that there are a series of steps that the US can take to improve the odds of success, many of which build on initiatives that the US already has underway.

These suggestions affect five separate areas of US effort:

- Providing a clear statement of US intentions that will make it clear the US is seeking to create a viable and legitimate government in Iraq, and will not stay in Iraq once this occurs. This statement will address the major conspiracy theories that undermine US efforts, and be backed by tangible actions.
- Stepping up aid efforts to develop effective governance, and placing a new emphasis on local as well as national governance.
- Giving even higher priority and resources to the effort to develop effective Iraqi military and security forces.
- Altering US methods of warfighting to strengthen the political content of US strategy and tactics.
- Recasting the economic aid effort to focus on Iraqi internal stability during 2005-2006, and transferring responsibility for planning, management and execution to the Iraqi government, while phasing out US contracting efforts as soon as possible.

### **Know When to Hold Them, Know When to Fold, and Know When to Run**

Taking these steps does not mean that the US should “stay the course” if such measures do not work. The US faces too much Iraqi anger and resentment to try to hold on in the face of clear failure, and achieving any lasting success in terms of Iraqi political acceptance means the US must seek to largely withdraw over the next two years.

To paraphrase an old country and western song, the US needs to know when to hold them, know when to fold them, and know when to run. If the US is asked to leave by an Iraqi government, it must leave. The same is true if Iraqi efforts at governance decisively and/or if the US cannot create effective enough Iraqi security forces to largely replace US and coalition forces. Fighting a counterinsurgency campaign is one thing; the US must not stay if Iraq devolves into civil war.

There are, however, different ways to leave and some are much better than others. Stating and demonstrating that the US has the right intentions will make it clearer to the world that the US made every effort to succeed and help to defuse the impact of US withdrawal. Efforts to strengthen the Iraqi government as much as possible as soon as possible not only raise the odds of success; they raise the odds that stability will eventually emerge

even if the US is forced to withdraw. Efforts to strengthen the role of the UN and to multilateralize as much of the aid process as possible will have the same effect.

### **The Regional Dimension**

At the same time, the US must make every effort to strengthen its position in other parts of the Gulf and the Middle East. Virtually the same strategy is needed whether the US succeeds or fails in Iraq. Even “victory” in Iraq will be highly relative, and defeat will force the US to reinforce its position in the entire region. The specific steps the US needs to take are:

- Give the settlement of the Arab-Israel conflict the highest possible priority in the most visible form possible.
- Rebuild US ties to friendly Gulf states like Saudi Arabia and strengthen ties to all of the GCC states, emphasizing cooperation in dealing with terrorism and Islamic extremism.
- Adopt a more flexible policy in dealing with Iran.
- Prepare for the potential impact of problems in Iraq in dealing with the fighting in Afghanistan.
- Recast US energy policy to deal with the reality that the US will have growing strategic dependence on Gulf and Middle Eastern oil exports for the next 20 years, and their security will become steadily more important.
- Adopt a realistic approach to political reform in the region that will improve US relations with both moderate regimes and with the peoples of the area.
- Give the political dimension of counterterrorism a new priority, addressing the many aspects of the way in which the US now fights the war of terrorism that needlessly hurt relations with the Islamic and Arab world, and restrict the educational, business, and other relations necessary to create a common effort to deal with terrorism and extremism.

Almost all of these steps are necessary regardless of the outcome of the US intervention in Iraq, but they become far more urgent if the US is forced to withdraw or Iraqi governance fails. In short, the US strategy for Iraq must be part of a broader strategy for the Middle East, and one founded on pragmatism and not ideology.

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Regardless of how we got into Iraq, and regardless of our mistakes to date, we are there. Our strategic interests are now linked to both our success and that of the Iraqis. We can certainly survive withdrawal and failure, but the result will be seen as a serious defeat unless an Iraqi government emerges that is clearly better than Saddam Hussein's regime, unless Iraq holds together, and unless Iraq makes progress over time.

We have set the rules of the game to the extent we can, we hold the cards we are going to get, and we have made our bet. The most we can do at this point is hold, fold, or raise the ante. We do not need to rush towards some form of exit strategy before it is clear whether we will win or lose.

At the same time, we do not need a pointless ideological commitment to "stay the course," simply carrying on with what we are already doing. We need detailed and tangible ideas about how to make things better, and improve the odds of success. The challenge is how to best "play the course." It is how to take a bad to mediocre hand and increase the chance of getting a productive outcome.

The fact remains, however, that the odds of success are now at best even, and may well be worse. Popular anger and hostility towards the US and Coalition forces has grown steadily since the spring of 2003. Some 11% of Arab Shi'ites and over 33% of Arab Sunnis saw attacks on Coalition forces as justified by early 2004.<sup>1</sup> The vast majority of Arab Iraqis never saw the Coalition invasion as legitimate, and some 70% wanted Coalition forces to leave Iraq when sovereignty was returned to the Interim Iraqi Government in June 2004. More than 80% of the Iraqi Arab's surveyed this summer expressed deep distrust in Coalition forces.<sup>2</sup> Iraqis still express hope in the future, but they do not feel the Coalition is capable of bring either security or economic welfare. While no reliable polling has emerged since a new surge in the fighting in September 2004, it seems virtually certain that Iraq resentment of the US and Coalition has steadily increased in recent months.

We must do what we can within very tight time limits, knowing that we may well fail. Iraq may divide, there may be civil war, and the Interim Government may fail without leaving a viable option. The end result of the series of elections to come may well be that the US is asked to leave, asked to stay on Iraqi terms that largely consist of our providing aid, or tied to a government that does not have adequate popular support and legitimacy. "Playing the course" does not mean the US can count on winning, and certainly does not mean staying beyond the point where "playing the course" is no longer productive. It also means that US programs must be careful tailored to the limits imposed by the "art of the possible." Trying to implement the "art of the desirable" is an almost certain road to failure.

Accordingly, we need to consider both whether there are steps we can take to improve the current odds and when and how to leave. To paraphrase a country and western song, we have to "know when to hold them, know when to fold them, and know when to run." We also need to understand that any strategy to "play the course" in Iraq must be tied to a

regional strategy that will both increase our chances of success and our ability to leave under the best circumstances possible.

## **“And Know When to Hold Them:” Seeking an Achievable Victory**

One key decision has to be made to have any real chance of winning. This is to define “victory” in narrow and pragmatic enough terms so that we have a credible hope of achieving it. By this standard, success can be measured as the emergence of an Iraqi government that holds the country together, offers more in terms of pluralism and the rule of law than did Saddam and the Ba’ath, which is seen as broadly legitimate by most Iraqis, and which can establish conditions for economic development.

As a corollary, we need to recognize that we cannot overcome many critical forces affecting the situation after more than a year of war and occupation. These forces include the present level of Iraqi resentment of the invasion and occupation, Iraqi nationalism, and cultural and religious tension. Success means the US must transfer power to an Iraqi government that the vast majority of Iraqis see as legitimate, and leave Iraq as soon as this is practical -- at least to the extent that the US does not maintain significant military forces or military bases, and does not maintain the Green Zone and an “imperial” embassy. The US can, at most, stay in Iraq for one or two more years and it must do what it can as quickly as possible.

Moreover, we need to preserve a sense of history. Iraq has massive political, security, ethnic, religious, and economic problems that will take a half a decade to a decade to play out. The chances are that it will undergo several periods of crisis and instability after we leave. We can continue to influence this situation, but we can scarcely hope to control it. We need to understand -- and make clear to Iraq and the world -- that the transition to full independence, and American military withdrawal, place the responsibility for Iraq’s future clearly in Iraqi hands. We must not claim either levels of success or responsibility that will allow critics to blame the US for future problems it cannot control.

### ***Defining Success as Narrowly as Possible***

A future Iraqi government does not have to be favorable to the US in any narrow sense. The US does not need Iraqi dependency; it needs Iraqi success. A neutral government that distances itself from the US, or even one that is aggressively independent, will be perfectly acceptable. The key test of success is that such a government can hold the country together, gives every ethnic and religious group a relatively fair share of wealth and power, does not represent extreme factions, has no broader regional ambitions, and creates a climate where both internal stability and the welfare of the Iraqi people is likely to improve over time.

In fact, from both an Iraqi and regional viewpoint, the stronger and more independent the Iraqi government becomes the better. The US does not need a client or dependent, and its best chance for being seen as having conducted a “just war” (or at least an excusable one) is to show that it leaves when it is asked to and leaves Iraqis clearly in charge. Put differently, the key in Iraq to knowing how long to “hold them” is having a clear plan to “fold.”

As a corollary, “playing the course” means that there are several objectives the US not only must not pursue, but also must conspicuously and openly reject:

- *One is to try to use Iraq as a tool or lever for changing the region.* The Iraqi example may have some impact over time, but nothing could be more destructive to regional efforts at reform than any deliberate effort to use Iraq as some kind of springboard for change in other countries. A meaningful reform strategy must be a country-by-country US effort to encourage the positive evolutionary trends inside each country. Moreover, the US must accept the fact that any foreseeable government that is legitimate in Iraqi eyes will sharply oppose present US policies in dealing with the Israeli-Palestinian conflict and will be hostile to Israel’s present government and policies.
- *Iraq must not become a US military base.* The US may well need to maintain a strong advisory effort, but if the US tries to maintain combat forces and bases under any conditions other than the broadest-based demand from Iraqis as a whole, it will do even more to alienate the Iraqi people, the region, and Islamic world. This does not, however, preclude US efforts to create a regional security structure – building on institutions like the GCC – which could tie Iraq to a more stable regional security posture where the US could both act as the ultimate guarantor of Iraq’s security and work with Iraqi forces in a regional context.
- *The US must establish Iraq’s independence in terms of its politics, economics, and above all oil.* Iraq may well need continuing US aid in its political and economic development, in addition to its military and security forces. The US must, however, avoid even the image of seeking to continue to dominate Iraqi politics, and one key aspect of US policy during 2005 and 2006 must be to relocate the US embassy and Green Zone as quickly as possible, and shrink the US Embassy to something around 20% of its present size. The CPA will be a lasting model of how not to do things, and its imperial image has left a legacy that the US must distance itself from as soon as possible. The US mission in Iraq must be sized to meet key needs, but the goal must be to make it an equal among equals, not a center of political power.
- *Establish total transparency in showing that the US has not take any economic advantage of Iraq and has taken no steps to give US firms a lasting advantage in any aspect of the Iraqi economy.* This does not mean that the US should not encourage US foreign investment, in oil and in every other area. It must do so, however, purely in market terms. The US government, and especially the US Embassy, must be extremely careful not to lever influence to the unfair advantage of US firms, and it must cut itself lose from aid contractors as soon as humanly possible. It must exert Draconian ruthlessness in stopping any past ORHA, CPA, or US military personnel from exploiting their past positions.

### ***Clearly Stating US Goals and Intentions in Terms Acceptable to Iraq and the Region and Demonstrating the US Will Make Good on Its Policy***

The US needs to openly demonstrate to Iraqis, the region, and the world that it defines success in terms of Iraqi interests, not some effort to directly serve its economic and strategic interests. So far, the US has not made this sufficiently clear or even done a good job of articulating its intentions in ways that reach Iraqis and the region. President Bush has spoken in generalities, and his senior officials have either failed to define US intentions and objectives or have do so in ways that had had little practical impact – such as speaking in US press conferences.

President Bush should take the opportunity of his reelection and/or the coming Iraq elections to make a statement to the Iraqi people and the world that clearly defines US intentions and refutes the most dangerous conspiracy theories affecting Iraqi and regional behavior. To be specific, he should state that:

- The US will only stay in Iraq until the insurgency is over and the Iraq people have chosen a legitimate government, and will leave immediately if asked to do so by an elected Iraqi government;
- The US has no intention of interfering in Iraqi elections or internal politics. It will accept any elected government as legitimate;
- The US is training and equipping Iraqi forces to take over both the defense of the nation and internal security missions, and will phase out its military presence as Iraqi forces show they can perform these missions. It will do so earlier, if asked by the Iraqi government.
- The US is bound by the policies set by the Iraqi Interim Government, and will not conduct military operations that have not been approved by that government.
- The US have no interest in controlling Iraqi oil resources and exports, and is firmly committed to aiding the Iraqi Oil Ministry in developing Iraq's resources through open competition on global market terms. All decisions over the future development of Iraq's petroleum resources will be made by the Iraqi government.
- The US is not seeking any other economic interest in Iraq, or any favoritism for US companies.
- The US believes that Iraq must have modern, professional military forces strong and well equipped enough to defend the nation without relying on US and Coalition forces. The US will actively aid the Iraqi government in achieving this role. It will encourage the development of regional security efforts, possibly including the expansion of the GCC. It will provide future military support to Iraq only if requested, and will consult with its regional allies and the UN in doing so.
- The US will not maintain any permanent military bases in Iraq, and will transfer all facilities to the Iraqi government upon US withdrawal.
- The US will continue to provide military assistance and training if the Iraqi government requests this, but actively encourages other nations to join it in this role.
- The US is not seeking to dictate the modernization and restructuring of the Iraqi economy. It is removing the strings from its aid process, and will begin to transfer the management of all US economic aid to the Iraqi government, and allow the government to use such funds for its own projects using Iraqi contractors. It will only act to ensure that the projects are legitimate and are honestly and effectively implemented.
- The US will fully withdraw from the Green Zone once Iraq is secure and an Iraqi government is in place, and will shift its mission to the size and role of a conventional embassy.
- The US is seeking full debt and reparations forgiveness for Iraq, and is committed to providing long-term assistance if this is needed.
- The US believes that the role of the UN and other nations in ensuring free and fair elections, providing aid, and helping to train the Iraqi government and security forces should be steadily expanded. Its only concern is that the expansion of multilateralism must be accompanied by effective plans and the consummate resources.

President Bush not only needs to formally state such goals, he and US officials will need to regular repeat them and aggressively refute conspiracy theories and charges as necessary.

## **Making Iraqi Political Legitimacy Real**

There are two critical variables in Iraq over which the US still has considerable influence, but no direct control: The first is how well Iraqis do in shaping their own government, executing governance at the national and local level, and giving the new Iraq true

legitimacy among all of the key elements of Iraq's population. The second is the ability and willingness of Iraqi military and security forces to largely – if not totally--replace US and other Coalition forces no later than the end of 2006.

Past US actions have helped to create an extraordinarily demanding political schedule, and which ensures political tension, turmoil, and a constant risk of turnover in key officials and decision makers:

- November-December: Parties and candidates emerge, party lists are made public, platforms emerge; polling systems are defined.
- 27-31 January (30 January election day): Elections for 275-person National Assembly.
- ? February-March: Iraqi Transitional Government takes power.
- 15 August: National Assembly completes draft of permanent constitution.
- 15 October: Referendum for permanent constitution.
- 15 December: Elections for government completed – if constitutional referendum approves constitution.
- 31 December: Elected government assumes office.

There are four critical risks that both Iraqis and the US will face throughout this process, and that Iraqis will probably continue to face for up to a decade after the US and other coalition forces withdraw:

- *The risk that a majority of Arab Sunnis will not participate in the political process or will be actively hostile to the US and evolving Iraqi government.* The fighting in Fallujah and other areas may create a more secure climate where Sunnis see participation as both necessary and desirable. This, however, is highly dependent on the quality of the aid and governance that follows the fighting and Sunnis seeing the government as providing valid political options. The battle for Fallujah in November 2004 provoked a major increase in attacks in other areas, and widespread Sunni anger and resentment. There is a significant risk the Sunnis will not join in the process and remain actively or passively hostile.
- *The risk the Shi'ites will divide and see a return to the kind of violence and insurgency al Sadr has carried out in the past.* It seems likely that the majority of Shi'ites will support the political process because it is to their advantage. This does not, however, mean Shi'ite support for the US role, or that a significant minority of Shi'ites will not be alienated or follow more radical leaders like Sadr. There is a natural dilemma in Shi'ite politics. Including leaders like Sadr can radicalize them, excluding them can lead to violence.
- *No compromise between Kurd, Arab, and other ethnic factions can please everyone.* The Kurdish leadership has so far been pragmatic in compromising its demands, and the leaders of the Iraqi Interim Government have been equally pragmatic in accepting limited autonomy and de facto federalism. However, a constitution still has to be written and implemented, oil revenues and other economic problems must be dealt with, and serious ethnic problems over land and repatriation must be dealt with. Above all, the evolution of the Iraqi government must produce a political process the Kurds trust and a willing to participate in.
- *The political and electoral process will either break down, or – more probably – produce a set of political compromises that keep the existing leadership in power without allowing for legitimate opposition, debate, and electoral contests.* As of late November 2003, the Iraqi Electoral Commission had approved some 156 political parties out of requests by a total of 212. As of that time, no party had had a chance to campaign or declare a clear program, and many were brand new. The Interim Government was divided. For example, the Iraqi National Accord party led by Prime Minister Ayad was opposed by the new "Iraqi" party of President Ghazi al-Yawer. The

leading established parties include the KDP and PUK Kurdish parties; three Shi'ite parties, and no Sunni parties.

The dilemma is that Iraq does need strong and coherent leadership, but also needs a transparent enough political process to have legitimacy in the eyes of the Iraq people and allow minorities and factions to feel they can be heard, participate in the process, and have a credible hope of being represented now or in the future. The need to shape an effective Iraqi political process through the elections in January, the constitution referendum, and the full elections in late 2005 would pose an immense challenge in a divided nation, with little real political experience, even in peacetime.

The Iraqis urgently need as much outside aid as possible in both learning how to create a political process that can minimize these risks and making the new Iraqi government as effective as possible. At the same time, an Iraqi government can only become legitimate and effective if the US and the international community recognize that Iraqis and the evolving Iraqi Government must make as many decisions as possible and that the existing political process must become far more inclusive and popular in character.

The US cannot reinvent the wheel by trying to change the current political calendar. No form of US interference can substitute for Iraqi progress, and the US cannot constantly interfere without discrediting Iraqi efforts. The US is no longer the decision-maker, it is an ally.

One of the hardest tasks the US faces over the next two years is to restrict US actions to aid and advice, and to preserve a proper, steadily growing, and visible distance between the US team in Iraq and a sovereign Iraqi government. One method is to try to expand the role of the UN and other nations in providing political advice and support so that the US is not seen as dictating or as the only advisor. This could include expanding the role of Britain and other Coalition states and give them the lead wherever possible. Turning to other nations, however, is likely to offer only limited help, and will sometime do little more than introduce new complications.

The most important way to strengthen Iraqi capability to govern, and Iraqi legitimacy, is to give the Iraqis control over as much of every aspect of the nation building and security effort as soon as possible, and let them control and manage their aid resources. It is to let the Iraqis make their own choices and own mistakes. In general, it will be far better to have Iraqis do things badly than have Americans do them badly – and some times even well.

### ***US Aid in Governance: Doing Too Little, Too Late***

In this context, it is deeply disturbing to note that as of November 3, the US had dispersed only \$96 million in aid funds for “democracy” as part of the Iraq Relief and Reconstruction Program (IRRP). The US Embassy Weekly Report states that the 2207 Report goal for the program was originally \$831 million, of which the Congress actually apportioned \$541 million.

