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The Postwar Bill For Iraq Surges Past Projections

Sabotage, Looting Take a Heavy Toll;
Oil Revenue Flows, but Only Weakly

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Rebuilding Iraq is turning out to be far more expensive than the Bush administration predicted just months ago, with U.S. taxpayers likely to foot much of the tab.

The administration has been reluctant to discuss specifics before U.S. analysts in Baghdad determine exactly what's needed. But officials involved in the process say the U.S. tab for helping to rebuild and sustain Iraq through next year -- aside from the \$3.2 billion already put into the effort -- could exceed \$10 billion. On top of that, the administration expects to spend as much as \$50 billion next year to keep tens of thousands of U.S. troops in Iraq, beyond the \$70 billion Congress approved earlier this year to pay for the war and its immediate aftermath.

IRAQ IN TRANSITION



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See [continuing coverage](#)² of developments in Iraq.

That picture is strikingly different from the one the Bush administration sketched out before the war in Iraq began. Then, the official message was simple: Unlike Afghanistan, oil-rich Iraq would largely pay its own way. "We're dealing with a country that can really finance its own reconstruction, and relatively soon," Deputy Defense Secretary Paul Wolfowitz told Congress a week after the war began.

Oil revenue, he predicted, "could bring between \$50 billion and \$100 billion over the course of the next two or three years."

That estimate, which was predicated on aggressively optimistic assumptions, now looks off course. In reality,

Iraq seems likely to fall short of even the \$12 billion to \$14 billion in oil revenue next year that coalition officials say they expect.

The mounting price tag for Iraq comes as President Bush grapples with a yawning deficit at home, expected to hit \$480 billion next year, and continued hostility among many erstwhile allies in Europe that might otherwise contribute. All this could become a major political liability for Mr. Bush moving into the election season next year.

Bush officials acknowledge that they underestimated the rebuilding task in Iraq, including the difficulties of getting oil exports back on stream. But they insist that after another large jolt of support to get through next year, the country should become nearly self-sufficient very quickly.

The U.S. bill for Iraq is rising for several reasons. Initial projections for the cost of occupation and reconstruction were simply too low. The Bush administration underestimated how much rebuilding Iraq would need after previous wars, sanctions and this conflict. And the costs inflicted by looting and sabotage, as well as the additional security they entail, have been drastically higher than anticipated. (Siphoning U.S. troops for security is raising concern about weakening defense. [See article³.](#))



Bechtel Group, hired to do \$680 million in U.S.-funded infrastructure repairs, estimated soon after it arrived in Iraq this spring that putting the country in working order would cost at least 24 times that much. L. Paul Bremer III, the top U.S. official in Baghdad, in recent weeks has made even higher estimates.

At the same time, Iraqi oil revenue to cover the costs will be well below the rosy forecasts U.S. officials once counted on, thanks to the sorry state of the country's oil infrastructure. U.S. and British soldiers seized fields in relatively good condition during the invasion, but they were stretched too thin to prevent the widescale looting that followed. Everything from tools to massive pumps was carted away. Much of the system was already operating with many parts long past their useful life. Repair efforts gained momentum this summer, but more recently pipelines have been targeted in apparent sabotage.

That means that outside sources -- some combination of the U.S., Europe, Japan, Persian Gulf nations and international financial institutions -- may have to contribute more than \$16 billion to Iraq's budget and rebuilding needs next year, aside from the military costs of occupation. And, unfortunately for the U.S., there isn't much sign of serious help from elsewhere, thanks in part to lingering prewar tensions between the U.S. and many allies.

This week Secretary of State Colin Powell outlined a new United Nations resolution proposed by the U.S. that calls for establishment of a timetable for restoring full Iraqi control of the country's government and authorizes a multinational force under U.S. command to help with security. The proposal also offers the Security Council a more formal consultative role in Iraq's affairs.

Officials are already braced for disappointment ahead of a crucial U.N.-sponsored Iraq donors' conference next month in Madrid. One U.S. official involved in preconference diplomacy acknowledged that the U.S.

