

Spoilers Gatecrash the Iraq Spoils Party

By Herbert Docena | November 2003

Despite new offers for broader participation in Iraq's reconstruction bonanza, the United States-convened donors' conference on Iraq ended in stifled disappointment, with only \$13 billion raised—a far cry from the \$36 billion target. To dampen expectations further, up to two-thirds of the total pledges will take the form of loans, not grants. And if the Afghanistan fundraising experience is any indication, many of the pledges could still end up being just more broken multi-million-dollar promises.

“A Very Successful Conference”

Most of the contributions came from those who were already expected to give anyway: Japan handed over \$5 billion, Spain \$300 million, and Kuwait another \$300 million. As expected, France and Russia gave nothing. Germany donated only \$100 million, half of which was its share in the European Union's contribution. The Philippines pitched in \$1million it can hardly afford to give; Vietnam offered rice; while Sri Lanka promised tea. Arab nations, which the U.S. was counting on to save the day, turned out to be the biggest spoilers.

To underscore just how seriously they thought of the fund-raising event, many of the governments sent only low-ranking bureaucrats; others just assigned their Madrid-based diplomats to drop by and say hello.

“Here we are and we've had a very successful conference,” U.S. Secretary of State Colin Powell said at the end of the two-day event on Friday, trying to put on a brave front. Even before the conference could start, however, Powell was already trying to lower expectations saying, “I have never approached [the \$36 billion figure] as a goal that has to be reached,” even as he later on sternly urged the participants to give “substantially.”

So successful was the conference that, in order to magnify the final figure, the organizers had to keep repeating that they had raised \$33 billion—a total which includes the U.S.'s \$20 billion pledge, even if this amount was never really planned to be included as part of the money raised for the meeting in the first place.¹

Emotional Blackmail

The U.S.'s plea for money fell on many deaf ears, despite a fundraising strategy that entailed trying to convince the world that there's no other way to rebuild Iraq but to continue the occupation. In asking countries to donate, the U.S. wanted the world to resign itself to the fact that it will not be

leaving Iraq any time soon and that the only way to help the devastated Iraqis would be to finance the occupation.

Such was the line of reasoning adopted by the “international community” in the recent 15-0 United Nations Security Council resolution that effectively legitimizes the occupation and calls on countries to lend a helping hand. Armed with this resolution, UN Secretary General Kofi Annan opened the Madrid conference urging other countries “to give and to give generously.”

“We all look forward to the earliest possible establishment of a sovereign Iraqi government, but a start to reconstruction cannot be deferred until that day,” Annan said, reinforcing the argument of the occupation forces.²

The U.S. and the other governments that needed political cover to convince their taxpayers to donate money hoped to use as a bargaining weapon a kind of emotional blackmail, using the misery and the suffering of the Iraqi people to hold hostage anyone who professes to care about them.

Under this line of argument, those who call for an end to the occupation and who object to funding it are not only naive and unreasonable, but also heartless and cold-hearted people who are not genuinely concerned for the Iraqis. Those who will actively or passively support the occupation, on the other hand, are to be portrayed as helping the Iraqis out of the kindness of their hearts.

Needing the Money so Bad

Aside from holding the world hostage to the plight of the Iraqis, the U.S. was forced to give up certain concessions and dangle sweeteners in order to encourage more generosity. Three days before the conference, the U.S. finally agreed to set up the Iraq International Reconstruction Fund (IIRF) that will be independently handled by the World Bank and the UN separately. “I need the money so bad we have to move off our principled opposition to the international community being in charge,” the U.S.'s chief

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administrator in Iraq, L. Paul Bremer, was quoted as saying.³ If only it were not as desperate for cash, the U.S. would have chosen to keep its grip on how all of the reconstruction money would be spent and to whom contracts will be given.

This exclusive control had so far allowed the U.S. to corner most of the billion-dollar reconstruction deals because federal laws require contracts to be granted only to American corporations. U.S. Treasury Undersecretary John Taylor recently stressed that for as long as the money comes from American taxpayers, the U.S. will reserve the right to prevent non-U.S. companies from securing contracts financed through bilateral aid.⁴

The Selling Point

With the creation of the IIRF, however, the U.S. has been compelled by its liquidity problems to share the reconstruction bonanza with non-U.S. corporations. A crack at this lucrative bonanza was then held up as the main incentive to induce donor countries to part with their cash. “It’s a way to get in on the ground floor,” one high-ranking U.S. official confided before the conference. “That’s the selling point.”⁵

The U.S. was willing to submit to this compromise, however, only because it was assured that such a concession would not undermine its political and military control over occupied Iraq. In fact, by possibly encouraging more external funding to offset the U.S.’s current financial constraints, the arrangement could even allow the U.S. to spend less on relief and more on pacification.