Even these totals may be misleading. An analyst from the Congressional Research Service notes that there was no “recommended” program (Admin request) for democracy-building activities in the original FY2004 supplemental, although other activities, such as civil society and rule of law in the original request could be interpreted as having something to do with “democracy”. Congress added \$100 million for this specific purpose in the enacted legislation. By January 2004, after the June 2004

transition plan was announced (November 15, 2003), the Administration shifted funds around to make the democracy sector larger — it became \$458 million, later \$451 million. The September 2004 Administration re-allocation request to Congress would have raised "democracy" by \$180 million to \$631 million. It is unclear why the figure for "democracy building" has gone up to \$831 million, but it appears that either Congress moved more money to the justice/democracy category than the Administration requested or the Administration did a quick re-think of needs in mid to late-September. As of 11/17/04, the Administration has only obligated \$473 million and spent \$118 million of the \$831 million available in "democracy building" funds.<sup>3</sup>

Similarly, the US had dispersed only \$33 million out of an apportionment of \$290 million in funds for education, refugees, human rights, and government (The 2207 Report goal was \$379 million.) It had dispersed only \$56 million out of \$979 million in funds for justice, public safety, and civil society. The 2207 Report goal called for \$1,122 million.<sup>4</sup>

If one ignores the fact there are conflicting data, and combines all of these programs as reported by the Department of State on November 3, 2004, the US has dispersed a total of only \$185 million out of \$1,800 million in apportioned funds, with an original 2207 Report goal that called for \$2,332 million. Given the scale of requirement to prepare for pluralism and some form of federalism, and the desperate urgency imposed by the political calendar, the current level of effort simply cannot support anything like the program needed. The US effort to aid Iraqi governance is not playing the course; it is staying on the sidelines.

As in every aspect of the US aid program in Iraq, there are many people in the field doing a good job with the resources they have, and taking serious risks in doing so. To put it bluntly, however, the US either has a meaningful program it can actually implement or it does not. If the US does have anything approaching an adequate program, it needs to develop a coherent statement of what that program is, establish clear metrics and milestones, and constantly reexamine its scale and content separate from other aid activities. If — as seems more likely — it has incoherent good intentions -- and bits and pieces of a program actually in the field -- the entire aid program affecting governance needs to be recast to suit the level of urgency in Iraq and the political calendar the US is trying to make work.

### ***The Problem of Local Government***

The problems involved are further compounded by the past history of US mistakes and failure in creating effective local governance documented in the International Crisis Group (ICG) report of October 27, 2004. It will be extremely difficult to work out a political process of power sharing at the top of the central government, and it will almost certainly be years before the national lists and parties learn how to work together effectively and develop practical national political agendas. Effective and legitimate local government at the provincial, city, and town level is one way to both give each area and faction representation and to shape the broader democratic process.

As the ICG report describes in detail, basic reforms are needed in the way the Interim Government deals with provincial and local governments, in creating effective provincial councils and local governments, in the role played by the US and its Coalition allies, and in the role played by the UN. Creating an effective national consensus and government

also requires that this progress be made in parallel with the national political process -- particularly if Iraqi political leaders choose lists and rig a national government in the January 2005 elections which many Iraqis do not regard as legitimate.

Some form of revenue sharing may also be critical if various regions and factions are to be convinced that they will get a fair share of the nation's wealth. This is particularly true of oil revenue -- which for the foreseeable future will underpin the national budget instead of tax and other income sources. It is easy to mistake "federalism" as being a matter of political power. It is a matter of financial power as well, particularly in almost exclusively Sunni areas like Al Anbar and in the Kurdish dominated north.

### ***US Transparency and the Role of the UN and Other Nations***

The US needs to publicize its efforts to help Iraq achieve success in governance and make it clear that its aid program is designed to help the Iraqis make peaceful pluralistic choices, not create a US sponsored government. It needs to describe what it is doing to show it does not favor a given mix of ethnic and religious groups, and report problems and failures as well as success.

At the same time, the US should make it clear to Iraqis and the world that when there are problems in governance, US aid and influence cannot directly alter or correct them. As is the case in every area of US action, Iraqis must not only be in charge, but be held publicly accountable. The constant effort to spin every minor accomplishment into success is precisely the wrong approach. Transparency and accountability serve three key purposes: (a) the independence and legitimacy of the Iraqi government and political process is clear, (b) the US is not held accountable for Iraqi failures if it stays or withdraws, and (c) Iraqis are pressured to take responsibility.

The US must demonstrate through its actions that it will actually begin to leave as soon as the Iraqi government, military, and security forces can do the job. It needs to demonstrate it through phased withdrawals and changes in its role. The US should not set rigid deadlines, which will become targets for insurgents and opponents of the Iraqi government, but it should seek to do as much as possible during 2005 and if it does not succeed by the end of 2006, it seems likely that it will have effectively been defeated. More than 70% of Iraqis polled wanted the US forces out as early as the fall of 2003, and the figure was well in excess of 80% by mid-2004.

This is one of many reasons why the US needs to aggressively and openly seek to expand the role of the UN and other nations in helping Iraqi develop its governance and political process. Just seeking multilateralism expands the legitimacy of the US effort. Achieving it, particularly if the country becomes more secure, will be much more important. It will show Iraqis and the world that the US is serious; that its efforts are designed to create an independent and legitimate government and that it is seeking to improve, not dictate, Iraq's future. It will also create an important process of continuity as the US phases down its effort and if the US has to withdraw rapidly in a crisis.

## **Reinforcing the Current Effort to Create Effective Iraqi Military and Security Forces**

The second critical variable is the ability and willingness of Iraqi military and security forces to largely – if not totally replace--US and other Coalition forces no later than the end of 2006. As has been touched upon earlier, it has been clear since early 2004 that Iraqis bitterly resent US domination of the military security effort, and polls in 2004 put hostility at well above the 80% level.

At the same time, poll after poll shows Iraqis see physical security as the most important single issue in their lives, followed by economic and educational security. Equally important, the same polls that reflected the unpopularity of Coalition forces reflected great popular confidence in the Iraqi army and police -- although far more out of hope for what they might become in the future than their capabilities at the time the polls were taken.<sup>5</sup>

There is no question that creating the kinds of Iraqi forces that are required is a high risk effort that will have to be rushed forward under adverse circumstances. It is also almost certain that if polls were taken now -- after Najaf, Baghdad, Samarra, Fallujah, and Mosul – the Iraqi people would show far less confidence. Nevertheless, the only practical solution to popular hostility to coalition forces is to create strong Iraqi military security forces as soon as possible, and to keep up the effort regardless of any near term problems and reversals. “Iraqiazation” either has to be made to work, or Iraq will become a mirror image of the failure of “Vietnamization” in Vietnam: Coalition military victories will become increasingly irrelevant.

The US military and US embassy now seem to clearly understand this, as does the Iraqi Interim Government. The failures at the policy levels of the US government, CPA, and shadow Iraqi government that that gave General Eaton a hopeless mix of tasks and resources through May of 2004 seem to have been corrected. General Petraeus and the Multi-National Security Transition Command (MNSTC-1) may now be getting much of the support they need.<sup>6</sup>

It is disturbing, however, that the US has stopped issuing meaningful public information on the equipment and training effort, and has cut the content of the Iraq Weekly Status Report to the point where it has limited value. Like the empty measures of success contained in USAID reports, the end result is that there is no way to relate what is happening to any meaningful picture of actual requirements and the measures of accomplishment that are provided are the kind of empty, self-congratulatory statements typical of public relations exercises.

### ***Resources to Date***

The only data on expenditure cover the Iraq Relief and Reconstruction Program (IRRP), but do not reflect reprogramming. Taken at face value, they indicate that the US had dispersed \$798 million for its Security and Law Enforcement Program at a rate of only \$8 million a week.<sup>7</sup> This compares with an original program level of \$3,235 million, which was raised to \$5,045 million program for the FY2004 fiscal year because of reprogramming on September 30, 2004. (\$1,808.6 million was reprogrammed to “security and law enforcement.”)

The true total for such spending is higher, because the figures just quoted only cover the FY2004 program. Some \$51.2 million was allocated to the Iraqi army in PL-108-11 April 2003. At the urging of the US Embassy, an additional \$1,808.6 million out of the FY2004 total funding for IIRP was reprogrammed to “security and law enforcement” in September 2004.

Unfortunately, the way in which the US government has reported on aid expenditures in Iraq is so dysfunctional as to be almost totally misleading.<sup>8</sup> For example, the Inspector General of the CPA reported on October 30, 2004 that, “As of March 2004, the US had obligated about \$58.5 billion to stabilize the security situation in Iraq: About \$57.3 billion for the US military operations and \$1.2 billion for Iraqi security forces.” These figures dramatize the slow pace of the US effort to create effective Iraqi forces at the time, although they also reflect the disparity between a large Coalition force presence in Iraq and the initial buildup of Iraqi Security Forces, and the problems in trying to rapidly create effective Iraqi forces in a country with poor infrastructure, limited administrative capabilities, and in the midst of an insurgency.

## ***The Status of the Military Training and Equipment Effort in September 2004***

As for manning and equipment, the US used to provide reasonably detailed data on progress in training and equipping Iraqi forces. The Department of Defense provided the follow data as of September 22, 2004:<sup>9</sup>

<u>Service</u>	<u>Manning</u>		<u>Training</u>		
	Required	Actual	Untrained	In Training	Trained
Army	27,000	12,699	0	7,910	4,789
National Guard	61,904	41,461	0	2,189	39,272
Iraqi Prevention Force	6,584	7,417	0	5,489	1,928
Iraqi Special Ops Forces	1,967	651	0	75	576
Air Force	502	182	0	39	143
Coastal Defense Force	409	412	0	130	282
<b>Total</b>	<b>77,175</b>	<b>62,822</b>	<b>0</b>	<b>15,832</b>	<b>46,990</b>

  

	<u>Weapons</u>		<u>Vehicles</u>		<u>Communications</u>		<u>Body Armor</u>	
	Required	On-Hand	Required	On-Hand	Required	On-Hand	Required	On-Hand
Army	23,606	15,432	2,298	1,768	3,596	1,021	20,949	6,137
National Guard	68,760	37,636	2,142	727	11,209	427	62,032	23,320
Iraqi Prevention Force	8,850	3,300	583	152	1,789	1,583	6,584	2,741
Iraqi Special Ops Forces	1,898	1,274	180	67	1,212	115	1,620	605
Air Force	383	0	34	4	21	0	502	0
Coastal Defense Force	486	12	15	15	156	1	409	0
<b>Total</b>	<b>103,983</b>	<b>57,653</b>	<b>4,421</b>	<b>2,753</b>	<b>13,764</b>	<b>3,157</b>	<b>71,152</b>	<b>32,803</b>

These data reflected serious problems in the progress made as of September:

- The manpower totals do not reflect the fact 25-33% of men were on leave or in training at any given time. Many men are in units deployed a considerable distance from their home, and must travel to give their families their pay, and deal with family issues.
- Figures for training were uncertain, since all men are trained or in training, but training was often very limited or did not prepare them for demanding aspects of their mission.
- Total armed forces had 55% of weapons authorized for prior force structure, half of authorized total of 4,421 vehicles, 28% of communications, and 46% of body armor.
- The weapons data shown were for small arms and crew served weapons, and do not reflect Iraqi and US plans to create heavier forces with armor.
- Some armor was being delivered; including at least 35 reconditioned Iraqi tanks, AFVS, and APC and 50 armored cars from the UAE.
- Hoped to get armor for more Iraqi mechanized units from Jordan and UAE.
- DoD stated totals for communications equipment totals were misleading, because: "Some radios are on-hand, but they are interim capability only." US advisors feel that civilian and other radios bought as part of CERP program are adequate, and communications are much better than statistics show.

The Army then had 12,699 actives of 27,000 man authorized force.

- Of active strength, 4,789 are defined as trained (3 weeks for former military and 8 weeks for new recruits; the vast majority go through the 8 week course). This total was roughly 18% of authorized strength and 38% of men actually on duty.
- Equipment holdings, as of mid-September, were 65% of authorized weapons, 77% of vehicles, 29% of communications, and 30% of body armor.
- Training sufficiently limited so new forces normally need 6-8 weeks of working with US forces. Were exceptions where units were rapidly formed out of experienced army personnel and fought well.
- Iraqi commandos had proven to be a well training and effective source of manpower.

The Iraqi National Guard was Iraq's largest force, but most of it was not a "combat ready" force to fight insurgent battles on its own.

- 41,461 actives vs. requirement for 61,904. Claims that 39,272 are trained and 2,189 are in training ignored the fact such training is limited and generally does not prepare most forces for demanding counterinsurgency and counterterrorism missions. Their training does prepares them to conduct "framework operations," which do play a significant role in a counterinsurgency conflict.
- Were some effective, combat ready elements.
- 40 of 44 National Guard Battalions operating with Coalition forces throughout country. All except those in Fallujah-Ramadi area were carrying out joint operations with Coalition on daily basis.
- Equipment holdings, as of mid-September, are 55% of authorized weapons, 34% of vehicles, 4% of communications, and 38% of body armor.

The Iraqi Prevention Force had 7,417 men active for a force with an authorized strength of only 6,584.

- DoD reported that 26% have some training.
- Equipment was 37% of authorized weapons, 26% of vehicles, 86% of communications, and 41% of body armor.
- The creation of such specialized counterterrorism/counterinsurgency elements was underway, but the force was anything but "combat ready."

Iraqi Special Operations Forces had 651 men active for a force with an authorized strength of 1,967.

- DoD reports that 88% of actives have some training, and that 29% of full authorized force is trained and fielded. This force will grow once the conditions for doing so are in place and properly set.
- Equipment is 67% of authorized weapons, 37% of vehicles, 10% of communications, and 37% of body armor.
- The creation of such specialized counterterrorism/counterinsurgency elements is underway, This force was more combat experienced and proven than any other force in Iraq.

Air Force and Coastal Defense Force were only token forces.

Air Force had 0% of authorized weapons, 12% of vehicles, 0% of communications, 0% of body armor.

### ***The Status of the Military Training and Equipment Effort as of November 2004***

The data the US has made public on Iraqi force development since September have been cut to the point where they do no longer indicate whether the serious problems in equipment delays that existed as of early September are being corrected; all equipment delivery data have been deleted from the report.

The same is true of data on trained manpower. All breakouts have been eliminated from public US reporting from the Embassy, Department of Defense, and Department of State. The only heading in the Weekly Status Report is now "Trained/On-Hand." This figure has some value, however, since it reflects the manpower that have been trained and are still on duty, to avoid the problem of reporting those who were trained and are not on duty for whatever reason.

Useful data have, however, been provided by the Coalition training command in Iraq, MNSTC-I, although such data cannot go into the detail needed to distinguish between the total number of men trained and equipped, and what are sometimes much smaller numbers of men with fully adequate training and equipment for counterinsurgency and combat missions, or show the rapidly increasing size of the cadres of fully trained officers and NCOs.

These data are current as of November 18, 2004, and are shown below:<sup>10</sup>

<u>Force element</u>	<u>Current strength</u>	<u>On Duty, Trained And Equipped</u>	<u>Total Authorized</u>
Police	87,133	47,342	135,000
Special Police Commando Battalions	2,019	900	2,019
Border Enforcement	16,237	14,593	29,360
Highway Patrol	925	370	6,300
Bureau of Dignitary Protection	484	484	500
Intervention Force	6,584	1,816	6,859
Emergency Response Force	168	168	270
Civil Intervention force	1,091	1,091	3,720
National Guard*	43,318	41,409	55,921
	(41,261)	?	(61,904)
Special Operations Force	604	590	1,967
Army	16,634	4,507	27,000
Air Force	206	167	502
Coastal Defense Force	409	536	582
<b>TOTAL</b>	<b>173,903</b>	<b>115,882</b>	<b>275,708</b>
<i>Military Forces</i>	<i>(17,249)</i>	<i>(5,210)</i>	<i>(28,084)</i>
<i>Military and Elite Paramilitary (less</i>			

*National Guard*)                      (29,124)                      (10,491)                      (49,719)

*\*Data from n MNSTC-1 are not clear. Data in parenthesis are taken from US Embassy Weekly Status Report of November 3, 2004.*

While the Iraqi security and military forces continue to experience problems in terms of retention and performance, these totals do reflect significant progress since the summer of 2004 and a number of Iraqi combat forces have performed well in the fighting in Najaf, Samarra, and Fallujah. The performance of the police has been less satisfactory, but the cadres of properly trained and equipped units is beginning to increase in significant numbers.

According to MSTC-1, nine more active Army battalions should complete their training by the end of December, and all 27 Regular Army or Intervention Force battalions (including six more from the Intervention Force) are planned to complete training by the end of January. This schedule has been maintained despite attacks on training bases, infrastructure delays due to unexploded ordnance discovered at one planned base, and forces being deployed to major combat operations earlier than initially planned. Some battalions have had a number of AWOLs due to intimidation attacks, and MNSTC-1 is working with the Iraqis to adjust its numbers to reflect those. MNSTC-1 is also taking measures to reduce the likelihood and impact of these in the future, and to assist them in recruiting of combat veterans.

Two battalions from the Iraqi Intervention Force conducted operations in Najaf. These same two battalions plus another are conducted effective combat operations in Fallujah together with two regular battalions, an Army Commando Battalion, a Police Emergency Response Unit, and Shewani Special Forces trained by 1<sup>st</sup> MEF. These constituted 2,700 Iraqi's at their peak. Although not all Army battalions were at full strength, soldiers who are in the battalions fought effectively and are certainly "combat ready," with most being "combat proven." The last six battalions from the Iraqi Intervention force will complete initial training (fourteen weeks) in the next 30 days.

Sixteen National Guard battalions are conducting operations effectively at the company level or above, with a number conducting operations effectively at the battalion level. Many Iraqi National Guard (ING) units have conducted combat operations. Current plans are to expand the National Guard from its previous authorized strength of 45 battalions and six brigades to 6 Division HQs, 21 Brigade Commanders, and 65 battalions.

The number of trained police now include over 31,000 former police trained in the three-week Transition Integration Program. Over 15,000 police have been trained in the 8-week Academy program of instruction. Capacity at the 8-week academies in Jordan, Baghdad, and other regional academies should soon exceed over 3,000 graduates per month.

The numbers for trained border enforcement personnel reflect training done by major subordinate commands (divisions). Capabilities among border enforcement personnel vary widely. MNSTC-I has established a centralized program of instruction for border personnel, presently at the Jordanian Police Academy with Dept of Homeland Security Instructors. Will move this instruction to Iraq in the near future

## ***Key Iraqi Force Components***

While detailed data are lacking on the progress in training and equipment, the US military team in MNSTC-1 does provide useful data on the structure and type of training and equipment in key elements of the emerging Iraqi forces:<sup>11</sup>

- *Special Police Commando Battalions:* The Special Police Commando Battalions represent the Iraqi Ministry of Interior's strike-force capability. The commandos – ultimately to be comprised of six full battalions – are highly vetted Iraqi officers and rank-and-file servicemen largely made up of prior service Special Forces professionals and other skilled servicemen with specialty unit experience.

The Special Police Commando Battalions represent the Iraqi Ministry of Interior's strike-force capability. The commandos – ultimately to be comprised of six full battalions – are highly vetted Iraqi officers and rank-and-file servicemen largely made up of prior service Special Forces professionals and other skilled servicemen with specialty unit experience. All members of the unit are chosen based on loyalty to Iraq and its new democratic model. The unit focuses primarily on building raid operations, counter-terrorist missions including anti-airplane hijacker, kidnapping and other similar missions.

The force resembles more a paramilitary army-type force complete with heavy weapons, rocket-propelled grenades, AK-47 assault rifles, mortars, and 9mm Glock pistols. The commando battalions give the MOI a high-end strike force capability similar to Special Forces units and was quickly stood up to capitalize on previously existing skill sets in Iraq.

- *Iraqi Police Service Emergency Response Unit:* An elite 270-man team trained to respond to national-level law enforcement emergencies. Team members undergo a robust eight-week specialized training course spawned from the current wave of anti-Iraqi forces actions. An elite 270-man team trained to respond to national-level law enforcement emergencies. Team members undergo a robust eight-week specialized training course spawned from the current wave of anti-Iraqi forces actions.

