

"How to do Business in Iraq" Guide

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Issue #1

At this point in time, U.S. companies cannot do business in Iraq outside of the U. S. Agency for International Development and Defense Department contracts outlined in this guide. Upon cessation of hostilities, however, the commercial environment facing prospective U.S. companies in Iraq will begin to quickly evolve. Numerous legal, governmental, and procedural necessities for conducting business will be finalized in the weeks and months to come. In order to provide U.S. companies with the months-to-date information about commercial conditions and opportunities in Iraq, future issues of the "How to Do Business in Iraq" Guide will be updated bi-weekly.

U.S. companies are not advised to visit Iraq at the current time. Until internal security stabilizes, U.S. companies should keep in close contact with the U.S. Government contacts at the end of this guide to learn about quickly changing conditions in Iraq affecting the commercial environment. In the near future, business centers throughout Iraq will be able to link U.S. companies with Iraqi businesspeople and provide valuable information related to business opportunities in Iraq.

This current issue emphasizes four key areas:

I. Investment Climate

II. Best Prospects for U.S. Companies

III. Commercial Obstacles to be Overcome

IV. Critical Contacts for Business in Iraq.

I. Investment Climate

There are several factors inherent to Iraq that provide a firm foundation for trade and investment. The country's geographical distribution of natural resources is diverse. Endowed with two major rivers, Iraq has abundant water resources and fertile soil. Iraq's generally well-educated and well-trained population of over 24 million is the second largest in the Middle East. Most notably, Iraq possesses 11% of the world's proven oil reserves, second only to Saudi Arabia. Iraq's enormous hydrocarbon resources are expected to earn the country \$13-15 billion annually over the short-term.

The Pentagon recently announced that major U.S.-led confrontations with Iraqi forces loyal to Saddam Hussein have ended. Smaller conflicts, however, with pockets of Iraqi resistance are expected to continue over the coming weeks. The security situation in Iraq remains unstable, and the possibility of terrorist attacks against U.S. citizens and facilities remains high. Looting of stores and government ministries in Baghdad pervades and lawlessness continues in many parts of the country. Indigenous police forces are emerging under the supervision of coalition forces. This is helping to bring about a degree of normalcy to the country. The State Department provides up-to-date travel warnings for countries throughout the world and U.S. companies are advised to carefully assess the situation in Iraq once travel becomes possible.

Since 1980, war and UN economic sanctions have had a catastrophic effect on the Iraqi economy. The World Bank estimates that the standard of living for ordinary Iraqis has declined by two-thirds over the past 20 years. Iraq is below the MENA regional average in almost every World Bank development category. Today, Iraq's economy has virtually ground to a halt. Until recently, over 70% of the country's labor force was employed by the state, and so the fall of the Hussein regime has caused a sudden spike in unemployment. The difficult process of reviving Iraqi ministries and 'corporatizing' state-owned factories is already underway and will significantly address unemployment in the near term.

Iraq's vast oil reserves (est. 112 billion barrels) will act as the country's engine towards economic recovery. Oil dominates the country's economy, accounting for more than 95% of foreign exchange earnings and possibly as much as 75% of GDP. Iraq's major oil fields are Rumalia in the south and Kirkuk in the north. An important economic development priority for Iraq is to increase daily oil production to 3.5 million barrels per day in the near term. Iraq is also endowed with the world's 10th largest natural gas reserves at around 3.1 trillion cubic meters.

Agriculture is the main-stay of Iraq's non-oil economy, representing about 10% of the country's labor force and 5% of GDP. Iraq's major agricultural commodities include wheat, barley, cotton, rice and dates. About one-fifth of Iraq's territory consists of farmland. About half of this total cultivated area is in the northeastern plains and mountain valleys, where sufficient rain falls to sustain agriculture. The remainder of the cultivated land is in the valleys of the Euphrates and Tigris rivers. Most major agricultural enterprises are bloated and inefficient state-owned enterprises. Agricultural production yields are down, and enormous environmental problems have been created by poor irrigation management, overgrazing, and desertification. Political insecurity and importation of food under the Oil for Food program (OFF) drove peasants to change cropping patterns back towards subsistence farming. Farming infrastructure and irrigation systems are in need of major repairs.