The U.S. would have less money to give to its corporations, but it could at least be assured of having the resources to stay longer. After all, one dollar not spent on water treatment plants—because others will be paying for it—is one dollar more to be spent on bullets and bombs. Hence, any donation—even if coursed through an independent channel—would still indirectly finance and prolong the occupation.

What’s significant with the IIRF, however, is that it signals the move from unilateral to multilateral reconstruction. With the IIRF, the bidding process for contracts will now be a free-for-all. Donors could now directly donate their taxpayers’ money to Iraq and specify at the same time that only their own corporations would profit from each reconstruction deal.

As the usual practice in aid-giving goes, Japan’s \$5 billion will most likely be tied up with a Japanese contractor, and Spain’s \$300 million will go to its own chosen corporation. Whether it takes the form of a grant or a loan could make a lot of difference. If the donation to rebuild a bridge, for example, takes the form of a grant, then Iraq keeps the bridge, but the

Japanese or Spanish company keeps the cash. But if it takes the form of a loan, as it most likely will, then Iraq keeps the bridge, but it will also still have to repay the Japanese or the Spanish government in the future, at conditions which these governments get to set today and without the Iraqis’ consent.

Brighter Future

Despite these arrangements, the organizers strove to project the conference as a gathering of the generous, not as the multilateral division of spoils that it turned out to be. “Madrid is today the symbol of our confidence in the future of Iraq,” Spanish Foreign Minister Ana Palacios said. “If we can make the process succeed, Iraq should have a brighter future after its nightmare,” said British Secretary for International Development Hilary Benn.⁶

But as the wheeling and dealing dragged on inside the meeting rooms, prospectors also gathered in a parallel investors’ conference elsewhere in the complex to discuss their brighter future. Here, members of the 100-strong Iraqi Governing Council (IGC) delegation gave presentations on the many business opportunities awaiting them in what is considered the largest and most lucrative rebuilding spree since World War II.

The conference attracted representatives from organizations and corporations such as the U.S. Chamber of Commerce, the Spanish Employers’ Association, the giant carmaker Daimler Chrysler, the construction equipment company Caterpillar, and even the French BNP Paribas, which was forced to lobby for a seat with the Spanish government since France had no interest reserving it for them.⁷

The Punishment

With an apparent flair for timing, the Iraqi interim central bank governor used the occasion to announce that six foreign banks will soon be given licenses to operate in Iraq.⁸ It had earlier been reported that JP Morgan Chase, which has controlling stakes in some of the world’s largest corporations, such as ExxonMobil, General Electric, and General Motors, would head a consortium of Western banks that will operate the new Trade Bank of Iraq.⁹ In an economy with booming business opportunities but where capital is scarce and interest rates consequently high, JP Morgan and the chosen banks will secure for themselves a niche in what promises to be one of the most profitable sectors in the economy.

On the same day, just to remind the donors in time, an opinion column in the business-oriented *London Financial Times* hinted at where the donations could ultimately go. “If their hard-earned funds are to have the maximum benefit,” wrote Kamal Shair, “donors’ attention must focus on helping build an Iraq that

will adopt an open, liberal economy.” The millions, Shair insisted, should not just be used for financial assistance, but should “extend to encouraging complementary private investment”¹⁰ i.e., as direct or indirect transfers to corporations.

If there were any doubt as to what was really being negotiated in Madrid, the IGC representatives themselves made it very explicit. Asked about France, Russia, and others’ refusal to pledge anything, one IGC member ominously said, “The new Iraqi government would remember.” These countries, IGC members were quoted as saying, would be “punished” when the time for awarding more contracts comes.¹¹

Absurd Corruption

At the end of the day, however, despite promises of a “brighter future,” few wanted to “get in on the ground floor.”