The mission of the emergency response unit is to provide a national, high-end, rapid-response law enforcement tactical unit responsible for high-risk search, arrest, hostage-rescue and crisis response operations. The emergency response unit is the predominant force for national-level incidents calling for a DELTA/SWAT capability and will only be used in extreme situations by local and national authorities.

The \$64.5 million effort is part of a larger mission to create a nation-level law enforcement investigative and special operations capability within the Iraqi Ministry of Interior to counter terrorism and large-scale civil disobedience and insurgencies throughout Iraq. The capability will eventually include a Counterterrorism Investigative Unit and Special Operations Unit. Volunteers for the force must first complete the standard eight-week basic training course or three-week transition integration program course for prior service officers before entering the specialized emergency response unit training modeled after the U.S. State Department's Anti-Terrorism Assistance and Bureau of Alcohol, Tobacco and Firearms' training programs.

Of the total force, 235 eligible candidates received rigorous instruction based on the Anti-Terrorism Assistance Crisis Response Team training program while the balance of 35 recruits are part of the Special Operations Explosive Ordinance Team, based on the State Department's Anti-Terrorism Assistance Explosive Incident Countermeasures training course.

Team members receive instruction on terrorist incidents, kidnappings, hostage negotiations, explosive ordnance, high-risk searches, high-risk assets, weapons of mass destruction, and other national-level law enforcement emergencies. Officers also have an opportunity to receive

supplementary training in hostage negotiation, emergency medical procedures, and counterterrorism task force coordination.

- *Iraqi Intervention Forces:* The Iraqi Intervention Force is the counter-insurgency wing of the Iraqi army. Ultimately to be comprised of nine battalions, organized into three brigades, forces negotiate the standard eight-week basic training all Iraqi Soldiers go through learning basic soldiering skills such as weapons, drill and ceremony,

Soldier discipline, and physical training skills. After graduation, IIF battalions spend several weeks and months in intensive “military operations in urban terrain” follow-on training – otherwise know as “MOUT” training. In this period, Soldiers work through instruction in the art of street fighting and building clearing operations typical to anti-insurgent operations in cities and towns. Units work in close coordination with other IA battalions and will be completely stood-up to the nine-battalion force by early 2005.

- *Iraqi Special Operations Force:* The Iraqi Special Operations Force – the Iraqi Armed Forces’ high-end strike force resembling U.S. Special Forces units – continues training and operations in the country with multinational force assistance. The Iraqi Special Operations Force – the Iraqi Armed Forces’ high-end strike force resembling U.S. Special Forces units – continues training and operations in the country with multinational force assistance.

Consisting of two trained battalions, including the 36th Commando Battalion – an infantry-type strike force – and the Iraqi Counterterrorism Battalion, the force has been involved in many operations throughout the country fighting anti-Iraqi forces with great distinction while continuing the stand-up effort of the unit. The force will add a third “support” battalion to its ranks in the coming months. Training is conducted at an undisclosed location.

“Selection” for the force begins in the Iraqi National Guard and Iraqi army units already operating in the country, much like typical multinational Special Forces’ recruiting efforts in their own countries. Outstanding recruits successfully negotiating the vetting process, including exhaustive background checks, skill evaluations, and unit evaluations along with literacy, psychological, and physical tests, are run through various team-building and physical events meant to lean down the recruit pool. The selection process runs roughly 10 to 14 days.

The Iraqi Special Forces undergo intense physical, land navigation, small-unit tactics, live-fire, unconventional warfare operations, direct action operations, airmobile operations, counterterrorism, survival, evasion, resistance, and escape training. Special Forces soldiers are an army’s unconventional warfare experts, possessing a broad range of operational skills. The unit was formed based on a conversation between the Prime Minister Ayad Allawi and multinational force personnel to give the Iraqi Armed Forces a high-end strike force in its ongoing security mission against anti-Iraqi forces operating in the country.

- *Iraqi Army:* Iraqi army soldiers negotiate standard eight-weeks of basic training including basic soldiering skills instruction in weapons, drill and ceremony, Soldier discipline, and physical training. Iraqi army soldiers negotiate standard eight-weeks of basic training including basic soldiering skills instruction in weapons, drill and ceremony, Soldier discipline, and physical training. Units negotiate advanced follow-on infantry, land navigation, and other operational training after graduation before deployment.
- The Iraqi army will ultimately be comprised of 27 battalions of infantry – including nine special Iraqi Intervention Force battalions – and three transportation battalions. The army will be organized into nine brigades and three divisions. The bulk of the force is slated to be in place by early 2005. Plans to create heavier and better armored forces are still in flux, but there are now 259 soldiers in the 1st Mechanized Brigade, preparing to train with 10 MTLB armored personnel carriers. These vehicles were drawn from a pool of over 300 armored vehicles that the Iraqis

intend to make ready as the unit grows. The brigade has 50 T-55 tanks, 48 BMP-1s, 57 MTLBs, 36 Spartans, and 30 BTR-94s already. MNSTC-1 hopes to have a combat ready armored battalion by the end of January and the time of election, with others to follow.

- *Iraqi Coastal Defense Force:* The Iraqi Coastal Defense Force is the Iraqi Armed Forces' naval component. Ultimately to number just more than 400 servicemen, the force also includes a land-based Coastal Defense Regiment resembling western-type "Marine" infantry forces. Land and sea based forces negotiate IAF eight-week basic training courses before moving on to follow-on training and sea training for the boat crews.

Boat crews learn the basics in seamanship before moving on to instruction in advanced seamanship, towing, gunnery, sea rescue, chart reading, navigation, anti-smuggling, operations, and rigid inflatable boat integration and small boat drill instruction. Training is put in the context of a democratically based maritime sea force.

Primary duties include protecting the country's roughly 50-mile coastline from smuggling and foreign fighter infiltration operations as well as the port assets at Umm Qasr in Southern Iraq and oil assets in the Persian Gulf. The force patrols out to the 12-mile international water boundary in the Persian Gulf with five 27-meter long Chinese-made patrol boats and various other support craft.

### ***Setting the Right US Short and Long-Term Objectives in Aid to Iraqi Military and Security Forces and Providing the Necessary Transparency***

These numbers and force descriptions show that the Iraqi military and security forces are now far too weak to take over the security mission and will almost certainly remain so well into 2005. They also indicate that the US may be moving too slowly in creating military forces that can deal with the insurgency problem by 2006. While the US is seeking to help Iraq build a three division force, it seems clear that it is not yet committed to creating the kind of national military forces that can defend the country and give the government legitimacy and respect.

In practice, the US can only succeed in "playing the course" of the program for training and equipping Iraqi military and security forces meets the following key short-term and longer-term objectives:

- Create effective police and security forces capable of operating on a nation-wide basis.
- Create a suitable mix of military and specially trained and equipped security forces that can help defeat the insurgencies in Iraq and come to maintain security without Coalition assistance.
- Create the structure and cadres that will allow an Iraqi government to expand the Iraqi military to the point where it is capable of defending the nation and with the size, professionalism, and equipment to act as an effective, modern military force for national defense.

This latter objective means creating a longer term US aid and advisory plan that will give Iraq the modern, professional military forces it needs for defense and deterrence without risking a return to either a political role for the armed forces or the kind of military build-up that could lead to an arms race and a destabilization of the region.

More broadly, US needs to carefully reexamine the level of effort it is making in each area. There are serious tradeoffs in force quality if the training, force building, and equipment effort is rushed. The end result could be a failed force. Yet, the US can only "play the course" effectively if it works out goals and plans with the Iraqi Interim Government that go far beyond the 28,000 man armed forces -- and the roughly 40-

55,000 man total of military, paramilitary, and National Guard -- the US currently says are "required." This may well mean scaling up a much larger training and equipment program over time than the US currently plans.

### ***US Transparency and the Role of Allied Forces***

Finally, the US needs to communicate a clear plan for achieving all three of the previous objectives to the Iraqi people and the region. Once again, it needs honest and transparent reporting that is detailed enough to be convincing, while pushing Iraqis towards responsibility and accountability.

It needs to show that it is truly dedicated to creating legitimate forces for a legitimate government, and creating the conditions necessary for a phased US withdrawal. It needs to go back to reporting systems that are detailed and transparent enough to show the progress it is making, and minimize the impact of the various conspiracy theories rampant throughout the country.

The US also needs to keep seeking as much allied and outside support in the training effort as possible. The US will not get significant numbers of additional combat troops. In fact, it will be almost impossible for its current allies to maintain their present troop strength unless it articulates a clear strategy for both improving the legitimacy of the Iraqi government and phasing out Coalition troops. It is one of the many strategic ironies in Iraq that any serious increase in foreign troops requires a level of internal security in Iraq that makes them largely unnecessary.

At the same time, an NATO or other country that plays a role in the training process not only aids a critical mission; it also adds a degree of transparency and legitimacy to the military effort. Their presence and activity will make it clear that the US is creating real Iraqi capabilities, and does intend to leave.

The US State Department announced on November 19, 2004, that NATO's decision to send military trainers to Iraq was the first collective, consensus decision the alliance had made on Iraq in two years, and would substantially increase the number of military trainers in the country from around 65 to as many as 400. The not clear, however, exactly when such manpower will arrive and it will require an additional 1,000 to 1,200 personnel to support the trainers by providing force protection, logistics, and communications --creating a mission total of between 1,500 and 1,700 people, some of which will be drawn from the United States. Most of the new military personnel were scheduled to be in place within five-to-six weeks, and the U.S. military personnel contributions will come from outside Iraq.<sup>12</sup>

### **Shaping the Political Dimension of US Military Action**

The US has already learned that it can win virtually any direct military battle or clash, but it cannot secure the country. Moreover, US and Coalition forces are so unpopular that their presence can create added hostility and new insurgents. This is one key reason for creating effective Iraqi military and security forces. Winning the military action is only part of the story. As in Vietnam, if the interim Iraqi government cannot win the political battle, U.S. victories in the military battles become irrelevant.

### ***Interoperability, giving the Iraqis the Lead, and Replacement of US Forces***

The very professionalism of the US military often makes it reluctant to give allied forces major responsibility or a lead role. There are also very tangible limits to how quickly Iraqi forces can be trained, equipped, and gain enough experience to be fully interoperable and take over from US forces.

The key to political and military success will, however, be to create a pattern of operations where Iraqi forces are as visible as possible, become truly interoperable, and take over as many security and military missions as possible. This involves more than the training and aid effort that has just been discussed. It requires detailed, ongoing US efforts to transform operations into joint US-Iraqi and then Iraqi operations as quickly as this can be done with the proper level of effectiveness.

### ***The Sunni Side of the Political, Military, and Economic Battle***

The political and economic battle is very different from the military one. It will be fought over several months, not days or weeks. It will extend far beyond the bounds of cities like of Fallujah. Barring a revival of the kind of Shi'ite insurgency led by Al Sadr, it will be a struggle to give the Iraqi Interim Government enough control over the Sunni Arab-driven aspects of the insurgency in Iraq to achieve the following seven objectives:

- *Defeat insurgents without alienating the Sunnis to the point where political compromise is impossible:* A battle conducted in a political context in which a coalition and interim government victory does not become a convincing image of martyrdom in Iraqi Sunni and Arab eyes. Civilian casualties and collateral damage should not create convincing images of another Jenin in the Palestinian West Bank or the massive use of excessive force.
- *Establish sufficient security and control to deny Sunni insurgents and terrorists any major sanctuary and "no-go" areas in Fallujah, Anbar province, and Iraq generally.* Not only defeat the insurgents who stay in Fallujah, but prevent their dispersal or their going under cover to the extent that they cannot control any major populated area, during daylight and at night.
- *Ensure that Iraqi military and security forces demonstrate enough credibility so that they play a major role in the battle, can be the most visible security presence in the area after major fighting is over, and can erase the impression of failure left by Iraqi forces in April.* Further, they should provide a credible picture to the Iraqi people, the region, and the world that government forces can -- in time -- take over a fully sovereign role from U.S.-led coalition forces and lead to the coalition's withdrawal.
- *Establish sufficient security in every high threat area so that Iraqi security forces and administrators can function in Fallujah and key cities and towns in Anbar province.*
- *Establish sufficient Iraqi Interim Government political control over Fallujah, Anbar, and the "Sunni triangle" to give the government a major boost in legitimacy and make polling and elections possible in the area.*
- *Give the Sunnis incentives to join the political and electoral process.* A significant number of Arab Sunnis must be persuaded to participate in the political process and January's election to avoid creating a Shiite- and Arab-Kurdish-dominated Iraq. The Sunnis controlled Iraq during Saddam Hussein's rule.

- *Create conditions where there is immediate aid and compensation and longer-term economic hope.* The military effort must be accompanied by US and Iraqi Interim Government efforts to institute an effective public-assistance and economic development process that offers jobs, hope and incentives to join the interim government as a functioning and tolerated entity.

This struggle may not be as difficult as it seems, but its course highly uncertain. The good news is that there is no rigid separation between Arab Sunni and Arab Shi'ite, and the estimates saying that Arab Sunnis are 20% of the populations and Arab Shi'ites are 60% are decades old and are not based on a census. Many Sunnis intermarry and live with Shi'ites, and most past clashes were the result of attacks by the Ba'ath regime and not the result of popular tensions. Sunni insurgent numbers still seem relatively small, perhaps some 12,000-16,000 full time actives plus perhaps twice to three times that number acting as a pool of part time insurgents or "instant" volunteers. This is scarcely an insignificant number, but is a small fraction of the more than five million Arab Sunnis in Iraq.

The bad news is that the US military victory in Fallujah probably only affected 10-20% of the full time Sunni insurgents in Iraq, and many seem to have escaped. Other Sunni insurgents attacked throughout Iraq during the fighting, and had considerable success in starting an uprising in Mosul. The decision to attack Fallujah was opposed by Iraq's Sunni president, its leading group of Sunni clerics, and a number of other Iraqi politicians. Sunni Arab media coverage was almost universally hostile both inside and outside Iraq, and these negative images were compounded by TV coverage that appeared to show a US Marine killing a defenseless, wounded prisoner and then a devastated and deserted city.

Fallujah illustrates the fact that U.S.-led military victories -- regardless of how convincing in military terms -- can only be the prelude to an ongoing Iraqi-led political and economic struggle mixed with ongoing efforts to establish security in every part of Iraq. Iraqis, not Americans, will have to shape the most critical part of their destiny. U.S. forces can only give them the opportunity to succeed. Consequently, the Iraqi Interim Government's performance in achieving all of the above political and economic objectives during the course of 2004-2006 will be the key litmus test of whether the military actions in the war have meaning and offer Iraqis and the Americans hope of lasting success.

No one in the United States, the Coalition, and Interim Government can afford to forget this for a moment in the heat of the fighting. This is particularly true because the interim government failed to perform effectively in establishing governance, establishing aid, and providing security after the U.S. victory in Samarra, and after the fighting in Najaf and Sadr City. If the interim government does not do better in Fallujah, Anbar province, and Iraq as a whole, the insurgents will recover and return, the Sunni Arabs will reject the interim government and political process, and the political process will be seriously discredited.

Put differently, it is critical to give the Iraqi Interim Government help in "stability operations" and nation building after each battle, and give it as much of a lead and

visibility as possible in both the fighting and its aftermath. It is not the US that has to win in terms of Iraqi and regional perceptions, it is the interim government.

This “Iraqi first” aspect of successful military operations means highlighting Iraqi military and security operations, not US operations, and steadily expanding the military security role of Iraqis over time. It means pushing the government into more successful civil-military operations and downplaying the US role. It means giving US commanders large discretionary (CERP-type) aid funds to both ease the backlash civilian casualties and collateral damage cause to the US, and to back up Iraqi government civic action programs and cover for any failures. It also means educating US forces to be extremely sensitive about the need to build up the interim government’s credibility and to defer to it in ways that reinforce its legitimacy.

### ***The Shi’ite Side of the Political, Military, and Economic Battle***

The political and economic battle also requires the US to make every effort to help the Iraqi Interim Government maintain the support of the Arab Shi’ite majority, and of the Kurds and other minorities. This balancing act is now largely Iraqi, but the US does retain significant influence, and can allocate and reprogram economic aid to this end.

“Playing the course” also means supporting the interim government in its efforts to pressure Sadr to join the political process and avoiding new clashes driven by his militia. Here again, giving Iraqi leaders and forces maximum visibility in decision-making and any future fighting is critical. The most efficient way may be the US military way; the way to achieve political victory (and minimize any backlash against the US) will be the Iraqi way.

The US must never forget that losing the Iraqi Shi’ites means losing the war in terms of any ability to create a representative government of the kind the US is seeking to create. Like civil war or being asked to leave by an elected Iraqi government, it is a key indication the US must leave. This, however, means accepting that a Shi’ite majority may well emerge with values and goals from those of the US.

It also means exercising care in dealing with Iran. The US cannot shape its Iran policy around the risk that Iran may challenge the US and interim government far more directly when it has to date; It scarcely, however, can ignore this risk.

### ***The Kurdish Side of the Political, Military, and Economic Battle***

The US should make it unambiguously clear to the Kurds that it will support them and the protection of their legitimate rights as long as they remain part of the Iraqi political process, and will not support them at all in any effort at separatism or ethnic cleaning in dealing with Iraqi Arabs and other minorities like the Turcomans.

So far, the Kurds have shown they understand the political realities involved, although they naturally push their cause to the margin. The US must do nothing to change this perception. It must also make it clear to the Kurds that if things go wrong in Iraq, it will not support or protect them as it did with Saddam, either against their fellow Iraqis or from pressure and threats from Iran, Syria, and Turkey. The US has no future strategic interest in the Kurds, and no humanitarian obligation to protect them from the consequences of their own mistakes.

### ***The Civil Side of US Military Operations and the Need for New Kinds of Jointness***

US troops in Iraq face a serious and dangerous mix of insurgency and terrorism. The US can subordinate military effective and force protection to civil and political concerns. At the same time, it seems clear that some elements of the insurgency will continue indefinitely into the future, and that the US cannot delay many civic action and aid activities until something approaching local security is established.

The US military has already established that it understands the need to use dollars as well as bullets. It has used the Commander's Emerging Relief Program (CERP) with considerable effectiveness, and has since used the reprogramming of aid funds in similar ways. As of October 2, 2004, the US had dispersed \$578.3 million in CERP funds. Some \$150.4 million had gone to police and security services and the facilities protection service, but the rest had gone to civic action. Another \$383.8 million was approved for a somewhat similar time-urgent program called the Accelerated Iraq Reconstruction Program (AIRP) in April 2004.<sup>13</sup>

What is less clear is how good the partnership is between the US military and the US aid effort in governance and economic programs, and whether the US Embassy and US command have been able to establish the necessary level of civil-military jointness in making it possible to carry out such programs. The poor civil-military relations between the CPA and previous military command left what at best was a poisoned chalice.

As will be discussed shortly, one of the keys to success in economic aid and stability, will be to terminate the US contractor effort as immediately and fully as possible, and to shift aid planning and execution to the Iraqi government and Iraqi contractors. Such an effort, however, requires careful US review in the field and often hands-on advice and support by US officials and direct, accountable employees of the US government. It also requires removing non-Iraqi security personnel as quickly as possible. This will make civil-military jointness even more critical than in the past.

It also raises an issue that may be too late to address in Iraq, but that may be critical in the future. The separation of US civilian authority and operational military commands makes good practical sense during conventional warfighting. It is far less clear that it should happen in stability, peacemaking, and nation building operations.