The non-oil industrial sector includes such industries as petrochemicals, phosphate, sulfur, fertilizers, minerals, cement, paper, cigarettes, consumer goods, light manufacturing, electronics, machinery and transport equipment, textiles, leather and shoes, and food processing and packaging. Most major industrial enterprises were state-owned. Details about the current state of these industries will be available after an in-country assessment is conducted in the weeks to come.

American firms would find Iraq's business infrastructure extremely primitive were they able to enter Iraq today. Telephone and fax service, power supply, and internet access need expansion and major repairs. The Iraqi banking system is presently defunct and plans are underway to normalize a monetary policy with a legitimate currency. A new tax structure and new investment laws will be established in the near term. Plans are also underway to restore a transparent judiciary system in Iraq. A significant number of other institutional transformations affecting the business environment will be implemented in the weeks and months to come. These are specifically identified below in the 'Obstacles to Overcome' section. Though Iraq's huge deficit in infrastructure and institutional capacity may appear daunting at first glance, it is these very problems that represent major business opportunities for U.S. companies in the near future.

II. Best Prospects for U.S. Companies

Short-term opportunities for U.S. firms in Iraq are largely linked to assessing and rehabilitating virtually all major areas of the country's infrastructure. Infrastructure projects are being carried out through U.S. Agency for International Development (USAID) and Defense Department (*DOD*) contracts. USAID and *DOD* websites at the end of this guide provide detailed information about current Iraqi infrastructure contracts. USAID and *DOD* contact phone numbers are also provided.

As these infrastructure contracts represent the sole conduit at this time for U.S. commercial activity in Iraq, firms should access these web sites for detailed information. USAID reminds firms that the best way to ensure consideration as subcontractors on contracts is to directly contact the prime contractor listed on the websites. Future issues of this guide will update U.S. companies with opportunities outside of these contracts as they emerge. Below are short descriptions of major areas of Iraq's infrastructure where U.S. companies may find opportunities.

Airports: USAID's Airport Administration contract, still to be awarded, aims to assess, improve, and operate Iraq's airport infrastructure. The Statement of Work notes: "The objective of this activity is to provide assessment and operation management technical expertise capabilities for specified airports in Iraq -two international and three domestic airports (to be determined). ..The contractor shall provide all personnel, supervision, vehicles, equipment, tools, materials, and other items and services necessary to perform assessments and undertake operational management of specified airports." USAID's Capital Construction contract includes airport construction projects. These contracts will provide numerous airport-related subcontracting opportunities for U.S. companies. There are two international airports at Baghdad and Basra. Smaller airfields exist at Hadithah, Kirkuk, and Mosul. The condition of Iraqi passenger planes is almost certainly poor, though more details are needed. Sales of airport communications, transport, construction and security equipment represent opportunities for U.S. companies.

Internet: There will also be opportunities for U.S. firms in establishing internet access in Iraq. Since the previous Iraqi regime considered the internet as a direct threat to the status quo, the internet was scarcely available in pre-war Iraq. Internet centers charged a \$55 annual membership fee and Iraqi companies had to pay between \$2,500 and \$8,000 per year to install the internet in their offices. Foreign firms and embassies paid between \$3,000 and \$12,000 per year. Computers were largely restricted under the OFF program and only 15% of the population is thought to be able to use a computer. Dramatically increasing the number of computers in Iraq and accelerating internet access throughout the country are key goals of the economic development program for Iraq.

Oil: Major reconstruction and upgrades are required to bolster Iraq's deteriorated oil sector infrastructure. For over 20 years, Iraqi oil sector equipment has been poorly maintained. Rusted, outdated facilities have been cannibalized and improvised. On the bright side, potentially crippling damage and sabotage to the sector during the war was minimal and the nine oil well fires in southern Iraq have been extinguished. The Army Corps of Engineers is the executive agent assigned by the Defense Department to undertake oil sector rehabilitation. The Army Corps of Engineers will solicit competitive bids for a contract to handle emergency repairs to Iraqi oil fields. Interested U.S. companies may register to be placed on a master bidding list by calling the DOD number located in "Critical Contacts for Business in Iraq".