"has its work cut out" to persuade countries such as Germany and Japan to offer substantial aid.

Lawmakers expect to receive a huge, off-budget spending request within weeks not only to keep U.S. troops in place but to get Iraq's electricity going again, deliver clean water, help subsidize state-owned companies and generally fill in a widening Iraqi budget gap through 2004. And even Republican lawmakers are prodding President Bush to come up with a more precise estimate and plan than he has offered so far.

"People need to be told how much it's going to cost and what the plan is," says Republican Sen. John McCain of Arizona, a staunch supporter of the war.

Few in Congress, at least for now, question that the U.S. must dig deep to pay whatever it takes to fix Iraq. Still, with costs and the death toll mounting, Iraq could become an increasing liability for Mr. Bush going into next year as his opponents portray the U.S. involvement there as an avoidable quagmire.

Howard Dean, the insurgent Democratic presidential candidate, has soared in popularity largely on his opposition to Iraq and by hammering on the theme that the White House deceived voters about the gravity of the Iraq threat. Rising costs in Iraq, plus the widening federal deficit, also buttress Democratic claims that President Bush was irresponsible to push ahead with massive tax cuts at a time of such uncertainty.

The challenges to rebuilding Iraq are made worse by the country's shaky security situation, which has held up some crucial repairs. That, in turn, contributes to a bad security climate in a kind of vicious circle: Without more money to get the electrical and water systems running more smoothly and put more paychecks in Iraqi hands, Iraqis will be more open to overtures from anti-American forces urging them to join in violence against American occupiers.

In many respects, the Bush administration's coming request for more money from Congress will be its most formal acknowledgment that the U.S. investment in Iraq is going to be vast and long-lasting. For months leading up to the war, U.S. officials refused to talk about what the war or its aftermath might cost. Only after fighting was under way did Bush aides approach Congress for \$79 billion to pay for the war and related expenses, including \$2.5 billion to start the rebuilding.

Continued sabotage against oil pipelines and power stations has plagued Iraq. The U.S. Army Corps of Engineers recently did a helicopter survey of Iraq's high-voltage distribution wires: Over about 700 miles, they found 623 destroyed towers, up from fewer than 20 just after the war.

The recent spate of car bombings and attacks on U.S. troops has in turn made operating in Iraq much costlier. Rubar Sandi, an Iraqi-American businessman involved in several hotel projects in Baghdad, says he now must employ more than 700 Iraqis to provide security alone. "Everything is now dependent on security," he says.

For the U.S., too, the single biggest cost is security, and will remain so for a long time. The continued violence in Iraq has forced the administration to keep about 140,000 troops on the ground there and about 35,000 in nearby countries, at a cost of nearly \$1 billion a week. That figure won't change dramatically unless other countries agree to send tens of thousands of troops, which so far no one is rushing to do.

A team drawn from the U.S.-led Coalition Provisional Authority and cooperating with Iraq's ministries is now hammering out an Iraqi budget for 2004. The work is to be wrapped up by the end of the month.

A more-skeletal budget for the second half of this year came in at just over \$6 billion. But the figure for 2004 is sure to be several times that amount for a number of reasons. For one, the 2004 budget will include the tab for newly created bodies such as security and police forces, and larger outlays for Iraq's 25 ministries and

commissions. Salaries for government workers alone will be around \$2.4 billion, according to one CPA budget adviser.

Next year's budget will also include huge sums to rebuild Iraq's battered infrastructure, most importantly power and water. Mr. Bremer has said it will cost \$2 billion a year to upgrade the electricity system and \$4 billion a year for four years to deliver clean water. Rebuilding Iraq's ministries, most of which were torched after the war, and restocking hundreds of looted hospitals and other government installations is also expected to cost well over \$1 billion next year. In the oil sector, analysts estimate Iraq will need more than \$5 billion over coming years to restore Iraq's production capacity to 3.5 million barrels a day, its level before the 1991 Persian Gulf war.