Many of the pointless civil-military tensions, and much of the lack of effective civil-military coordination, during ORHA and the time of the CPA were the result of a divided presence coupled to divided responsibility. The need for truly integrated civil-military operations (including integrated effort in developing local military, security, and police forces) is simply too great to permit this to happen in the future, and such integration should occur in Iraq as quickly as possible.

### **Economic Aid and Stability**

The US economic aid program in Iraq has had many individual success and accomplishment, and US AID and contractor personnel have accomplished a great deal in individual areas in spite of immense difficulties and the dangers in the field. As an overall effort, however, US economic aid has lagged far behind the need for urgent

action; has wasted vast resources on an impractical contracting effort; and reflects US views and priorities. As a result, it is decoupled from the needs of Iraq, the political and military realities and pressures in the country, and the need to transition responsibility and action to the Iraqi government as soon as possible.

The situation is made worse by an almost completely dysfunctional reporting system within the US government that does not tie plans and accomplishments to realistic requirements, and that reports different kinds of aid in separate reports using different categories. It has been compounded by the CPA's inability to put its ideas about economic reform into action while sustaining economic distortions like the massive subsidies provided under Saddam Hussein. It was further compounded by a focus on longer-term plans and expenditures in a country where the US faced serious security problems and needed to act decisively and to begin achieving far more visible results over a year ago.

The US has had problems in every aspect of its efforts in Iraq that threaten its ability to "play the course." Its efforts at economic aid, however, are a uniquely mismanaged mess.

### ***Effective Plans and Action, Not Resources, Are the Problem***

Any estimate of either Iraq's near-term or overall needs for aid can only be a crude guesstimate. Figures like \$50-\$100 billion have been quoted for "medium term relief and reconstruction," but they are not based on either reliable input data or credible models. The present problem, however, is not one of resources. There are enough funds to "play the course."

As of early November, the US had only disbursed \$3,255 million of \$18,060 in FY2004 IRRF aid. Disbursements were also running at well under \$50 million a week. It is disturbing that a total of \$14,891 million of this total is said to be committed, and \$10,437 is said to be obligated. This kind of "progress" may well be wasted on delayed and unneeded efforts, or vast amounts of overhead and security expenditures. At the same time, the Inspector General for the CPA has reported that a total of some \$55.1 billion had been provided or pledged for Iraqi relief and reconstruction. As of September 30, 2004 this included:<sup>14</sup>

- *\$24.1 billion in US appropriated funds*, used primarily for reconstruction. These funds come from three public laws: (a) PL 108-287 provides a total of \$300 million in CERP funds under PL 108-287 (\$100 million allocated to Iraq). PL108- 108-11 (April 2003) provides \$2,475 million in IRRF funds, \$802 million in NRRRF, \$684 million in CERP, \$51 million for the new Iraqi Army, \$413 million to USAID, and \$66 million to the Department of State. PL108-106 (November 2003) provides \$18,439 million in IRRF, \$877 million in CPA OPS/IG, \$106 million in IRMO, and \$140 million in CERP.
- *\$28.2 billion in Iraqi funds*, used primarily for ongoing operating expenditures, but also for reconstruction and relief: \$1,724 million in vested funds from frozen funds; \$927 million in seized funds and confiscated cash and property, and \$25,782 million in the Development fund for Iraq, financed by oil revenues, repatriated funds, and money in the oil for food account.
- *Some \$2.8 billion in donor funds*: \$849 million in humanitarian relief, \$435 million in IMF EPCA funds, and \$1,355 billion in actual deposits for the \$13,589 million pledged at the Madrid International Donors Conference for Iraq Reconstruction.

Iraq will almost certainly need more aid over the next few years, as well as debt relief and forgiveness of reparations from the Gulf War. The immediate task, however, is to put an

aid program in place as soon as possible that helps establish security, meets the urgent needs of the people, and moves money to Iraqi projects run by Iraqis.

### ***Restructuring the Near Term Approach to Economic Aid and Stabilization***

The US Embassy has already successfully sought reprogramming of \$3,460.1 million aid funds to meet urgent security needs. President Bush approved this transfer on September 30, 2004. It cut \$1,074.6 million out of electricity projects and \$1,935.6 million in water projects that could not be executed in a timely way and which faced many security problems. It added \$1,809.6 million to security and law enforcement, \$460.5 million to justice and public safety, \$660 million to private sector employment development, and \$80.00 million to governance. The US has stepped up emergency aid expenditures to deal with contingencies like Fallujah. There also is a base of valid aid projects underway that should be successfully pursued.

Nevertheless, there seems ample reason for the US to act immediately to “zero base” the current economic aid effort to achieve the following objectives:

- *Ensure adequate financing for short term CERP/AIRP projects to allow intensive US operations in CY2005 and CY2006, and make military and political stability efforts the key priority.* The priority is to make things work in Iraq in the middle of drastic political change, insurgency, and economic crisis. Mid and long-term efforts will have priority when – and if – there is a longer term.
- *Focus on unemployment and immediate social needs.* The latest weekly report on aid related jobs shows a loss from 68,000 jobs to 61,000. This trend, however, is irrelevant. The Iraqi labor force totals at least 7.8 million. More than 11 million Iraqis are young dependents between 0 and 14 years of age (more than 40% of the population). The US Census Bureau estimates that there are 4.2 million Iraqis in the critical employment age between 20 and 24, and more than 2.2 million are male. There are no accurate employment statistics, but real and disguised unemployment is probably around 30-40%, and may be 40-60% among young males. Stability at the local level is the issue. Classic infrastructure and institutional development must wait.
- *Put the Iraqis in charge of planning, project development, and project management for mid and long-term projects.* The US has not shown any special competence in formulating and executing such projects. If anything, trying to do things the US way, with a heavy emphasis on large, long-term infrastructure projects and construction efforts has helped convince a large part of the Iraqi people that the US is not even trying to help them. There will be a continuing need for the US to review projects, take steps to limit corruption, and ensure proper completion. The Iraqi government, however, must be given as much authority as soon as possible, and the Iraqi people must see that it is in charge.
- *Encourage short-term and mid-term solutions with clear local benefits in troubled and high risk areas.* The need to do this should be obvious but the current aid plan still tends to emphasize mid to long-term construction (Over \$8 billion out of the \$18.4 billion in FY2004 IRRF funds, and puts \$5.248 billion into water and electricity projects that are time consuming and vulnerable.<sup>15</sup> These efforts may well be needed in time; but local needs should be met right now and even if this means patchwork efforts that are not cost-effective.
- *Minimize the role of USAID in Washington.* Iraq is not a traditional “client” for aid, and the USAID contracting process is a slow moving nightmare oriented towards US formulated and executed projects. USAID personnel have often done well in the field, but direction should come out of the US Embassy and aid flows should be programmed to go directly to the Iraqi government and contractors.
- *Minimize or eliminate the use of US or non-Iraqi contractors.* Reliance on large US contractors may have made some kind of sense at the start. At this point, their overheads and security costs,

and the non-performance of many foreign subcontractors, is a major problem. It compounds the Iraqi impression that the US aid effort is not serious and does not help Iraqis. It adds major delays and creates far more security risks than letting Iraqis do the job. This effort is not about “buy American” and meeting accounting and contracting standards. It is about nation building and achieving a strategic result.

- *Multilateralize the aid process to minimize direct US responsibility and allow the US to use joint pressure on the Iraqis to perform.* The US should seek to create international groups to handle key aspects of the aid effort. This is necessary both to make it clear that the US is not attempting to dictate and that it is no longer responsible for Iraqi actions. It is also a key way to seek further aid from other countries.
- *Make the aid and economic development process transparent.* No one can talk to Iraqis and not be aware of the fact that their expectations are grossly exaggerated and they are badly informed about both what must be done and what is being done. Part of the problem is that they simply do not know the scale of the challenges involved. Part is the contrast between the constant lists of “accomplishments” being claimed by the US and the realities they live with. The US needs to provide far more honest reporting on the scale of the problems Iraq has inherited from Saddam’s regime, how much must be done to correct them, the realities of what the US aid program is actually accomplishing, and how such accomplishments relate to real world needs and goals.
- *Make a major point of multilateralizing development aid for the petroleum sector.* It is still far from clear how much Iraq’s oil fields have suffered from mismanagement and the years of underfunding that began early in the Iran-Iraq War. The present oil ministry goal of 2.5 MMBD may or may not be suitable given current reservoir problems. The recent weekly average of 2.39 MMBD certainly does not meet this goal, or compare with estimates of 2.8-3.0 MMBD in prewar capacity.<sup>16</sup>

Average oil exports have been ranging from 1.1 to 1.8 MMBD in 2004, generally on the lower side. High oil prices and export revenues per barrel have allowed Iraq to earn \$14.6 billion in oil revenues in 2004, as of November 2004, but it seems unlikely that Iraq will earn the \$18 billion it earned in 2002, much less the \$22 billion in near term annual earnings the US projected at the time the war began. Moreover, as of November 2004, the US had actually dispersed only \$56 million of \$1,701 million in IRRF aid for oil infrastructure.<sup>17</sup>

There is no single area more critical to the Iraqi economy, to giving the Iraqi government the resources it needs, and to refuting charges that the US and Britain are seeking to grab Iraqi oil than helping the Oil Ministry create an effective plan to repair and develop Iraq’s oil resources in a way that is multilateral and transparent enough to make it clear to Iraqis and the world that the US truly wants to help and not to profiteer.

- *Push debt and reparations forgiveness to the limit:* The last thing Iraq needs is a burden similar to one place on the Weimar Republic. A stable and secure Iraq cannot emerge with massive foreign obligations and debts. Nations in general find it easier to foreign such obligations than to provide real aid money, and a major US effort to open pressure all of Iraqi debtors and reparations holders is a good way to externalize the aid effort and counter nations that are willing to be critics, but not to help.

The Paris Club agreement on November 21<sup>st</sup> to reduce some \$31 billion of \$38.9 billion in Iraq’s debt in three stages is an 80% reduction that does not meet the goal of a 95% reduction set by the US, but is an important step forward, particularly if it can be extended to all debtors and remain linked to pressure on Iraq for effective economic reform.<sup>18</sup> It does, however, leave Iraq with combination of reparations and remaining debt that may exceed \$120 billion. This is one of the few political weapons the US has in dealing with outside powers and it should use it to the maximum extent possible.<sup>19</sup>

### ***Restructuring the Mid and Long-Term Approach to Economic Aid***

In addition to these immediate priorities, the US needs to take a similar approach to encouraging the Iraqi government to carry out multilateral and study plans that will allow it to act when (and if) security and stability are established, and Iraq's longer term needs can really be established.

- *Infrastructure planning:* Roads, electricity, water, and sewers: The US has placed far too heavy an emphasis on infrastructure recovery without having clear Iraqi plans and priorities, and Iraqi decisions designed to correct the massive imbalances and inadequacies Saddam's regime created in the services and facilities provided to given groups. This is an area where Iraq needs to make hard decisions and choose its own path, not have the path chosen for it.
- *The financial sector:* The US made some good beginnings in this area, but Iraqis now see many of its efforts to open up the financial sector in conspiracy theory terms. The US needs to shift as much of the burden in this sector to the World Bank and IMF as possible, and ideally, to work with Iraq to find some European or Asian nation to take the lead.
- *State industries:* Iraq's state industries are a major economic millstone around the neck of its development efforts. They are also a political nightmare. The US should encourage reform, but distance itself from direct involvement. Let Iraqis, the IMF/World Bank, and other nations take the lead.
- *Subsidies:* As above. The US has already done enough damage by failing to come to grips with the problem immediately after the war, when something might have been done with far more ease.
- *The agricultural sector:* Some progress has already been made here. Creating an efficient and competitive sector, however, again involves political issues that the US should be careful to give the Iraqi government the lead in. Aid efforts should be as multilateral as possible.
- *Education:* *The issue is not facilities; it is quality and relevance in term of job creation.* Unlike some countries in the region, Iraqis see this on their own. The US role should be to encourage them to plan and act, and provide aid. It can be largely passive.
- *Austerity and Financial Discipline:* Iraq needs job creation, sustainment, and stability first. The US should help it resist any types of rapid economic reform that will be internally destabilizing. Landings need to be as soft as possible.

Plans for US withdrawal and phasing down the US aid effort should not mean abandoning Iraq. They should instead mean mid and long-term aid plans that can actually be implemented on terms the Iraqis want, can execute, and can sustain. The US also needs to be careful to multilateralize such efforts as much as possible to give them international legitimacy, avoid taking responsibilities that belong with the Iraq government, and demonstrate the legitimacy of its actions.

### **“Know When to Fold and Know When to Run:” When and How to Get Out**

While any form of conspicuous US failure in Iraq will be serious defeat, such a defeat is still all too thinkable and all too possible. This is why every section of this analysis has not only addressed what can be done to create some acceptable form of “victory,” but the need to transfer responsibility to Iraqis, and to create the kinds of transparency that will minimize the political backlash and blame the US will face if it must withdraw.

*As has been stated in the introduction, the key to any feasible form of “victory” is to plan to “fold” just as rapidly as the Iraqi government can take over the political and security*

*burdens, and has some basis for dealing with the economic crisis.* The only way to win the game in Iraq is to stop playing it as soon as the Iraqis are ready to take over. Ideally, this should occur no later than the end of 2006, and take place earlier if Iraqi governance, legitimacy, and security can be established during 2005.

At the same time, the US does not need the kind of exit strategy that means deliberately planning for failure. It also does not need to set deadlines for withdrawal that may well make failure a self-fulfilling prophecy. The odds may not be good, but they are scarcely unacceptable and it may well be possible to improve them substantially during 2005 – if the US acts promptly and decisively.

*It cannot be emphasize too strongly that the US should not set deadlines for a US troop presence, or ceilings on US aid.* These are a dangerous signal to the insurgents, who will see such deadlines as a reason to keep fighting and as a key sign of American weakness and lack of resolve. They will make it even more difficult to attract and keep coalition and international support. They also are far more likely to make Iraqis think about protecting themselves, and make them avoid the risks of supporting the interim government and nation building process. Morality and ethic also play a role, not just expediency. This is a war the US started, and a peace process that it initially bungled. Quite aside from power politics and strategy, it has a moral and ethical responsibility to the Iraqi people.

Yet, the US and its allies do need to think and plan for the “unthinkable.” They need contingency plans to deal with different kinds of failure, and they must plan for the possibility that Iraqis may either demand an exit or the situation may become untenable in spite of US and allied efforts. No one can guarantee success in Iraq; or that Iraq will not descend into civil war, come under a strongman, or split along ethnic or confessional lines. The US must be ready if the Iraqis fail to move forward and reach a necessary political consensus, divide or move towards civil war, or ask the US and its coalition allies to leave.

It is silly and dangerous to deny the possibility this can happen, or to claim the US can never withdraw. If anything, this encourages precisely the kind of Iraqi government dependence on the US that will make things worse for both Iraq and America. The US should make it clear the length and nature of its effort in Iraq is conditional. It should make it clear that the Iraqi government has goals it must meet, that it must take the creation of Iraqi military and security forces seriously, and must focus on economic, power sharing, and other key realities and succeed.

Iraqis should know that the US does have credible plans to leave if an elected government asks it to leave, and to reduce its role and presence in response to any such legitimate request. It should make it equally clear that it has a presence to phase out its military role, and reduce the size of its Embassy, as Iraqi capabilities expand and the Iraqi political process and capability to govern reaches the point where an Iraqi government feels it is ready.

Rather than setting deadlines, the US should make it clear that it is committed to an “exit strategy” tied to the Iraqi political process, and to the “legitimacy” of its own position in Iraq. Iraqis and the world should know the US plans to leave under two conditions: Whenever this is demanded by a legitimate Iraqi government, or in phases as Iraqis

takeover given missions. The US must recognize that its ability to stay and perform meaningful roles over the next few years is directly linked to a firm and open commitment to leave in the future.

The US should, however, also make it clear to Iraqis that it will not stay if the situation deteriorates beyond certain limits. It should set clear metrics for Iraqi success and continuously pressure Iraqi leaders and the government to meet them. It should not go beyond aid in counterinsurgency; it should leave if the political process fails and the civil war breaks out. It should leave if the Iraqi government and security forces fail to develop over the next two years, and it should not attempt to stay if the Iraqi government cannot manage the budget, economy, or its foreign aid. Any of these contingencies are a clear message that the US should begin to “run,” and should quietly prepare plans for such action

Regardless of how the US departs, it should still try to do as much in withdrawing to ensure that the future situation in Iraq will be as favorable as possible. It should not take key assets with it, and should continue with valid aid programs if this is possible. However, it is one thing to play the game and quite another to try to deal with defeat by reinforcing failure or “doubling the bet.” If it is clear by 2006 that the US cannot win with its current level of effort, and/or the situation seriously deteriorates to the point where it is clear there is no new Iraq government and security force to aid, the game is over. There no longer is time to fold; it is time to run.

## **The Broader Regional Context: Having Someplace Else to “Run” To**

The US must also recognize that the game in Iraq is only one arrow part of the strategy it must develop in the Middle East. Win, lose, or draw in Iraq, the US needs to pursue major initiatives that will improve its overall position in the region, reassure its allies, and allow it to stay in an area with some 63% of the world’s proven oil reserves and some 37% of its natural gas.

In the worst case of force withdrawal, the US must also be ready with major efforts to reassure the friendly Gulf states and other Arab allies, demonstrate that the US will maintain a major presence in the Gulf, contain any risk that civil conflict in Iraq will spill over into other countries, contain any Iranian actions, and deal with the inevitable Islamist claims of “victory.”

The US must make every effort to strengthen its position in other parts of the Gulf and the Middle East. Virtually the same strategy is needed whether the US succeeds or fails in Iraq. Even “victory” in Iraq will be highly relative, and defeat will force the US to reinforce its position in the entire region. The specific steps the US needs to take are:

- Give the settlement of the Arab-Israel conflict the highest possible priority in the most visible form possible.
- Rebuild US ties to friendly Gulf states like Saudi Arabia and strengthen ties to all of the GCC states, emphasizing cooperation in dealing with terrorism and Islamic extremism.
- Adopt a more flexible policy in dealing with Iran.
- Prepare for the potential impact of problems in Iraq in dealing with the fighting in Afghanistan.

- Recast US energy policy to deal with the reality that the US will have growing strategic dependence on Gulf and Middle Eastern oil exports for the next 20 years, and their security will become steadily more important.
- Adopt a realistic approach to political reform in the region that will improve US relations with both moderate regimes and with the peoples of the area.
- Give the political dimension of counterterrorism a new priority, addressing the many aspects of the way in which the US now fights the war of terrorism that needlessly hurt relations with the Islamic and Arab world, and restrict the educational, business, and other relations necessary to create a common effort to deal with terrorism and extremism.

### ***Giving Solving the Arab-Israeli Conflict the Highest and Most Visible Priority***

Arafat's death has created an opportunity that the US must act upon as immediately as possible. There is nothing to be gained from waiting for two inadequate governments to try to bludgeon each other into peace. A common solution cannot be imposed by force, and the US and Arab world will never agree on all the details of a final settlement. The time has come, however, for an open and continuing effort by both the Quartet and Arab world to define a final settlement, and to build on the lessons of Camp David and Taba.

The time has come for the US to both act on its own and put pressure on the rest of the Quartet and moderate Arab states to take every possible measure to persuade the Palestinians to reject terrorism and on the Israelis to both evacuate the Gaza, and roll back the settlements the West Bank that extend beyond "Greater Jerusalem" and security adjustments to the 1967 boundaries.