Port: USAID's Seaport Administration contract has been awarded to a U.S. company. The fundamental objective of the Statement of Work is to "Quickly, effectively, and safely complete those tasks essential to assess, improve, maintain and if necessary operate Umm Qasr Port." U.S. firms may find subcontracting opportunities in port security and transport equipment, construction, storage and many other aspects of port maintenance. Projects pertaining specifically to port construction are also incorporated into USAID ' \$ Capital Construction contract.

Power: Given the poor state of Iraq's power generation and distribution infrastructure, numerous and wide-ranging power sector opportunities will present themselves to U.S. companies. Over the years, Iraq's power generation capacity has failed to keep up with demand. Electricity output in early 2003 stood at roughly 4.5 gigawatts and is primarily derived from the Baiji and Mosul thermal plants and the Saddam hydroelectric dam on the Tigris. Current demand for electricity in Iraq is approximately 6.6 gigawatts. The 2 gigawatt power deficit has resulted in power outages throughout the country. As of this writing, Baghdad remains without power. Major power infrastructure projects are incorporated within USAID's Capital Construction contract.

Railway: The railway system has three major routes: the Baghdad-Kirkuk-Irbil line. The Baghdad-Mosul- Yurubiyah line (which links Iraq to Turkey), and the Baghdad-Maaqal- Umm Qasr line. In 2000, the line between Mosul and Aleppo was reopened. Service has traditionally been unreliable and in a state of disrepair, though the Iraqi government directed more resources to improve railroad infrastructure in 2002. A Czech company sold Iraq internal combustion engines for locomotives in 2001. In 2002, 30 new locomotives with spare parts were purchased by the Iraqi regime. Major railroad infrastructure projects are incorporated within USAID's Capital Construction contract.

Roads: Iraq's road system extends 24,000 miles and remains in relatively good condition. A number of bridges, particularly in and around Baghdad, require repair. The condition of Iraq's road network will be clarified after an in-country assessment over the coming weeks. Major road infrastructure projects are incorporated into USAID's Capital Construction contract.

Telecommunications: U.S. companies may find many opportunities in resuscitating Iraq's deteriorated telecom sector. Teledensity in pre-war Iraq was dismal with only 3

phones for every 100 people. No mobile network existed before the war, nor does one currently exist in Iraq today. Since Iraq's telecommunications infrastructure was targeted heavily by coalition forces, quickly establishing a functioning telecom system in Iraq after hostilities is a critical economic development priority. While telephone switches and intercity links were hit during the war, it is believed that most of the damage to the communications network outside of Baghdad is repairable. The use of mobile cellular systems may serve to provide an immediate communications solution until Iraq's broader telecommunications infrastructure can be repaired and upgraded. No USAID Iraqi telecom infrastructure contract has yet been made public.

Water: Iraq's water and sanitation infrastructure is in dire need of repair. Water and sewage treatment plants have deteriorated as a result of lack of maintenance, spare parts, war, and dwindling numbers of professional operating personnel. Over 90% of the urban population is thought to have access to water, but quantities per capita are insufficient. Moreover, in many neighborhoods, potable water networks have been contaminated by leaking pipes. Less than half the rural population has direct access to piped potable water. Only half of the country's sewage treatment plants are operational. In Baghdad alone, the deteriorating sewage treatment installations are unable to cope with an increased flow caused by population expansion. As a consequence, nearly 500,000 tons of raw or partially-treated sewage are daily discharged into the rivers. This has resulted in a dramatic increase in the incidence of water-borne diseases, such as cholera, typhoid, amoebic dysentery and diarrhea. USAID's Capital Construction contract includes projects aimed at improving Iraq's irrigation systems, and potable water and waste water treatment facilities.

USAID's Capital Construction contract also includes projects aimed at solid waste management services and the construction of schools, health and local government facilities. USAID recently announced it will soon issue new contracts for agriculture development, economic governance, and contract monitoring and evaluation.