In part, this could be accounted for by the real economic and political constraints of donor countries that face growing budget deficits and widespread public opposition to the war. Even if they might have wanted to, these governments either did not have enough money or enough political capital to sacrifice. But it could also have been a conscious and deliberate decision not to prop up and finance what many majorities still hold to be an illegal occupation.

It certainly did not help that on the very week of the conference, more explosive accusations of corruption continued to be leveled against the U.S. and its contractors. Adding to mounting charges, Representative Henry Waxman accused U.S. company Halliburton of importing oil to Iraq “using the Iraqis’ own money” at markedly inflated prices. A U.S. Agency for International Development (USAID) lawyer accused his own agency of setting the size of a contract to “justify the available funding” rather than basing it on actual needs.

In addition, the U.S. has also just imposed a procurement policy that gives bidders only three days to submit their tenders—an “absurd” policy that would never be done in the U.S., says a procurement policy expert, and that would only benefit the big corporations who are already doing business in Iraq.¹²

Financial Black Hole

Most explosive perhaps is what the British relief organization Christian Aid revealed in Madrid on the morning of the conference itself. According to its report, up to \$4 billion of all the funds that have been transferred to the Coalition Provisional Authority (CPA) after the war “has effectively disappeared into a financial black hole.”¹³

In addition to the \$1 billion left over from the UN oil for food program before the war, the CPA should have received \$1.5 billion in post-war oil revenues, as well as \$2.5 billion in seized assets from the Saddam Hussein regime. “Yet, incredibly, these billions of dollars have never been publicly accounted for,” Christian Aid said.

The agency had been chasing the CPA and the UN to account for the expenses, but was not given any answers. They quoted one senior diplomat as saying, “We have absolutely no idea how the money has been spent. I wish I knew, but we just don’t know. We have absolutely no idea.”

Dominic Nutt of Christian Aid said CPA head Bremer, who attended the conference along with around 100 Iraqi delegates, was very agitated by their revelations. “They were very pissed off. Now they don’t even want to answer reporters’ questions about our allegations,” Nutt said.

The Resistance

In the end, however, Madrid failed because—in the face of a mounting resistance that’s no less determined than ever—there might be no future awaiting anyone who dares get in on the ground floor. It’s a floor that anyone who still wants to have a future would not want to enter.

Despite much upbeat talk, Lieutenant-General Ricardo Sanchez, commander of U.S. and allied forces in Iraq, admitted last week, “The enemy has evolved: a little bit more lethal, a little bit more complex, a little bit more sophisticated.”¹⁴ A recent report by the CPA on the security situation was described as a “sobering read.” No less than U.S. Defense Secretary Donald Rumsfeld has directly contradicted his and President George W Bush’s more rosy public pronouncements by privately questioning the U.S.’s progress in Iraq.

As further proof of the Iraqi resistance’s success in foiling others’ plans for their country, an international conference for giant oil corporations’ executives to meet with Iraqi oil ministry officials had been postponed indefinitely. Royal Dutch Shell still prohibits its employees from stepping on Iraqi territory. Instead of downgrading them, companies are raising their “threat assessments” because of fresh reports about plans to attack reconstruction corporations.¹⁵

One of Bechtel’s sites, for example, was hit by a rocket-propelled grenade recently. Bechtel employees, who had been forced to live in trailers in camps protected by barbed wire, now have to travel in armed convoy with at least one designated “shooter” in every vehicle. That or they take a military helicopter and fly.¹⁶

No Blood for Profits

All these attacks sent one very clear statement to those attending the donors' conference: no one must profit from the occupation. The message was well heard: a Spanish delegate to the investors' conference said that with all the things he's been hearing, he's not all that excited about Iraq. After all, there's Eastern Europe.

The reports from Iraq are certainly not the sort that will make the country very popular among businessmen who have no serious thrill issues. This insecurity ultimately explains why, as the spoils got divided in Madrid, there were few takers. With the continuing resistance, Iraq will remain—as a Washington businessman who has organized several investors' conferences puts it—a “pending bonanza.”¹⁷

Ironically then, those on whose behalf funds were being raised, those who are being made to borrow without their consent, and those who will have no say over how these funds will be spent—still managed to register their positions at the donors' conference, even if they were not invited. In the end, those who had no seat at the table—those who had the most to lose—also had the most to say.

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NOTES

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