This means the kind of compromise that President Clinton proposed at Camp David and that was discussed at Taba. Adjustments involving some 3% of the area of the West Bank, not the 10-20% included in some maps of the Israeli security barrier or the 30-40% some times proposed by hard-line settlers. At the same time, 35 years of facts on the ground are facts on the ground. The worlds of 1949 and 1967 are gone forever, and peace must be based upon this reality.

The challenge is to persuade Israel to make as many compromises as possible, and to find ways to compensate the Palestinians. The time has come to look beyond the narrow terms of a settlement and see what a massive aid program could do to guarantee a future Palestinian state's economic and political success, and give the Palestinians living standards that could underpin a peace. More ambitiously, it is to look at how Jordan, Israel, and a Palestinian state could cooperate to live in peace.

Boundaries are the past. With the exception of the holy places, the focus should be economics, demographics, living standards, and security in the broadest sense. This may well require a Western and Arab economic aid program totaling billions of dollars over a period of years. It will certainly require a continuing US aid program to Israel as well.

Moreover, it requires Palestinians and Arab governments to look honestly at the demographics of Gaza and the West Bank, and to understand that it is going to be an incredible challenge to deal with the inherent population growth in both areas.

Gaza only had less than 245,000 people in 1949, and around 330,000 in 1967. The CIA estimates it now has more than 1.3 million, a growth rate of more than 3.8%, and 49% of its population is 14 years of age or younger. The US Census Bureau estimates that it will grow to 1.7 million by 2010, and 4.2 million by 2050.

The West Bank had 775,000 people in 1949, and around 680,000 at the end of the 1967 war. The CIA estimates it now has more than 2.3 million, a population growth rate of more than 3.2%, and 44% of its population is 14 years of age or younger. The US Census Bureau estimates that it will grow to 2.8 million by 2010, and 5.6 million by 2050.

Far too many generations of young Palestinians have already been wasted in conflict. If the generation that now exists and the generations to come are to have hope, then the Palestinian refugees outside Gaza and West Bank – nearly 90% of whom have never seen what will be “Palestine,” must be made full citizens of the countries where they now reside as refugees.

***Rebuild US ties to friendly Gulf States like Saudi Arabia and Strengthen ties to all of the GCC states, Emphasizing Cooperation in Dealing with Terrorism and Islamic Extremism***

The US needs to take broad steps to encourage evolutionary political, economic, and demographic reform in the region, and to recast its approach to counterterrorism to take more consideration of its political impact. Both steps are discussed later in this report. In the short term, however, the US needs to prepare now to strengthen its security ties to every friendly state in the Gulf, and to key neighboring states like Egypt and Jordan.

The security posture of Saudi Arabia and every other Gulf Cooperation Council (GCC) state is undergoing major changes. They no longer face a major near to mid-term threat from Iraqi military forces, but must deal with instability in Iraq and the growing risk that Iran will become a nuclear power. This confronts Saudi Arabia and its neighbors with hard strategic choices as to whether to ignore Iran’s efforts to proliferate, seek US military assistance in deterring Iran and possibly in some form of missile defense, or to acquire more modern missiles and its own weapons of mass destruction.

The most urgent security threats to the Southern Gulf states, however, no longer consist of hostile military forces. They have become the threat of Islamic extremism and terrorism. Since May 2003, Saudi Arabia has faced an active internal and external threat from Islamic extremists, many affiliated with Al Qaida or exile groups, and it must pay far more attention to internal security than in the past. At the same time, the Saudi government must deal with the fact that this threat not only is internal, but also is regional and extends throughout the Islamic world. Saudi Arabia’s religious legitimacy is being challenged, and its neighbors and allies face threats of their own.

Bahrain, Kuwait, and Oman faces Islamist security threats at a lower level, but must also mix reform with improved internal security. The UAE has some Islamist elements, and Qatar has essentially chosen to buy time by mixing US basing and reform with the tolerance of Islamist extremists as long as they do not act within Qatar.

Saudi Arabia, in particular, must make major adjustments in its alliances. The events of "9/11," the backlash from the Israeli-Palestinian conflict, differences over how to deal with terrorism, and differences over the Iraq War have all combined to complicate Saudi Arabia's security relations with the US, and to force it to distance itself from the US in some ways. At the same time, the Al Qaida terrorist attacks on Saudi Arabia in May 2003 made it brutally clear that Saudi Arabia was a full participant in the war on Islamic terrorism and had even stronger incentives to cooperate with the US in anti-terrorism. Similarly, Saudi Arabia has not found any substitute for US power projection capabilities in dealing with Iran, instability in Iraq, or Yemen, and needs US technical assistance to deal with massive and continuing deliveries of US military equipment.

The other Gulf states face somewhat similar problems, and the past failure to create an effective regional security structure has made their problems worse. The Gulf Cooperation Council has made some advances in military cooperation and internal security, but remains largely a hollow shell. There is no true integration of security efforts and only symbolic progress towards collective security. Interoperability remains poor at every level, and there is little progress towards effective power projection and sustainability.

There is little meaningful progress towards the creation of the kinds of information technology, C4I (Command, Control, Communications, Computers, and Intelligence), IS&R (Intelligence, Surveillance, and Reconnaissance, and net-centric systems) that could tie together the forces of the GCC, as well as make Saudi cooperation with US forces far more effective. At the same time, petty rivalries continue to divide the Southern Gulf states, and Saudi Arabia face serious problems in dealing with Yemen and in obtaining Yemeni cooperation in blocking the infiltration of terrorists and the smuggling of arms and narcotics.

All of these factors interact with a longer-term set of threats to the stability of every Gulf State that are largely economic and demographic, but which may ultimately be more important than outside military threats and the threat of Islamic extremism and terrorism. Recasting military plans and improved internal security efforts must be coupled to political, economic, and demographic reform.

Saudi Arabia, for example has embarked on a process of political, economic, and social reforms that reflect a growing understanding by the governing members of the royal family, Saudi technocrats, and Saudi businessmen that Saudi "oil wealth" is steadily declining in relative terms, and that Saudi Arabia must reform and diversify its economy to create vast numbers of new jobs for its young and growing population. These efforts so far are still faltering and have failed to gather the necessary momentum, but their success is at least as essential as any change in Saudi Arabia's security structure.

Every Gulf state must find ways to combine economic reform with political and social reform to remain stable in the face of change, and every state must be far more careful about the ways in which it uses the revenues from its oil exports and its other revenues. This means hard decisions about future arms imports and investments in military and security forces. Massive changes are needed in military planning, and especially in military procurement and arms imports, to create balanced and effective forces at far lower cost.

As yet, Gulf states have only begun to react to these changes. Their military and internal security forces are only beginning to adapt to the fact the Iraqi threat has largely disappeared, that Iran's threat is a mix of proliferation and capabilities for asymmetric warfare and not the build-up of conventional forces, and that they are engaged in a generational struggle against domestic and foreign Islamic extremism. They have only begun the process of deeper political, economic, and social reform; their plans are still half formed, and no aspect of reform as yet has the momentum necessary to succeed.

Even if the US succeeds in Iraq, it needs to work with every Gulf state to help them make the necessary changes in their respective security structures. It also needs to move decisively and openly away from an emphasis on arms sales and US basing and deployments to encouraging effective security cooperation, strengthening the right kind of internal security efforts, creating more cost-effective military forces, and slowing down arms imports to fund higher priority needs. The US also needs to emphasize that its presence in the Gulf will be tailored to meet local and not just US security needs, that the size of its forward posture will be tailored to the threat, and that it is seeking military partnership and interoperability. The US also needs to lay the groundwork now for reshaping its military posture in the Gulf when it withdraws its forces from Iraq and leaves all of its bases in that country.

If the US fails in Iraq, this will create an even stronger incentive to have the strongest possible ties to the Southern Gulf States. Saudi Arabia remains the key to any coordinated effort – just as it remains the key to including Iraq in some broader regional security concept. This does not mean seeking a return to the direct basing of the pre-Iraq War era, or trying to create some form of US pillar. It does mean rebuilding ties with Saudi Arabia focused in counterterrorism and energy interdependence. At the same time, the US needs to strengthen its ties to Bahrain, Kuwait, Oman, and the UAE, as well as work as closely as possible with Yemen.

The US should quietly develop a clear strategy and action plan for discussing such future cooperation with each country that will lay the groundwork for action if the US is forced to withdraw from Iraq, and prepare aid efforts and incentives for cooperation in adjusting to this contingency. The same is true in preparing for the impact of any US withdrawal on Jordan and Egypt.

As a side issue, the US needs to be far more careful about talking about NATO initiatives in the region. To date, far too many of the discussions of this issue have focused on what NATO wants without any discussion of how this is going to benefit the Gulf states in terms of security, interoperability, and better arms sales policies. There is no evidence that NATO or European countries will actually provide more military capability, or seriously ease the burden on US force deployments. There is very a real risk that another “talk shop” will be layered over the existing problems in Gulf security structures. US efforts focused on getting NATO forces for Iraq that the US clearly is not going to get now seem more likely to end in counterproductive tokenism than anything else.

### ***Adopt a More Flexible Policy in Dealing with Iran***

The US, the West, and Gulf states cannot afford to ignore either the military realities in Iran, or the risk it will pose to Iraq whether the US fails or succeeds. At one level, there is a clear case for the US to encourage its Gulf and other allies to try to halt or limit Iranian

proliferation and for the US to work with Gulf states to create an effective level of military containment, deterrence, and defense. At another level, the US will need to work with Iran to make it clear that there are good options for negotiation and improving relations, and options for cooperation in dealing with Iraq that will be to the advantage of Iran, Iraq, and the US.

Iran is the only military power that poses a direct threat in terms of conventional military forces and proliferation. The disclosures made by the IAEA over the last year indicate that it is nearly certain that Iran will continue to covertly seek nuclear weapons, regardless of what it claims to agree to. It is developing long-range missiles, it has never properly declared its holdings of chemical weapons, and the status of its biological weapons programs is unknown.

Moreover, the disclosures that have come out of Libya's decision to end its nuclear program indicate that Iran may well have one Chinese fission weapons design, with a 1,000-pound payload, and all of the technology necessary to make high capacity P2 centrifuges. This would eliminate the need for many aspects of nuclear weapons testing, as well as make it far easier to create small, dispersed trains of covert centrifuge facilities.

Iran is still a significant conventional power. It has some 520,000 men under arms, and over 300,000 reserves. These include 125,000 Iranian Revolutionary Guards trained for land and naval asymmetric warfare. Iran's military also includes holdings of some 1,600 main battle tanks, 1,500 other armored fighting vehicles, 3,200 artillery weapons, 300 combat aircraft, 50 attack helicopters, 3 submarines, 59 surface combatants, and 9 amphibious ships.

Iran is a potential threat to Gulf shipping as well as to shipping in the Gulf of Oman. It occupies islands near the main shipping channels in the Gulf and has close contacts with outside terrorist movements. At the same time, virtually all of Iran's military equipment is aging or second rate and much of it is worn. It has not been able to modernize its air forces, ground based air defenses, or develop major amphibious warfare capabilities. Iran lost some 50-60% of its land order of battle in the climatic battles of the Iran-Iraq War, and has not imported a cutting edge weapon system since that time, or created advanced new C4I systems.

According to US intelligence estimates, Iran imported \$2.0 billion worth of arms during 1996-1999, and \$600 million from 2000-2003. Iran only signed \$1,700 million worth of new arms agreements during 1996-1999, and only \$500 million in new arms agreements during 2000-2003.<sup>120</sup> This is roughly 30% to 35% of the level necessary to recapitalize and modernize its forces. Though Iran may be able to compensate in part through its domestic military production, its current weapons developments are scarcely advanced enough to solve its problems. As a result, it must either succeed in proliferation or rely heavily on asymmetric warfare.<sup>21</sup>

Iran has declared it has the capacity to make chemical weapons. The details of its biological warfare efforts are unknown but it continues to import suspect biotechnology. It is also moving forward in the nuclear dimension. The IAEA has discovered a number

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of disturbing details about its uranium enrichment program that are very similar to Libya's nuclear weapons program, including the ability to produce P-2 centrifuges. Iran has conducted experiments with Uranium Hexafluoride that could fuel a weapons-oriented enrichment program, and has worked on a heavy water plant that could be used in a reactor design that would produce fissile material far more efficiently than its Russian supplied light water reactor. While it is not yet confirmed, Iran may well have received the same older Chinese design data for a 1,000-2,000 pound nuclear weapon that Libya acquired through Pakistani sources.

The report by the Director General of the IAEA, dated September 1, 2004, states that Iran continues its nuclear development program, has a design for P-2 centrifuge, and that there has been low and highly enriched uranium contamination in Iranian nuclear sites.<sup>22</sup> The Board of Governors met on September 13, 2004, they are divided over what to do with Iran, and they are likely to postpone their decision on until their November meeting.

There is also evidence that Pakistan might have helped Iran in its enrichment program. The Agency argues that Pakistan has helped Iran since 1995, and that the Pakistanis delivered the P-2 design to the Iranians. IAEA goes on to claim that Iran is intending to "turn 37 tons of nearly raw uranium called yellowcake, into uranium hexafluoride." Experts contend that this could be enough to create 5-6 atomic weapons.<sup>23</sup>

It is doubtful that Iran will really fully comply with the NNPT, and it seems more likely that it is only a matter of time before Iran acquires nuclear weapons. It's, however, very unclear what kind of a nuclear power Iran will be. No plans have ever surfaced as to the number and type of weapons it is seeking to produce or the nature of its delivery forces. Nothing meaningful is known about Iranian nuclear doctrine and targeting, or plans to limit the vulnerability of its weapons and facilities – and whether these could include a launch-on-warning or launch-under-attack capability.

Iran might be content to simply develop its technology to the point it could rapidly build a nuclear weapon. It might choose to create an undeclared deterrent, limit its weapons numbers and avoid a nuclear test. It might test and create a stockpile, but not openly deploy nuclear-armed missiles or aircraft. It also, however, might create an overt nuclear force. Each option would lead to a different Saudi response, as well as provoke different responses from Israel and the US, creating different kinds of arms races, patterns of deterrence, and risks in the process.

Delivery systems are also a problem. Iran is reaching final development of its Shahab-3 missile, and working on a longer-range version of the missile as well as the Shahab-4, and Shahab-5. These missiles will be able to reach most Gulf cities and area targets, but are far too inaccurate and lacking in total payload to be effective conventional weapons. They are useful militarily only if they have warheads carrying weapons of mass destruction. Moreover, Gulf states face the risk of some form of covert attack or the possibility of the transfer of weapons to some anti-Saudi extremist group or proxy. These currently do not seem to be probable scenarios, but they are possible.

Much will depend on whether Iran feels it faces a threat of attack or preemption if it openly deploys nuclear forces, and on its perception of the level of cooperation between the US and the Southern Gulf states in creating effective defenses and deterrence. Iran will never be a regional "superpower," but it may well become dangerous if any power

vacuum or lack of resolve emerges in the region. It will certainly exploit any gap between US policies and efforts and those of other Gulf states, as well as any opportunities offered by states outside the region.

Much will also depend on how Iran perceives its options in dealing with the US over both its overall security position and Iraq. The US needs to offer carrots as well as sticks. It needs to make it clear to Iran that the US will not stay in Iraq or uses its position there against Iran. It needs to stop talking about an “axis of evil,” and act from a stance of “more in sorrow than in anger,” calling for cooperation and putting the onus on Iran’s hardliners. It needs to adopt a clear posture of being willing to engage in unrestricted official dialog, and show it will engage Iran in any area where quiet talks and mutual cooperation can help both nations. Afghanistan is an example, and should have been a prelude to such cooperation over Iraq.

Above all, the US needs to stop talking vaguely about Iran at the “official spokesman” level and making charges it does not substantiate in detail. The US needs to make its concerns clear and specific, and back them up. It needs to advance proposals, not just problems. It needs to recognize Iranian concerns and show how cooperation over Iraq and other issues could benefit Iran more than confrontation. It also needs to think long and hard about how to approach Iran in the case of either success or failure in Iraq. A stable Iraq means a Shi’ite majority; a failed Iraq means a power vacuum. Iran should be quietly told what US policy is, and what its options are, in both cases.

### ***Prepare for the Potential Impact of Problems in Iraq in Dealing with the Fighting in Afghanistan***

It is time to need to think long and hard about the future of Afghanistan, and what can actually be done about it – particularly if the US is forced to withdraw from Iraq. There already is a serious risk that the legacy of the defeat of the Taliban is making Afghanistan the “poster child” of politically correct and unobtainable goals. This situation is difficult now, and could become explosive if the US is seen as being defeated in Iraq.

What is needed is realism, and not good intentions. As is the case in Iraq, it is plans that can be actually implemented. This requires several existential questions to be dealt with that the US (and Europe) often seem determined to ignore:

- What constitutes achievable success in nation building in Afghanistan, and is it that much different from what the West normally regards as failure?
- How long and intensive should the fight to deal with the remnants of the Taliban and Al Qaida go on? What kind of fight is actually worthwhile? When do the problems in terms of domestic hostility to Western intervention, for Pakistan, etc. exceed the benefits?
- Is a true central government really practical or necessary?
- Is any kind of economy other than a drug economy actually possible, and what does economic reform and development in Afghanistan actually mean?
- What can NATO really accomplish? As the *Economist* points out (June 19, 2004), NATO and Western international efforts to date are not a success story: Many pledges in aid and in providing police and security forces have not been kept.
- NATO only now has 6,500 men in the ISAF, and most have such light equipment they are undergunned compared to some warlords. They currently only function in Kabul and have a limited presence in Kunduz. Adding some 3,500 men more, as a result of the NATO summit of

June 2004, will fall far short of the 5,000 President Karzai requested as a minimum. Only 1,500 of the personnel will evidently actually be deployed to Afghanistan, including one battalion of 700 men. (2,000 more of the 3,500 will be a ready reserve, including two more battalions). Those deployed will provide token Europe support for the PRTs planned for Faizabad, Maimana, Baghlan, and Mazar-I-Sharif, but not deal with the Pushtun issue.<sup>24</sup>

- What can be done to make aid more real and more effective? What can be done to convert non-US pledges into actual aid deliveries (only about \$386 million of a total of only \$1.24 billion in such pledges had actually been provided as of June 2004, versus \$1.4 billion out of US pledges of \$3.3 billion)? Moreover, is actual aid needed and not loans? Do NGOs need new fiscal monitoring and controls to examine how much money they actually spend in country, as distinguished from overhead and salaries?

Afghanistan does not have to be “mission impossible,” but the US and Europe must focus on “mission practical” to make real progress. They also need to look far beyond democracy and politics, and come to grips with governance, economic, demographics, and the hard realities on the ground.

The US also needs clear contingency plans for having to leave Iraq under any conditions that the region will perceive as defeat. This may well mean moving some elements of US forces eastward, rather than to the Gulf, or bring them home. The US will need to take tangible action in Afghanistan to show that a local reversal is not a regional defeat, and that the US will act to strengthen both Afghanistan and Pakistan.

This does not, however, mean expanding its role in Central Asia. That role is already conspicuously tied to dictators and failed regional leaders, and the US needs to be far more careful about the extent to which it becomes coupled to such regimes in local eyes. “The enemy of my enemy is my friend” is a proverb that requires far more judgment and restraint.