III. Commercial Obstacles to be Overcome

The issues below represent stepping stones upon the United States' critical path towards normalizing trade and investment in Iraq. As these issues are resolved and finalized over the coming weeks and months, they will be explained in detail in the 'Investment Climate' section.

1. *UN Sanctions:* Currently, official commercial trade with Iraq is still prohibited. In particular, the multi-lateral UN embargo of Iraq (including the OFF program) and the unilateral U.S. embargo remain in effect. Beyond the embargo, there are strict U.S. export controls in place. The U.S. Government is working on liberalizing the sanctions and export controls in light of regime change in Iraq. Despite the sanctions, U.S. persons may be authorized to provide some goods and services in conjunction with USAID contracts and other Executive Branch efforts in Iraq. U.S. persons may also be authorized to participate in OFF .

2. *Authority to adjust Iraqi laws:* The current local law in Iraq has some provisions that are not favorable to foreign investment. Many of the legal and procedural obstacles listed below could be overcome by changing these provisions of local law. The U.S. Government is working on a draft UN resolution that would address the effect of local law.

3. *Prohibition of investment:* Non-Arab foreign investment is currently prohibited. The lifting of this barrier will be essential to modernizing the current industrial economy.

4. *Arab Boycott of Israel:* Iraq's current laws are the strictest in the Arab world outside of Syria in adhering to the Arab Boycott. The law requires companies wishing to do business in Iraq to answer an 8-point questionnaire, assuring the government that they do not do business in Israel. It is against U.S. law to answer such questions (see Commerce/BIS Anti-boycott Compliance Office - <http://www.bis.doc.gov/antiboycottcompliance/default.htm>.) Other Arab countries are lax in their enforcement of the boycott.

5. *Joint Ventures:* Current laws prohibit equity joint ventures with non-Arabs. The law prevents non-Arab foreign nationals from participating in joint ventures with Iraqi companies on a contractual basis in connection with a specific project as long as there is no capital sharing between the companies.

6. *Constitutional prohibitions:* Private ownership of natural resources and the basic means of production are prohibited in the Constitution. The Constitution also forbids foreign ownership of real property.

7. *Commercial agents:* Foreigners cannot be commercial agents under current law.

8. *Business registration:* The current registration process is bureaucratic and lengthy. The U.S. Government is currently reviewing numerous unnecessary provisions that slow business growth, including government licensing approval for all private contracts.

9. *IPR:* The U.S. and Iraq currently mutually recognize each others patents and trademarks under the Paris Convention, however, copyrights are not recognized. Restoring IPR protection in Iraq will bolster confidence in the market and help to attract foreign investment.

10. *Enforcement:* While legal structures exist with a tradition of civil remedies to business problems, there is no current recognition of foreign or arbitration civil awards.

11. *Ethics:* There are no public sector ethics codes such as conflict-of-interest. Corruption of the procurement system will continue until this is solved.

12. *Import Licensing:* Current procedures make 100% of all imports subject to government licensing. The resulting delays will cause problems for Iraq's reconstruction.

IV. Critical Contacts for Business in Iraq

U.S. Department of Commerce Iraq

Business Outreach Hotline Tel:

TBD

Fax: TBD

E-mail: TBD

<http://www.export.gov/iraq>

U.S. Foreign Commercial Service

American Embassy, Kuwait

Tel: 965-539-5307/8, Ext. 2392

Fax: 965-538-0281

E-mail: Kuwait.City.Office.Box@mail.doc.gov

<http://www.buyusa.gov/Kuwait/en/>

U.S. Agency for International Development

Tel: **TBD**

<http://www.usaid.gov/iraq/activities.html>- for USAID Iraq opportunities

<http://www.usaid.gov/press/releases/2003/fs030411.html>- for USAID Iraq contract F AQ

U.S. Army Corps of Engineers

Tel: 1-866-461-5171, the Defense Department Iraq contract hotline

<http://www.hq.usace.army.mil/cepa/iraq/contracts.htm>- for USACE Iraq opportunities

<http://www.hq.usace.army.mil/cepa/iraq/faq.htm> -for USACE Iraq contract F AQ

U.S. Department of State

Travel Warning and Updated Security Information for Iraq

<http://travel.state.gov/liraq.html>