In all, Iraq is expected to have needs ranging from \$20 billion to \$30 billion next year, depending on how aggressively U.S. and other officials decide to push reconstruction. But oil revenue could amount to as little as \$7 billion, according to some Iraqi officials in Baghdad. That's far off of the \$12 billion to \$14 billion that some coalition officials hope Iraq can pull in through oil sales next year.

Salem Chalabi, a member of the Iraqi Governing Council's finance committee, says the far-more-pessimistic formulations now expressed by Iraqi officials in Baghdad are based on much-more-conservative assumptions about export levels and prices.

Coalition officials continue to struggle to boost Iraq's oil exports, its only real domestic revenue maker. But despite progress this summer, Iraqi and American engineers are still well behind meeting expectations raised immediately after the war. At current export rates, Iraq may have trouble making forecast oil revenue of some \$3.45 billion for the second half of this year.

Current production capacity stands at about 1.8 million barrels a day, down from about 2.5 million before the war. With domestic consumption at about 500,000 barrels a day, about 1.3 million barrels should be available for export each day. But pipeline damage in Iraq's northern fields, which pumped about 40% of the country's oil before the war, has bottled up output there. Meanwhile, erratic power has slowed exports from Iraq's southern fields in recent weeks.

Things are a lot better now than earlier this summer, when exports were essentially nonexistent. In August, initial data suggest exports of as much as 600,000 to 800,000 barrels a day. But to make the high end of coalition estimates for oil revenue in 2004, Iraq will have to boost average exports for the year to 1.5 million barrels a day and realize an optimistic price of \$25 a barrel. Most analysts expect crude-oil prices to fall from currently lofty levels near \$30 a barrel, especially if Iraq ramps up output.

That sort of export level appears difficult to achieve, especially after a spate of recent attacks against oil infrastructure. A large explosion ripped through a crucial pipeline that links Iraq's northern fields with the Mediterranean just days after the line started pumping again. Other explosions along the pipeline, all blamed on sabotage, have clouded repair estimates.

The Pentagon already has spent about \$705 million on oil-field repairs, part of \$1.14 billion committed through March. The U.S. point man for Iraqi oil, Philip J. Carroll, said that final costs could be higher. "I'm not going to be surprised if there's some creep," Mr. Carroll said in a recent interview.

Just keeping the oil fields going is expensive. One extensive report prepared before the war estimated the oil ministry's annual expenses -- including maintenance, operating costs and administrative overhead -- could total about \$3 billion a year.

Even with optimistic forecasts, expected oil revenue won't be able to cover these costs and other larger reconstruction commitments at the same time, analysts warn. "The best scenario is an average of 1.25 million to 1.5 million for next year," says Ihsan A. al-Sharqi, a former oil-ministry official who now consults for oil companies in Baghdad. Assuming oil prices of some \$20 to \$25 dollars a barrel, "this is real, real short," he says.

Some Bush administration officials continue to hold out hope that various diplomatic efforts over the next six weeks can salvage the Madrid donors' conference -- and thus spare the U.S. taxpayer some of the Iraq burden. But if past experience is any guide, countries won't offer the many billions of dollars that Iraq needs for next year.

Fifty donor countries in January 2002 scraped together just \$1.5 billion to help Afghanistan get through that year, with much flimsier long-term pledges of more than \$4 billion. And that war had wide international support and U.N. backing, neither of which is true in Iraq.

The key diplomacy leading up to Madrid will play out at the U.N., where the U.S. is now floating the new resolution designed to entice countries to contribute troops -- and, later, money -- to Iraq with a promise of a larger international mandate there. The U.S. desire for large financial and military help in Iraq has grown intense in recent weeks, and it shows how administration officials increasingly see Iraq as a burden, rather than a nation whose oil riches would soon let it pay its own way.

But to convince countries to chip in substantially, the U.S. may have to be willing to cede a good bit of authority in Iraq, something it is loath to do.

Potential donors also want to avoid any appearance that they are directly subsidizing the U.S.-led occupation. With that aim in mind, diplomats meeting in Brussels this week agreed to create a special trust fund, administered by the U.N. and the World Bank, to funnel international donations for Iraqi reconstruction.

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