***Recast US Energy Policy to Deal with the Reality that the US Will Have Growing Strategic Dependence on Gulf and Middle Eastern Oil Exports for the Next 20 years, and Their Security will Become Steadily More Important***

The election campaign is over and it is time for both parties, and the Administration and the Congress, to be honest about energy. The US can and must find substitutes for petroleum, but this will take decades. In the interim, the US and the global economy will actually become steadily more dependent on energy imports, and particularly on energy imports from the Gulf. The Department of Energy estimates that oil will account for some 39% of the world’s energy consumption through 2015, and that the US and its major trading partners in developing Asia will account for 60% of the increase in world demand through this period.<sup>25</sup>

The MENA region has some 63% of all of the world’s proven oil resources, and some 37% of its gas. In 2001, the Gulf alone had over 28% of all of the world’s oil production capacity, and the entire MENA region had 34%.<sup>26</sup> These reserves, and low incremental production costs, ensure the region will dominate increases in oil production through at least 2015. The EIA estimates that Saudi Arabia alone will account for 4.2 MMBD of the total increase, Iraq for 1.6 MMBD. Kuwait for 1.3 MMBD, and the UAE for 1.2 MMBD. These four countries account for 8.3 MMBD out of a worldwide total of 17.9 (46%). To put these figures in perspective, Russia will account for an increase of only 1.3 MMBD.<sup>27</sup>

The International Energy Agency estimates cover a longer period than the EIA estimates. They predict that total conventional and non-conventional oil production will increase from 77 MMBD in 2002 to 121.3 MMBD in 2030. This is a total increase of 44.3 MMBD worldwide. The Middle East will account for 30.7 MMBD, or 69% of this total. The IEA also estimates that the rate of dependence on the Middle East will increase steadily after 2010 as other fields are depleted in areas where new resources cannot be brought on line. It estimates that 29 MMBD, or 94% of the total 31 MMBD increase in OPEC production between 2010 and 2030 will come from Middle Eastern members of OPEC.<sup>28</sup>

This dependence will be easier to secure with a friendly and stable Iraq, but the US has no choice. The US Energy Information Agency (EIA) summarizes the trends in Gulf oil exports as follows in its International Energy Outlook for 2004, and it should be noted that its estimates are based on favorable assumptions about increases in other fuels like gas, coal, nuclear and renewables, and favorable assumptions about increases in conversion and energy efficiency:<sup>29</sup>

In 2001, industrialized countries imported 16.1 million barrels of oil per day from OPEC producers... Of that total, 9.7 million barrels per day came from the Persian Gulf region. Oil movements to industrialized countries represented almost 65 percent of the total petroleum exported by OPEC member nations and almost 58 percent of all Persian Gulf exports.<sup>30</sup>

*By the end of the forecast period (2025), OPEC exports to industrialized countries are estimated to be about 11.5 million barrels per day higher than their 2001 level, and more than half the increase is expected to come from the Persian Gulf region.*<sup>31</sup>

Despite such a substantial increase, the share of total petroleum exports that goes to the industrialized nations in 2025 is projected to be almost 9 percent below their 2001 share, and the share of Persian Gulf exports going to the industrialized nations is projected to fall by about 13 percent. The significant shift expected in the balance of OPEC export shares between the industrialized and developing nations is a direct result of the economic growth anticipated for the developing nations of the world, especially those of Asia.

OPEC petroleum exports to developing countries are expected to increase by more than 18.0 million barrels per day over the forecast period, with three-fourths of the increase going to the developing countries of Asia. China, alone, is likely to import about 6.6 million barrels per day from OPEC by 2025, virtually all of which is expected to come from Persian Gulf producers.

North America's petroleum imports from the Persian Gulf are expected to double over the forecast period. At the same time, more than one-half of total North American imports in 2025 are expected to be from Atlantic Basin producers and refiners, with significant increases expected in crude oil imports anticipated from Latin American producers, including Venezuela, Brazil, Colombia, and Mexico. West African producers, including Nigeria and Angola, are also expected to increase their export volumes to North America. Caribbean Basin refiners are expected to account for most of the increase in North American imports of refined products. With a moderate decline in North Sea production, Western Europe is expected to import increasing amounts from Persian Gulf producers and from OPEC member nations in both northern and western Africa. Substantial imports from the Caspian Basin are also expected.

Industrialized Asian nations are expected to increase their already heavy dependence on Persian Gulf oil. The developing countries of the Pacific Rim are expected to almost double their total petroleum imports between 2001 and 2025.

While quantified estimates of export dependence are uncertain, it is clear that it would take a massive breakthrough(s) in technology or discoveries of reserves outside the Middle East and North Africa (MENA) to change these trends.

Moreover, both the military security of the MENA region, and its ability to achieve the necessary investment in new energy production are critical US strategic interests. For example, some 40% of all world oil exports now pass daily through the Strait of Hormuz and both EIA and IEA projections indicate this total will increase to around 60% by 2025-2030.<sup>32</sup>

The IEA projections, for example, indicate that Middle Eastern Exports will total some 46 MMBD by 2030, and represent more than two-thirds of the world total. This means that the daily traffic in oil tankers will increase from 15 MMBD and 44% of global interregional trade in 2002, to 43 MMBD and 66% of global interregional trade in 2030. This means that the daily traffic in LNG carriers will increase from 28 BCM and 18% of global interregional trade in 2002, to 230 carriers and 34% of global interregional trade in 2030.<sup>33</sup> The IEA does, however, estimate that these increases would be some 11% lower if oil prices remained consistently high in constant dollars.

The International Energy Agency also estimates that imports will rise from 63% of total OECD demand for oil in 2002 to 85% in 2030 some \$3 trillion dollars must be invested in the oil sector from 2003 to 2030 to meet world demand for oil, and something approaching half of this total must be invested in the Middle East. Some \$234 billion will be required for tankers and oil pipelines, and again, a substantial amount must go to the MENA area.<sup>34</sup>

Under most conditions, the normal day-to-day destination of MENA oil exports is strategically irrelevant. Oil is a global commodity, which is distributed to meet the needs of a global market based on process bid by importers acting in global competition. With the exception of differences in price because of crude type and transportation costs, all buyers compete equally for the global supply of available exports, and the direction and flow of exports changes according to marginal price relative to demand. As a result, the percentage of oil that flows from the MENA region to the United States under normal market conditions has little strategic or economic importance. If a crisis occurs, or drastic changes take place in prices, and the U.S. will have to pay the same globally determined price as any other nation, and the source of US imports will change accordingly. Moreover, the U.S. is required to share all imports with other OECD countries in a crisis under the monitoring of the International Energy Agency.

The size of direct imports of petroleum is also only a partial measure of strategic dependence. The U.S. economy is dependent on energy-intensive imports from Asia and other regions, and what comes around must literally go around. While the EIA and IEA do not make estimates of indirect imports of Middle Eastern oil in terms of the energy required to produce the finished goods, the US imports them from countries that are dependent on Middle Eastern exports, analysts guess that they would add at least 1 MMBD to total US oil imports. To put this figure in perspective, direct US oil imports increased from an annual average of 7.9 MMBD in 1992 to 11.3 MMBD in 2002, and 2.6 MMBD worth of US petroleum imports came directly from the Middle East in 2002.<sup>35</sup> If indirect US imports, in the form of manufactured goods dependent on imports of Middle Eastern oil were included, the resulting figure might well be 30-40% higher than the figure for direct imports.

Moreover, the US and other industrialized states are increasingly dependent on the health of the global economy. With the exception of Latin America, Mexico, and Canada, all of America's major trading partners are critically dependent on Middle Eastern oil exports. In 2002, the Middle East and North Africa supplied 5.0 MMBD of 11.9 MMBD of European imports (42%). MENA exporters supplied 4.0 MMBD of Japanese imports of 5.1 MMBD (79%). While MENA countries supplied 0.8 MMBD out China's imports of 2.0 MMBD (39% and growing steadily in recent years), 0.2 MMBD of Australia's imports of 0.6 MMBD (33%), and 6.5 MMBD of some 8.6 MMBD in imports by other Asian and Pacific states (76%).<sup>36</sup>

The EIA and IEA project that the global economy will also grow far more dependent on the Middle East and North Africa in the future. The EIA's International Energy Outlook 2004 projects that North American imports of MENA oil will increase from 3.3 MBD in 2001 to 6.3 MMBD in 2025 – an increase of 91%, almost all of which will go to the US. The increase in exports to Western Europe will be from 4.7 MMBD to 7.6 MMBD, an increase of 62%. This assumes major increases in oil exports from the FSU and conservation will limit the scale of European imports from the Middle East. Industrialized Asia – driven by Japan – will increase its imports from 4.1 MMBD to 6.0 MMBD, or nearly 50%. China will increase its imports from 0.9 MMBD to 6.0 MMBD, or by nearly 570%; and Pacific Rim states will increase imports from 5.0 MMBD to 10.2 MMBD, or by 104%.

US oil imports are only a subset of US strategic dependence on Middle East oil exports. It is important to note, however, that neither the Bush energy policy, nor any recent Congressional energy bills, are projected to have any meaningful strategic impact on US import dependence if they are ever passed into law and transformed into action. It takes massive shifts in US energy consumption and supply over extended periods of time to accomplish this and there are good reasons that the Bush Administration, Kerry energy policy, and Congressional advocates of different policies have either failed to make meaningful analysis of the impact of their proposals on US import dependence or have provided “blue sky” estimates that are little more than political posturing.

If one turns to the EIA estimates made since the Bush Administration came to office, it is clear that realistic models of US energy needs will lead to steady increases in US energy imports. The EIA's 2003 Annual Energy Forecast reports that net imports of petroleum accounted for 55 percent of domestic petroleum consumption in 2001. US dependence on petroleum imports is projected to reach 68% in 2025 in the reference case. This is a rise in US net imports from 10.9 MMBD in 2001 to 19.8 MMBD in the reference case (+82%). In the low oil price case, net imports would rise to 21.1 MMBD. They would be 18.2 MMBD in the high oil price case, 17.8 MMBD in the low economic growth case, and 22.3 MMBD in the high economic growth case.<sup>37</sup>

The EIA's annual US energy forecast for 2004 predicts that imports will be even higher. It reports that net imports of petroleum accounted 53 percent of domestic petroleum consumption in 2002. U.S. dependence on petroleum imports is estimated to reach 70 percent in 2025 in the reference case, versus 68 percent in the 2003 forecast. Imports are expected to be 65 percent of total consumption. In the low oil price case this number is estimated to be 75 percent.<sup>38</sup> (The AEO2003 report indicated that estimated imports as a share of total oil consumption would be 65 percent in high price case in 2025, and 70

percent in the low price case.)

The specific figures will vary according to oil prices and the growth of the US economy, and the EIA contingency forecasts are summarized below in millions of barrels per day.<sup>39</sup>

Year and Projection	Product Supplied	Net Imports	Net Crude Imports	Net Product Imports
2002	19.8	10.5	9.1	1.4
2025				
Reference	28.3	19.7	15.7	3.9
Low oil price	31.1	23.3	18.2	5.1
High oil price	25.6	16.6	14.3	2.2
Low Growth	25.9	17.6	15.0	2.6
High Growth	30.6	21.8	16.4	5.4

In 2002, net US imports of petroleum accounted for 53 percent of domestic petroleum consumption. Increasing dependence on petroleum imports is projected, reaching 70 percent in 2025 in the reference case. The corresponding import shares of total consumption in 2025 are expected to be 65 percent in the high oil price case and 75 percent in the low oil price case

In short, the practical problem for the foreseeable future is how to ensure that the MENA states can obtain the more than \$1 trillion the International Energy Agency estimates they will need to expand energy production capacity and exports, and to protect growing US and global dependence on MENA energy exports, particularly from the Gulf. There are no meaningful near and mid-term options that will allow the US to reduce dependence in any meaningful strategic sense at anything like today's market prices for energy. The US must shape its security policies accordingly, regardless of what happens in Iraq. It must also shape them in light of US dependence on a global economy – not simply direct US dependence on oil imports.

### ***Encourage Evolutionary Political, Economic, Demographic, and Social Reform***

The US cannot secure its narrow strategic interests in the Middle East unless it also seeks far broader strategic goals that will meet the needs of its peoples as well as those of the United States. The battle for hearts and minds extends far beyond Iraq, and the West and the Middle East, *particularly the US and Arab world*, need to take a more honest approach to reform.

So far, governments have reacted largely by treating the symptoms and not the disease. Counterterrorism *is* essential to deal with the most obvious and damaging symptoms, but it cannot deal with the underlying causes. Military force is sometimes necessary. However, it is now all too clear in Iraq that it can create as many -- or more -- problems than it solves.

The practical results are all too clear from an August 2004 survey by the Pew Research Center, and one that clearly shows how the divisions between the West and Middle East affect moderate and traditionally friendly states. The Pew group reported, "In the predominantly Muslim countries surveyed, anger toward the United States remains pervasive... Osama bin Laden is viewed favorably by large percentages in Pakistan (65%), Jordan (55%) and Morocco (45%). Even in Turkey, where bin Laden is highly

unpopular, as many as 31% say that suicide attacks against Americans and other Westerners” are justifiable.

There are many other surveys that deliver the same message, just as there are many surveys of US and Western opinion that reflect anger against terrorism, and hostility towards Islam and the Arab world. The events of 9/11, the rise of Islamic extremism and the faltering Western reaction, the broad regional backlash to the Arab-Israeli conflict, the Iraq War, and the growing clash between religions and cultures, have all led to a crisis in relations that governments cannot address in such conventional terms.

US and Arab relations are where they are today for many reasons, but one of them is that the Western and Islamic worlds have previously defined “tolerance” in terms of mutual ignorance, and in terms of governmental indifference at the ideological, political, and cultural level.

Empty US calls for instant, region-wide democracy and political reform are producing a dangerous counterreaction in much of the Arab world. A Western focus on counterterrorism -- without a balancing focus on creating bridges between the West and Middle East -- is often breeding extremism rather than defeating it.

At the same time, token pledges and efforts at reform within the Arab world fall far short of the needs of Arab peoples, and are weak and ineffective counters to extremism. Neither Middle Eastern governments nor Middle Eastern intellectuals have yet shown they can honestly address the scale of the region’s problems or act decisively at the speed and depth required.

These efforts cannot deal with problems that are “generational” in nature. They are not the product of one temporary series of conflicts and tensions, or of the threat posed by today’s groups of terrorists and extremists. Weak regimes, population growth, demographic, hyperurbanization, and a failure to develop and diversify regional economies all act to create pressures on the Middle East that will outlive Bin Laden and Al Qaida by decades.

Most of the nations of the Arab and Islamic world now face pressures and changes that they can only deal with if they come firmly to grips with the need for reform:<sup>40</sup>

- Failed secular regimes and political parties have pushed the peoples of the region back towards Islam and made them seek to redefine the role of religion in their lives.
- Massive population increases: The Middle East and North Africa had a population of 112 million in 1950. The population is well over 415 million today, and approaching a fourfold increase. It will more than double again, to at least 833 million, by 2050.
- A “youth explosion,” where age 20-24s -- the key age group entering the job market and political society -- has grown steadily from 10 million in 1950 to 36 million today, and will grow steadily to at least 56 million by 2050.
- Some 36% of the total MENA population is under 15 years of age versus 21% in the US and 16% in the EU. The ratio of dependents to each working age man and woman is three times that in a developed region like the EU.
- A failure to achieve global competitiveness, diversify economies, and create jobs that is only partially disguised by the present boom in oil revenues. Direct and disguised unemployment range from 12-20% in many countries, and the World Bank projects the labor force as growing by at least 3% per year for the next decade.

- A region-wide average per capita income of around \$2,200 versus \$26,000 in the high-income countries in the West.
- A steady decline in non-petroleum exports as a percentage of world trade over a period of nearly half a century, and an equal pattern of decline in regional GDP as a share of global GDP.
- Hyperurbanization and a half-century decline in agricultural and traditional trades impose high levels of stress on traditional social safety nets and extended families. The urban population seems to have been under 15 million in 1950. It has since more than doubled from 84 million in 1980 to 173 million today, and some 25% of the population will soon live in cities of one million or more.
- Broad problems in integrating women effectively and productively into the work force. Female employment in the MENA region has grown from 24% of the labor in 1980 to 28% today, but that total is 15% lower than in a high growth area like East Asia.
- Growing pressures on young men and women in the Middle East and North Africa to immigrate to Europe and the US to find jobs and economic opportunities that inevitably create new tensions and adjustment problems.
- Almost all nations in the region have nations outside the region as their major trading partners, and increased intraregional trade offers little or no comparative advantage.
- Much of the region cannot afford to provide more water for agriculture at market prices, and in the face of human demand; much has become a “permanent” food importer. Regional manufacturers and light industry have grown steadily in volume, but not in global competitiveness.
- Global and regional satellite communications, the Internet, and other media, have shattered censorship and extremists readily exploit these tools.
- A failed or inadequate growth in every aspect of infrastructure, and in key areas like housing and education.
- Growing internal security problems that often are far more serious than the external threat that terrorism and extremism pose to the West.
- A failure to modernize conventional military forces and to recapitalize them. This failure is forcing regional states to radically reshape their security structures, and is pushing some toward proliferation.
- Strong pressures for young men and women to immigrate to Europe and the US to find jobs and economic opportunities that inevitably create new tensions and adjustment problems.

Unlike today’s crises and conflicts, these forces are so great that they will play out over decades. They cannot be dealt with simply by attacking today’s terrorists and extremists; they cannot be dealt with by pretending religion is not an issue, and that tolerance can be based on indifference or ignorance.

Today, both sides take a dysfunctional approach to reform. The Arab world tends to live in a state of denial about both the scale of its need for reform, and the ineffectiveness of most of its present efforts. Arab governments and Arab intellectuals have generally failed their peoples. They promise, plan, and talk but falter in taking meaningful action. The end result is that the failure of evolution breeds revolution, and the failure of moderates breeds extremists.

Far too many of these failures also transcend culture and religion. A failed state sector is a failed state sector. Policies that block economic growth block economic growth. Bad education is bad education, and rote learning is rote learning. A development plan that is never really implemented cannot lead to development. Slow progress in the rule of law and basic human rights is simply too slow to be acceptable. A virtual conspiracy of

silence on the subject of population growth and demographics amounts to intellectual cowardice.

There is no question that much in the US and the West also deserves criticism. The answer, however, is not to stifle criticism, but rather to encourage mutual criticism and common pressure for reform and change. Moreover, the problems involved are relative; the Arab world and Middle East simply are moving too slowly, making far too many excuses, and exporting a great deal of the problems that can only be solved through action at home.

Blaming the West, "globalism," the US, and a colonial heritage, are all further forms of moral and intellectual cowardice. At least 90% of the problems of Arab states and Middle Eastern governments are self-inflicted wounds. They will only be solved when individual Arab countries have the courage and will to solve them on their own.

The other side of this coin, however, is that US calls for instant progress towards region-wide "democracy" and "elections" -- the kind of vague generalities that called for the initial drafts of the US "Greater Middle East Initiative" -- only make things worse. They treat all countries as the same, ignore the need for political parties, experience with elections, and moderate opposition movements. They also ignore the human rights, rule of law, economic, demographic, educational, and social reforms that often have a higher priority and are the precursors to meaningful pluralism. Far too often, the US has adopted a "one man, one vote, one time" approach to change in the Middle East; and has ignored the need for evolution by its friends in the search for a revolution that would bring extremists and its enemies to power.

The vague generalities of the G8 communiqué that took the place of the "Greater Middle East Initiative" were far less damaging, but also provide no basis for real progress. They do not offer incentives in terms of economic aid, accession to the WTO, better trade, or foreign investment. They talk in meaningless terms about regional solutions and intra-regional cooperation.

A broad debate, indeed dialectic, is needed on reform in the Arab world and Middle East. The primary force for this debate must come from within, but it must be provoked, challenged, and aided from without. At the same time, the US, EU, and all of the members of the G8 need to move beyond both political mirror imaging and vacuous good intentions.

Calls for reform need to be evaluated, planned, and prioritized on a country-by-country basis. They need to build on what countries, and their reformers, are doing wherever possible. They need to find out the best evolutionary path to human rights, rule of law, economic, demographic, educational, and social reforms in a given country; and provide real incentives not just criticism. They need to understand that democracy without stability, and the proper checks and balances, is simply a different form of extremism.

### ***Give the Political Dimension of Counterterrorism a New Priority***

The same pressure for reform are both an underlying cause of terrorism and a reason why the US must give the political dimension of counterterrorism a new priority. The US, the West, and every moderate state and movement in the Islamic world now face a common

threat in forms of Islamic extremism that cannot tolerate other interpretations of Islam, much less Judaism and Christianity.

This threat is inevitably coupled to the threat posed by forms of Christianity that see all non-Christians as damned, and Jews simply as a convenient mechanism to trigger the second coming. It is coupled to Israeli extremist statements that effectively dehumanize Palestinians and reject the legitimacy of Islam, and statements in the Arab world that go from anger against Israel to attacks on all Jews and Judaism.

The result to date has been a flood of mutually hostile press reports, television coverage filled with conscious and unconscious bias, and in movie villains that exploit, rather than counter, prejudice. We see it in a series of public opinion polls that reflect a growing polarization between broad sectors of the public, and again, particularly in the US and Arab world.

Most tangibly and dangerously, the practical result is terrorism and violence; endless conspiracy theories, vicious stereotypes; detentions; and growing barriers to travel and immigration. It is reflected in the breakdown of long-standing alliances, in the growing bitterness and underlying hatred in the Arab-Israeli conflict; in Afghanistan and Iraq in the form of religiously inspired insurgency and asymmetric war; and in threats to acquire and use weapons of mass destruction against those with different cultures and religions.

So far, the US has responded by focusing on counterterrorism. In the process, it has created growing barriers between it in the Arab world, undermined past alliances, and focused on short-term expedience. Many Arab regimes have acted in terms of denial, taken half measures, and failed to address extremism. The end result of both approaches is that the problem is growing, not diminishing. The problem is also that extremist movements are developing new linkages and finding new ways to exploit popular anger, emotion, and religious prejudice.

The US needs to work with Arab and other Islamic regimes to take a new approach to public policy that goes beyond the traditional approach to strategy, and one that must have the active support of both Western and Islamic governments. Governments -- and particularly the US government and the moderate governments of the Arab world -- need to make a concerted effort to make religious and cultural tolerance a matter of public policy. They need to support this effort in the ways they structure education, diplomacy, law enforcement, immigration, and all of the other tools available to the state.

What are some of the practical actions that the US, other Western, and Arab and Islamic governments need to employ to bring balance and depth to their actions, and to implement such a grand strategy? The answers must be empirical, and many must be found on a nation-by-nation and case-by-case basis. The best approach should be the subject of an intense debate in both the West and at appropriate points along the continuum of the Arab countries, the Middle East, and the Islamic world. It is clear, however, what some of the answers must be:

- Western and Islamic governments must make enduring efforts to bridge the gap between cultures and religions, and create a common effort to move towards development and reform.

- Governments need to fund dialogue and mutual exchanges at the levels only governments can mount, and do so through a mix of grants, public information campaigns, and governmental use of all the tools available to influence domestic and foreign public opinion.
- The leaders of governments need to encourage the highest-ranking religious leaders of the West and Islamic world to deal as firmly with the divisions between Judaism, Christianity, and Islam as the Vatican finally dealt with the divisions between Judaism and Christianity.
- Comprehensive educational reform is needed in both the Middle East and the West to teach tolerance based on understanding at every level from the earliest levels of education through graduate education, and a systematic purging of education material with prejudice, hate, or stereotypes.
- Use should be made of all the legitimate tools of law to put an end to extremist and hate-oriented literature and use of the media.
- Governments need to carry out a comprehensive review of visa policies based on the understanding that encouraging legitimate study abroad, media presence and visits, academic exchanges, visits for dialogue and cultural familiarization, and international business are as much a critical element in the war on terrorism as defeating or interdicting terrorists.
- An equally comprehensive review is needed of counterterrorism policies that looks beyond a narrow focus on defeating terrorists and seeks to ensure that necessary action to defeat terrorism does not create unnecessary anger and hostility, detain or arrest the innocent, or fail to compensate those who are unfairly arrested.
- Western policies towards immigration must emphasize tolerance and equality for Arab and Islamic immigrants, not just economic need and security.
- Governments need to act to set common ground rules for handling deportations and detainments that fully consider the human rights and political aspects of such actions, and their “backlash”.
- A common effort to develop efficient means for reviewing charitable and other fund transfers and activities so that legitimate activity is not blocked by the effort to reduce the funding of extremism and terrorism.
- Creation of new mechanisms for security dialog between groups like NATO and the GCC, and on a national basis, to ease the pressure for arms sales, strengthen mutual security efforts to deal with threats like proliferation and asymmetric warfare, and create true security and arms control partnerships in regions like the Gulf.

There is one other critical step the US needs to take to deal with terrorism and every other issue in the region. The US needs strong, well-funded, and proactive US Embassy teams that can deal with the needs and perceptions of each country in the region. It needs to adequately fund public diplomacy at the national level, and tie together its efforts at encouraging reform, building effective security structures, and counterterrorism.

Effective national policies are not enough. The US needs coherent efforts tailored to the need of given countries, and to give the term “country team” real meaning. It needs to put an end to the underfunding of US efforts in the field, and break out of the increasing tendency to see Embassies as fortresses that need to be defended, rather than as the first line of action.

## *Shaping the Post-Iraq Environment*

Wars are usually a bad time to try to shape regional policy. It should be clear, however, that even the best outcome in Iraq is not going to transform any other nation in the region in the near to mid-term if ever. Any US defeat in Iraq is going to immediately affect the US in every other area of US policy in the region.

The US cannot afford to defer any of these other issues and concentrate of Iraq -- whether it adopts a “play the course” strategy in Iraq or any other approach. It needs a comprehensive strategy and action plan for dealing with the Middle East – win, lose, or draw.

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<sup>1</sup> There are many poll results that make this point. Perhaps the best in terms of detail was one sponsored by ABC and conducted in February 2004. It showed that the Iraqi people as a whole still had real hope for the future.<sup>1</sup> At the same time, the polls made it clear that there already were deep divisions within Iraqi society that could block nation building, or even lead to civil war. The results of the poll were mixed. Some reflected the deep ethnic and religious differences in Iraq. Other results were more optimistic. Even if one looks at results for the least confident group – the Sunnis – it is obvious that most Iraqis saw life as getting better, understood that Iraq was in transition, and had hope for the future.

The ABC News poll found the following attitudes:

Percent responding to Survey question	<u>Sunni Arabs</u>	<u>Shi'ite Arabs</u>	<u>Kurds</u>
Life these days?			
Good	66	67	85
Bad	33	33	13
Life compared to one year ago			
Better	50	60	69
Worse	25	16	13
Expectations			
Better	61	72	83
Worse	12	4	2

The attitudes reflected in the ABC poll scarcely provided any guarantee of success, victory, and peace. Minorities generally shape violence and civil war, not majorities. It was clear from the broader range of results discussed throughout this analysis that there were Iraqis that remained extremely hostile to the Coalition. This was particularly true in particularly in Iraq’s western province of Anbar and the most hostile cities in the Sunni triangle, but it was also true of some Shi’ites as well.

The evolving mix of insurgents that the US and Coalition had begun to fight in the late spring of 2003 also had significant popular support in their ethnic area. Anbar is the single most Sunni Arab-dominated province in Iraq, the area with violently hostile cities like Fallujah, and anger over the U.S.-led invasion spikes in that group, which was favored under Saddam Hussein’s regime. ABC estimates that Anbar has some 5% of Iraq’s population and is 92% Sunni and 91% Sunni Arab. It also accounts for 17% of all Sunni Arabs.

In a February ABC News poll of Iraq, 71 percent of respondents in Anbar viewed attacks on coalition forces as “acceptable” political action. Among all Iraqis, just 17 percent held that view. Similarly, 56 percent in Anbar said attacks on foreigners working alongside the CPA are acceptable, compared with 10 percent of all Iraqis. The ABC analysis found that Anbar residents are no worse off economically than most

Iraqis. But they are less apt to say their lives are going well (52 percent in Anbar, compared with 70 percent in all Iraq); their expectations for the future are less positive; and above all, they are far more deeply aggrieved over the invasion and occupation.

- Eighty-two percent in Anbar say the invasion was “wrong,” compared with 39 percent of all Iraqis. (Sixty-seven percent in Anbar say it was “absolutely” wrong, compared with 26 percent nationally.)
- Residents of Anbar are twice as likely as all Iraqis to say the invasion humiliated rather than liberated Iraq.
- Sixty-five percent in Anbar say coalition forces should leave now, compared with 15 percent of all Iraqis.
- More residents in Anbar prefer “a strong leader for life” than either a democracy or an Islamic state. In all Iraq, more prefer democracy.

### *Attitudes in Hostile Areas: The Sunni Triangle*

The ABC poll figures for the attitudes in the entire Sunni triangle (Ramadi, Fallujah, Tikrit, Samara, Baquba, and Baaji) are only marginally more reassuring. This area is estimated to have some 12% of Iraq’s population and is 81% Sunni and 79% Sunni Arab. It has 34% of all the Sunni Arabs in Iraq.

- Seventy-one percent in the Sunni Triangle say the invasion was “wrong,” compared with 39 percent of all Iraqis. (Fifty-six percent in Sunni Triangle say it was “absolutely” wrong, compared with 26 percent nationally.)
- Residents of Sunni Triangle are nearly twice as likely as all Iraqis to say the invasion humiliated rather than liberated Iraq.
- Thirty-eight percent in Sunni Triangle say coalition forces should leave now, compared with 15 percent of all Iraqis.
- More residents in Sunni Triangle prefer “a strong leader for life” than either a democracy or an Islamic state. In all Iraq, more prefer democracy. The ABC Poll found the following results and they seem likely to be equally true of the rest of the “Sunni triangle.”

	Anbar	Entire Sunni Triangle (Ramadi, Fallujah, Tikrit Samara, Baquba, Baaji)	All Iraqis
Attacks “acceptable” on			
Coalition forces	71%	44	17
Foreigners working with CPA	56	33	10
Presence of coalition forces			
Support	9	9	39
Oppose	85	80	51
“Strongly” oppose	76	63	31
Say coalition forces should leave now	65	38	15
Invasion was			
Right	9	16	48
Wrong	82	71	39
Invasion was “absolutely” wrong	67	56	26
Invasion			
Liberated Iraq	9	14	42
Humiliated Iraq	83	75	41
Confident in CPA	12	14	28
Confident in occupation forces	9	17	25
Preferred political system			
Single leader for life	45	41	28
Islamic state	18	19	21
Democracy	18	26	49
No opinion	19	14	4
% Sunni	92	81	40

### *The Risk of Shi'ite Hostility*

This mix of ethnic, regional, and national results does not imply that Iraq as a whole cannot reach agreement on a new government. The ABC poll data show a lack of interest in retribution with regard to the Ba'athists, and the desire (even in Kurdistan) to keep Iraq as a single nation in spite of extreme political fragmentation and wariness.

The polling does, however, reflect a host of problems that have been apparent on the ground ever since the fall of Saddam Hussein. These include high and unrealistic expectations for the future. They reflect ongoing public concerns and demands -- nationally and locally -- for such essentials of life as security, jobs and electricity. It also shows that US and Coalition success is critically dependent on Shi'ite goodwill. Or, to be more objective, success is dependent on Shi'ite tolerance and intelligent self-interest.

The first year of occupation showed that the Coalition could hope to win a fight against part of Iraq's Sunnis -- if it could eventually persuade the majority to support the nation building process and accept peaceful solutions. It showed the Coalition could largely count upon Kurds -- who had nowhere else to go -- if they remained unified and were willing to accept a realistic form of autonomy while respecting the rights of Arabs and other minorities. Sheer demographics made it clear, however, that the Coalition effort had no hope of dealing with a true popular uprising or rejection by the majority of Iraq's Shi'ites, or with the result of a serious civil war either between Sunni and Shi'ite or mass popular Shi'ite factions.

It is important to note in this regard that 37% of the Shi'ites felt humiliated by Iraq's defeat. 35% felt the invasion was wrong, 12% felt the Coalition should leave immediately, and 12% felt that attacks on Coalition personnel were acceptable. While only 7% of the Shi'ites polled preferred a religious leader, 32% preferred a strong leader versus 39% for democracy.

This is a significant and potentially violent Shi'ite minority, although the ABC poll also shows that Shias in the South -- a region heavily repressed under Saddam's regime -- are more likely than those elsewhere to say it was right for the coalition to invade, and to say the invasion liberated rather than humiliated their country.

	Southern <u>Shia Arabs</u>	Shia Arabs <u>elsewhere</u>
U.S.-led invasion was		
Right	56%	44
Wrong	28	47
Invasion:		
Liberated Iraq	49	34
Humiliated Iraq	27	53
What Iraq needs at this time:		
A gov't mainly of religious leaders	79	52
Preferred system		
Democracy	39	41
Islamic state	31	16
Single strong leader	18	33
Confident in religious leaders	57	44

<sup>2</sup> Based on the analysis by my colleagues Rick Barton and Sheba Crocker in [Progress or Peril? Measuring Iraq's Reconstruction](#), CSIS Post-Conflict Reconstruction Project, CSIS, 2004.

### *Attitudes Towards US and Coalition Forces*

Oxford: How much confidence do you have in the [U.S. and UK occupation forces]?

Oct.-Nov. '03

Feb. '04

Mar.-Apr. '04

Jun. '04

Great Deal	7.60%	8.70%	7.00%	6%
Quite a Lot	13.60%	19.00%	18.40%	14%
Not Very Much	22.20%	25.60%	22.30%	30%
None at All	56.60%	46.80%	52.30%	51%

Oxford Research International, "National Survey of Iraq."

IIACSS: How much confidence do you have in [Coalition forces] to improve the situation in Iraq?

	Jan. '04	Apr.-May '04	May '04
Great Deal	11.60%	2.60%	1.50%
Fair Amount	16.70%	4.40%	8.20%
Not Very Much	13.70%	4.70%	6.10%
None at All	53.30%	83.50%	80.60%

IIACSS, Department of State, CPA, "National Poll of Iraq."

<sup>3</sup> E-mail dated 22-11-2004 from Curt Tarnoff, Specialist in Foreign Affairs, Congressional Research Service, 202-707-7656, ctarnoff@crs.loc.gov.

<sup>4</sup> Once again, the data are uncertain. The original (FY04) request in education/refugees, etc. was \$300 million, in January 2004, it became \$280 million, in April 2004, \$259 million, and \$379 million under the re-allocation plan. E-mail dated 22-11-2004 from Curt Tarnoff, Specialist in Foreign Affairs, Congressional Research Service, 202-707-7656, ctarnoff@crs.loc.gov.

<sup>5</sup> <sup>5</sup> Based on the analysis by my colleagues Rick Barton and Sheba Crocker in Progress or Peril? Measuring Iraq's Reconstruction, CSIS Post-Conflict Reconstruction Project, CSIS, 2004.

#### *Attitudes Towards Iraqi Police Forces*

IIACSS: How much confidence do you have in the [new] Iraqi police] to improve the situation in Iraq?

	Jan. '04	Apr.-May '04	May '04
Great Deal	44.80%	47.90%	47.30%
Fair Amount	35.00%	29.60%	28.70%
Not Very Much	6.70%	8.60%	5.70%
None at All	11.00%	11.20%	15.80%

IIACSS, Department of State, CPA, "National Poll of Iraq."

Iraqi Perception. Also see Saban Center for Middle East Policy, Brookings Institution, "Iraq Index: Tracking Reconstruction and Security in Post-Saddam Iraq," and Progress or Peril? Measuring Iraq's Reconstruction, CSIS Post-Conflict Reconstruction Project

Oxford: How much confidence do you have in the [new Iraqi police]?

	Oct.-Nov. '03	Feb. '04	Mar.-Apr. '04	Jun. '04
Great Deal	19.70% 2	7.60%	33.00%	35%
Quite a Lot	30.60%	43.30%	39.20%	39%
Not Very Much	33.40%	20.60%	17.60%	20%
None at All	16.30%	8.50%	10.20%	7%

Oxford Research International, "National Survey of Iraq."

#### *Attitudes Towards Iraqi Army Forces*

IIACSS: How much confidence do you have in the [new Iraqi army] to improve the situation in Iraq?

	Jan. '04	Apr.-May '04	May '04
Great Deal	34.70%	36.50%	32.90%
Fair Amount	28.40%	25.00%	28.50%
Not Very Much	9.70%	9.90%	8.60%
None at All	17.20%	17.80%	20.10%

IIACSS, Department of State, CPA, "National Poll of Iraq."

Oxford: How much confidence do you have in the [new Iraqi army]?

	Oct.-Nov. '03	Feb. '04	Mar.-Apr. '04	Jun. '04
Great Deal	16.00%	19.70%	24.40%	24%
Quite a Lot	30.10%	42.20%	46.70%	50%
Not Very Much	34.30%	27.50%	17.10%	20%
None at All	19.50%	10.70%	11.80%	6%

Oxford Research International, "National Survey of Iraq."

<sup>6</sup> For a discussion of some of the problems involved, see "Rebuilding Iraq: Resources, Security, Governance, Essential Services, and Oversight Issues," Washington, GAO-04-902R, June 2004.

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<sup>7</sup> The money allocated to total obligations had only put \$2,325 million into the start of the pipeline. Office of the Inspector General, Coalition Provisional Authority, Report to Congress, October 30, 2004. p. 59.

<sup>8</sup> The Deputy DoD OIG for Inspections and Policy is about to being a joint project with the DoS OIG to cover all phases of the training effort for the Iraqi police forces. This should be extended to cover Iraqi military and security forces.

<sup>9</sup> Department of Defense, Iraq Weekly Status Report, September 22, 2004.

<sup>10</sup> Department of Defense, Iraq Weekly Status Report, November 3, 2004 and information provided from MNSTC-I.

<sup>11</sup> [http://www.mnstci.iraq.centcom.mil/facts\\_troops.htm](http://www.mnstci.iraq.centcom.mil/facts_troops.htm), accessed November 11, 2004.

<sup>12</sup> State Department Report, November 19: NATO's Iraq Training Plans, press release on 23-1-04 as of 9:32 AM.

<sup>13</sup> Office of the Inspector General, Coalition Provisional Authority, Report to Congress, October 30, 2004, p. 69.

<sup>14</sup> Office of the Inspector General, Coalition Provisional Authority, Report to Congress, October 30, 2004.

<sup>15</sup> Department of Defense, Iraq Weekly Status Report, November 3, 2004.

<sup>16</sup> Iraq's oil situation is considerably more complicated than some estimated indicate. An in depth analysis by DOE/EIA in its Country Analysis Brief of November 2004 raised the following issues:

“In early August 2003, the CPA put the cost of rehabilitating Iraq's oil sector to its pre-war state at \$1.144 billion, and the time frame to do so at nine months. Much of this work is being performed by KBR under the supervision of the USACE and the “Restoration of Iraqi Oil” (RIO) program. In late January 2004, USACE awarded two major upstream contracts, worth \$1.9 billion, under RIO 2. Contracts went to KBR (for \$1.2 billion) in the south; Parsons and Australia's Worley (for \$800 million) in the north.

According to the *Oil and Gas Journal*, Iraq contains 115 billion barrels of proven oil reserves, the third largest in the world (behind Saudi Arabia and Canada). Estimates of Iraq's oil reserves and resources vary widely, however, given that only 10% or so of the country has been explored. Some analysts (the Baker Institute, Center for Global Energy Studies, the Federation of American Scientists, etc.) believe, for instance, that deep oil-bearing formations located mainly in the vast Western Desert region, for instance, could yield large additional oil resources (possibly another 100 billion barrels or more), but have not been explored. Other analysts, such as the US Geological Survey, are not as optimistic, with median estimates for additional oil reserves closer to 45 billion barrels.

...Iraq generally has not had access to the latest, state-of-the-art oil industry technology (i.e., 3D seismic, directional or deep drilling, gas injection), sufficient spare parts, and investment in general throughout most of the 1990s. Instead, Iraq reportedly utilized sub-standard engineering techniques (i.e., overpumping, water injection/“flooding”), obsolete technology, and systems in various states of decay (i.e., corroded well casings) in order to sustain production. In the long run, reversal of all these practices and utilization of the most modern techniques, combined with development of both discovered fields as well as new ones, could result in Iraq's oil output increasing by several million barrels per day. In February 2004, former Iraqi Oil Minister Issam al-Chalabi stated that recent efforts to boost Iraqi production might be harming the country's oil reserves.

According to the U.N. Joint Logistics Centre (JLC), in August 2003 “about 40% of [northern Iraqi] production [was being] transferred to the Baiji refinery, with the balance reinjected into the fields, ostensibly to maintain pressure. This is a most unusual practice but extraction of the surplus crude is necessary to produce much needed LPG. It means, however, that crude oil production is overstated by the volume reinjected (it not being available for refining or export, but counted as production). The reinjected crude may be lost forever.” Meanwhile, the USACE has stated that its mission was to focus on war-damaged, above-ground oil facilities, not “redeveloping the oil fields,” with Iraqi engineers reportedly estimating that expected recovery rates at Kirkuk have fallen as low as 9%, far below industry norms.

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On August 13, 2003, Iraq's main oil export pipeline from its main northern oilfield of Kirkuk to the Turkish port of Ceyhan reopened (see below for more details), but the line was shut down once again shortly thereafter due to sabotage on August 15 and 17. The pipeline reopened once again in early March 2004. Iraq currently is aiming to increase its exports to around 2.0 MMBD by the end of March 2004, but this goal depends in large part on security being maintained. Between April 2003 and the end of the year, there were an estimated 86 attacks on **Iraqi oil infrastructure**, including the **country's 4,350-mile-long pipeline system** and 11,000-mile-long power grid. In response, the U.S. military set up a 9,700-person force, called Task Force Shield, to guard Iraq's oil infrastructure, particularly the Kirkuk-Ceyhan line. Under Saddam Hussein, Iraqi pipelines were guarded in part by local tribes, and in part by two army divisions dedicated to the task.

... As of early March 2004, Iraqi production (on a net basis) had reached perhaps 2.2 MMBD, with "gross" production (including reinjection) of around 2.4 million bbl/d. Although Iraq is a member of OPEC, its oil output has not been constrained by OPEC quotas since it resumed oil exports in December 1996. Prior to the latest war, oil industry experts generally assessed Iraq's sustainable production capacity at no higher than about 2.8-3.0 MMBD, with net export potential of around 2.3-2.5 million bbl/d (including smuggled oil).

Among other challenges in maintaining, let alone increasing, oil production capacity, were Iraq's battle with "water cut" (damaging intrusion of water into oil reservoirs) especially in the south. In 2000, Saybolt International had reported that NOC and SOC were able to increase their oil production through use of short-term techniques not generally considered acceptable in the oil industry (i.e., "water flooding," injection of refined oil products into crude reservoirs). The Saybolt report now appears to have been largely accurate. In addition, a U.N. report in June 2001 said that Iraqi oil production capacity would fall sharply unless technical and infrastructure problems were addressed.

Oil market consultants PFC Energy have stated that "unless water injection used to maintain pressure in the southern fields is restarted, there is a strong possibility that [they] will go into more rapid decline and suffer permanent reservoir damage." PFC added that "this means the rehabilitation work at the Garmat Ali water processing plant is crucial." U.N. oil experts reportedly have estimated that some reservoirs in southern Iraq have been so badly managed that their ultimate recovery rates might be only 15%-25%, well below the 35%-60% usually seen in the oil industry.

Iraq's southern oil industry was decimated in the 1990/1991 Gulf War, with production capacity falling to 75,000 bbl/d in mid-1991. That war resulted in destruction of gathering centers and compression/degassing stations at Rumaila, storage facilities, the 1.6-MMBD (nameplate capacity) Mina al-Bakr/Basra export terminal, and pumping stations along the 1.4-MMBD (pre-war capacity) Iraqi Strategic (North-South) Pipeline. Seven other sizable fields remain damaged or partially mothballed. These include Zubair, Luhais, Suba, Buzurgan, Abu Ghirab, and Fauqi. Generally speaking, oilfield development plans were put on hold following Iraq's invasion of Kuwait, with Iraqi efforts focused on maintaining production at existing fields.

... In December 2002, the Council on Foreign Relations and the Baker Institute released a report on Iraq's oil sector. Among other things, the report concluded that: 1) Iraq's oil sector infrastructure is in bad shape at the moment, being held together by "band-aids," and with a production decline rate of 100,000 bbl/d per year; 2) increasing Iraqi oil production will require "massive repairs and reconstruction ...costing several billions of dollars and taking months if not years;" 3) costs of repairing existing oil export installations alone would be around \$5 billion, while restoring Iraqi oil production to pre-1990 levels would cost an additional \$5 billion, plus \$3 billion per year in annual operating costs; 4) outside funds and large-scale investment by international oil companies will be needed; 5) existing oil contracts will need to be clarified and resolved in order to rebuild Iraq's oil industry, with any "prolonged legal conflicts over contracts" possibly "delay[ing] the development of important fields in Iraq;" and 6) any "sudden or prolonged shut-down" of Iraq's oil industry could

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result in long-term reservoir damage; 7) Iraq's oil facilities could easily be damaged during any domestic unrest or military operations (in early February 2003, the Patriotic Union of Kurdistan claimed that Iraqi soldiers were mining oil wells in the north of the country in anticipation of war); and 8) given all this, a "bonanza" of oil is not expected in the near future.

According to the *Middle East Economic Survey (MEES)*, problems at Iraqi oil fields include: years of poor oil reservoir management; corrosion problems at various oil facilities; deterioration of water injection facilities; lack of spare parts, materials, equipment, etc.; damage to oil storage and pumping facilities; and more. *MEES* estimates that Iraq could reach production capacity of 4.2 MMBD within three years at a cost of \$3.5 billion. The International Energy Agency, in contrast, estimates a \$5 billion cost to raise Iraqi output capacity to 3.7 MMBD by 2010, and a \$42 billion cost to raise capacity to 8 MMBD by 2030."

<sup>17</sup> Department of Defense, Iraq Weekly Status Report, November 3, 2004.

<sup>18</sup> Office the Press Secretary, Press Release, November 21, 2004, 508 PM.

<sup>19</sup> An EIA report dated 11-04 notes that, "the country's economy, infrastructure, environment, health care system, and other social indicators all deteriorated sharply. Iraq also assumed a heavy debt burden, possibly as high as \$116 billion if debts to Gulf states and Russia are counted, and even more if \$250 billion in reparations payment claims stemming from Iraq's 1990 invasion of Kuwait are included. It is possible, however, that much of Iraq's debt will be written off in the end, and that reparations will be capped at a certain level, possibly around \$40 billion. In December 2003, former U.S. Secretary of State James Baker was sent as an envoy to several of Iraq's major creditor nations, attempting to secure pledges to write off some of Iraq's debt. Russia stated that it would be willing to write off part or all of the \$8 billion it is owed in exchange for favorable consideration for Russian companies on Iraqi oil and reconstruction projects. In January 2004, Kuwaiti Prime Minister al-Sabah announced that his country would be willing to waive some of the \$16 billion owed by Iraq, and would help reduce Iraq's overall foreign debts as well. Under U.N. Security Council Resolution 1483, Iraq's oil export earnings are immune from legal proceedings, such as debt collection, until the end of 2007."

<sup>20</sup> Richard F. Grimmett, Conventional Arms Transfer to Developing Nations, 1996-2000, Washington, Congressional Research Service, CRS RL32547, August 26, 2004, pp. 50 and 61.

<sup>21</sup> Richard F. Grimmett, Conventional Arms Transfer to Developing Nations, 1996-2000, Washington, Congressional Research Service, CRS RL32547, August 26, 2004, pp. 50 and 61.

<sup>22</sup> IAEA GOV/2004/60, 'Implementation of the NPT Safeguards Agreement in the Islamic Republic of Iran,' Report by the Director General, 1 September 2004.

<sup>23</sup> Sanger, David, "Pakistan Found to Aid Iran Nuclear Efforts," *The New York Times*, September 2, 2004.

<sup>24</sup> Michael Evans and David Charter, "NATO will send More Troops to Afghanistan," London Times, June 29, 2004; Defense News.com, June 30, 2004.

<sup>25</sup> See <http://www.eia.doe.gov/emeu/cabs/pgulf.html>, DOE/EIA estimated in September 2004 that the Persian Gulf contains 715 billion barrels of proven oil reserves, representing over half (57%) of the world's oil reserves, and 2,462 Tcf of natural gas reserves (45% of the world total). Also, at the end of 2003, Persian Gulf countries maintained about 22.9 MMBD of oil production capacity, or 32% of the world total. Perhaps even more significantly, the Persian Gulf countries normally maintain almost all of the world's excess oil production capacity. As of early September 2004, excess world oil production capacity was only about 0.5-1.0 MMBD, all of which was located in Saudi Arabia.

According to the Energy Information Administration's International Energy Outlook 2004, Persian Gulf oil production increased from 18.7 MMBD in 1990 to 22.4 MMBD in 2001. It is expected to reach about 27.9 MMBD by 2010, and 38 MMBD by 2020, and 45.0 MMBD in 2025. This would increase Persian Gulf oil production capacity to over 33% of the world total by 2020, up from 28% in 2000.

The estimate does, however, change significantly in the high oil price case: It is expected to reach about 21.4 MMBD by 2010, and 27.3 MMBD by 2020, and 32.9 MMBD in 2025.

<sup>26</sup> Estimates differ according to source, The last comprehensive USGS analysis was performed in 2000, and was seriously limited by the fact many countries were affected by war or internal turmoil and declared

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reserves without explaining them or provided data by field. Standard estimates of reserves by non-USG sources like those in the *Oil and Gas Journal* and *World Oil* do not adjust reported data according to a standardized methodology or adjust for the large number of countries that never alter their estimates of reserves for actual production.

For example, six of the ten nations with the largest proven reserves are in the MENA region. An IEA analysis shows a range of 259-263 billion barrels for Saudi Arabia, 105-133 billion for Iran, 66-98 billion for the UAE, and 31-29 billion for Libya.. The figure of 115 billion for Iraq is consistent only because it is a figure announced in the past by the Iraqi government and there are no accurate, verified estimates. To put these figures in perspective, the range for Russia is 60-69 billion, 25-35 billion for Nigeria, 23-21 billion for the US, and 52-78 billion for Venezuela. (International Energy Agency, "Oil Market Outlook," World Energy Outlook, 2004, OECD/IEA, Paris, October 2004, Table 3.2.)

Estimates alter radically if an unconventional oil reserve like Canadian tar sands are included. The Middle East has only about 1% of the world's known reserves of oil shales, extra heavy oil, tar sands, and bitumen. Canada has 36%, the US has 32%, and Venezuela has 19%. The rest of the world has only 12%. The cost-effectiveness of producing most of these reserves, and the environmental impact, is highly uncertain, however, even at high oil prices. (International Energy Agency, "Oil Market Outlook," World Energy Outlook, 2004, OECD/IEA, Paris, October 2004, Figure 3.13.)

Reserve estimates also change radically if ultimately recoverable reserves are included, and not simply proven reserves. Some estimates put the total for such reserves at around 2.5 times the figure for proven reserves. For example, the IEA estimate for the Middle East drops from around 60% to 23%. Such estimates are speculative however, in terms of both their existence and recovery price, and do not have significant impact on estimates of production capacity through 2025-2030. They also ignore gas and gas liquids. The Middle Eastern share of undiscovered oil and gas resources rises to 27% based on existing data.

Such estimates are also heavily biased by the fact that so little experimental drilling searching for new fields occurred in the Middle East between 1992 and 2002. The IEA estimates that only 3% of some 28,000 wildcat explorations for new fields worldwide took place in the Middle East. Recent exploration in key countries like Iran, Iraq, and Libya has been minimal. Some 50 Saudi fields, with 70% of the reserves that are proven, still await development. (International Energy Agency, "Oil Market Outlook," World Energy Outlook, 2004, OECD/IEA, Paris, October 2004, Figure 3.15.).

<sup>27</sup> Guy Caruso, "US Oil Markets and the Middle East, DOE/EIA," October 20, 2004.

<sup>28</sup> IEA estimate in the World Energy Outlook for 2004, Table 3.5, and analyzed in Chapter 3.

<sup>29</sup> The DOE/EIA, International Energy Outlook for 2004, can be found at <http://www.eia.doe.gov/oiaf/ieo/download.html>.

<sup>30</sup> See <http://www.eia.doe.gov/emeu/cabs/pgulf.html>. In 2003, Persian Gulf countries had estimated net oil exports of 17.2 MMBD of oil (see pie chart). Saudi Arabia exported the most oil of any Persian Gulf country in 2003, with an estimated 8.40 MMBD (49% of the total). Also, Iran had estimated net exports of about 2.6 MMBD (15%), followed by the United Arab Emirates (2.4 MMBD -- 14%), Kuwait (2.0 MMBD -- 12%), Iraq (0.9 MMBD -- 9%), Qatar (0.9 MMBD -- 5%), and Bahrain (0.01 MMBD -- 0.1%).

U.S. gross oil imports from the Persian Gulf rose during 2003 to 2.5 MMBD (almost all of which was crude), from 2.3 MMBD in 2002. The vast majority of Persian Gulf oil imported by the United States came from Saudi Arabia (71%), with significant amounts also coming from Iraq (19%), Kuwait (9%), and small amounts (less than 1% total) from Qatar and the United Arab Emirates. Iraqi oil exports to the United States rose slightly in 2003, to 481,000 bbl/d, compared to 442,000 bbl/d in 2002. Saudi exports rose from 1.55 MMBD in 2002 to 1.77 MMBD in 2003. Overall, the Persian Gulf accounted for about 22% of U.S. net oil imports, and 12% of U.S. oil demand, in 2003.

Western Europe (defined as European countries belonging to the Organization for Economic Cooperation and Development -- OECD) averaged 2.6 MMBD of oil imports from the Persian Gulf during 2003, an increase of about 0.2 MMBD from the same period in 2002. The largest share of Persian Gulf oil exports to Western Europe came from Saudi Arabia (52%), with significant amounts also coming from Iran (33%), Iraq (7%), and Kuwait (6%).

Japan averaged 4.2 MMBD of net oil imports from the Persian Gulf during 2003. Japan's dependence on the Persian Gulf for its oil supplies increased sharply since the low point of 57% in 1988 to a high of 78% in 2003. About 30% of Japan's Persian Gulf imports in 2003 came from Saudi Arabia, 29% from the United Arab Emirates, 17% from Iran, 12% from Kuwait, 11% from Qatar, and around 1% from Bahrain and Iraq combined. Japan's oil imports from the Persian Gulf as a percentage of demand continued to rise to new highs, reaching 78% in 2003.

<sup>31</sup> Estimates by country are necessarily uncertain. The International Energy Outlook for 2004 estimate of production capacity in MMBD for MENA countries is as follows:

<u>Country</u>	<u>2001</u>	<u>2010</u>		<u>2020</u>		<u>2025</u>	
		<u>Reference</u>	<u>High Price</u>	<u>Reference</u>	<u>High Price</u>	<u>Reference</u>	<u>High Price</u>
Iran	3.7	4.0	3.5	4.7	3.8	4.9	4.3
Iraq	2.8	3.7	2.9	5.3	3.7	6.6	4.6
Kuwait	2.3	3.7	2.3	4.4	2.9	5.0	3.4
Qatar	0.6	0.6	0.6	0.8	0.7	0.8	0.7
Saudi Arabia	10.2	13.2	9.4	18.2	12.9	22.5	16.0
UAE	2.7	3.3	2.7	4.6	3.3	5.2	3.9
Total Gulf	22.4	27.9	21.4	38.0	27.3	45.0	32.9
Algeria	1.6	2.0	1.6	2.4	2.0	2.7	2.2
Libya	1.7	2.0	1.7	2.6	2.1	2.9	2.4
Other Middle East	2.0	2.2	2.4	2.6	2.9	2.8	3.1
Total Other	4.3	6.2	5.7	7.6	7.0	8.4	7.7
Total MENA	26.7	34.1	26.1	45.6	34.3	53.4	40.6
Total World	79.3	95.1	90.0	114.9	107.2	126.1	117.3
(US)	9.0	9.5	9.9	8.9	9.6	8.6	9.0

OPEC data are labeled confidential but are very similar. The IEA does not provide country-by-country estimates, but uses very similar models with similar results. It estimates total world production was 77 MMBD in 2002, and will increase to 121 MMBD in 2030. If one looks at the data for the Middle East, the latest IEA estimates are as follows:

The IEA estimate in the World Energy Outlook for 2004, Table 3.5, is:

	2002	2010	2020	2030	Ave. Annual Growth
OPEC Middle East	19.0	22.5	37.4	51.8	3.6%
Other Middle East	2.1	1.8	1.4	1.0	-2.7%
Total	21.1	24.3	38.8	52.8	
Non-Conventional Oil (Worldwide)	1.6	3.8	6.1	10.1	6.7%
World	77.0	90.4	106.7	121.3	1.6%

<sup>32</sup> See <http://www.eia.doe.gov/emeu/security/choke.html#HORMUZ>. The Strait is the narrow passage between Iran and Oman that connects the Persian Gulf with the Gulf of Oman and the Arabian Sea. It consists of 2-mile wide channels for inbound and outbound tanker traffic, as well as a 2-mile wide buffer zone. The EIA estimates that some 13 MMBD flowed through the Strait in 2002. The IEA puts the figure at

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15 MMBD in 2003. Both agencies indicate that the amount of oil moving by tanker will increase steadily as Asian demand consumes a larger and larger share of total exports.

Closure of the Strait of Hormuz would require use of longer alternate routes (if available) at increased transportation costs. Such routes include the 5 million-bbl/d capacity Petrolina (East-West Pipeline) and the 290,000-bbl/d Abqaiq-Yanbu natural gas liquids line across Saudi Arabia to the Red Sea. Theoretically, the 1.65-MMBD Iraqi Pipeline across Saudi Arabia (IPSA) also could be utilized, more oil could be pumped north to Ceyhan (Turkey), and the 0.5 million-bbl/d Tapline to Lebanon could be reactivated.

<sup>33</sup> International Energy Agency, "Oil Market Outlook," World Energy Outlook, 2004, OECD/IEA, Paris, October 2004, Table 3.7 and 3.8.

<sup>34</sup> International Energy Agency, "Oil Market Outlook," World Energy Outlook, 2004, OECD/IEA, Paris, October 2004, Chapter 3.

<sup>35</sup> BP/Amoco, BP Statistical Review of World Energy, London, BP, 2003, p. 17.

<sup>36</sup> BP/Amoco, BP Statistical Review of World Energy, London, BP, 2003, p. 17.

<sup>37</sup> EIA, Annual Energy Outlook, 2003, pp. 80-84.

<sup>38</sup> Energy Information Administration, Annual Energy Outlook 2004, p. 95.

<sup>39</sup> EIA, Annual Energy Outlook, 2004, Table 26