

ACTION NEA-00

INFO LOG-00 CA-00 INL-00 USNW-00 DS-00 EB-00 EUR-00
 E-00 UTED-00 IO-00 L-00 NSCE-00 OMB-00 PA-00
 PER-00 PM-00 P-00 D-00 SP-00 SSO-00 SS-00
 TEST-00 R-00 PMB-00 DSCC-00 PRM-00 G-00 SAS-00
 SWCI-00 /000W

-----31A616 190438Z /38

R 190435Z JUN 04

FM CPA BAGHDAD

TO SECDEF WASHINGTON DC

SECSTATE WASHDC 1462

WHITE HOUSE NSC WASHDC

CJCS WASHINGTON DC

CDR USCENTCOM MACDILL AFB FL

INFO AMEMBASSY ROME

DEPT OF AGRICULTURE WASHDC

USMISSION USUN NEW YORK

IRAQ COLLECTIVE

UN SECURITY COUNCIL COLLECTIVE

UNCLAS BAGHDAD 000723

SENSITIVE

E.O. 12958: N/A

TAGS: EAID, ETRD, PGOV, IZ

SUBJECT: CPA 1380: Briefing the Prime Minister: Oil for Food Program

1. (SBU) Summary. On June 18, CPA Administrator L. Paul Bremer briefed Prime Minister Allawi on the Oil for Food (OFF) program. PM Allawi welcomed steps taken by CPA to put in place a three-month buffer stock of food and recognized the need to reform the Public Distribution System. Ambassador Bremer explained that some \$4 billion in OFF contracts remained to be delivered and over \$2 billion from the Development Fund for Iraq (DFI) would be made available for projects benefiting the communities of the Kurdistan Regional Government. Ambassador Bremer also briefed PM Allawi on ongoing OFF investigations. End Summary.

2. (SBU) CPA Administrator L. Paul Bremer met with Prime Minister Allawi on June 18 to review all aspects of the Oil for Food program, including the food ration program or the Public Distribution System (PDS). The meeting was one in a series of briefings to the Prime Minister to provide background on key policy issues and raise issues for the PMs consideration. Jim Warlick, who oversees the OFF program, accompanied Ambassador Bremer. Also participating in the meeting were the Prime

Ministers Chief of Staff and his press spokesman.

Food Distribution Program

3. (SBU) The Prime Minister listened carefully to a briefing on food stock levels, inland transportation concerns, and the future of the PDS, including monetization. CPA provided reassurances that full rations would be met and there would be no shortages in coming months. PM Allawi recognized that

t
trucking would be a continuing problem in terms of the lack of security on major supply routes and salary levels for the public sector drivers, which are not competitive with private sector levels. On the PDS, Ambassador Bremer emphasized that the program is inefficient, distorts prices, hurts Iraqi farmers, and is very expensive at a cost of about \$3.3 billion annually. CPA identified the following issues for the PMs consideration:

-- Buffer Stock. CPA has undertaken procurement for a three-month food buffer to be in place by October 1. Ambassador Bremer emphasized the importance of preserving that buffer to provide food security in the event conditions deteriorate. Prime Minister Allawi agreed and supported CPAs action to procure commodities such as wheat flour to ensure that food needs would be met.

-- Trucking. CPA identified the volatile trucking situation as a potential problem and recommended steps to ensure security on
n
key routes and incentives for drivers. Allawi expressed concern about wage disparities between public and private sector drivers, and acknowledged that financial incentives put in place for truckers were needed to ensure deliveries.

-- PDS Reform. Ambassador Bremer emphasized the high costs of the subsidy to the government, and the politics of the PDS, which receives strong support from the population. As the economy improves and fewer people depend on food from the PDS, it may be possible to remove commodities from the food basket. Ambassador Bremer urged Allawi to examine options for PDS reform while preserving a safety net for vulnerable elements of the population. PM Allawi agreed, through his spokesman, to meet again to discuss options for monetization.

Oil for Food Contracts

4. (SBU) CPA provided background to PM Allawi on the prioritization of OFF contracts and the status of contracts that

remain to be delivered. Some 1700 contracts with an estimated value of \$4 billion are being transferred to 18 Iraqi ministries that will assume full responsibility for them on July 1. CPA described training and capacity building programs over the past months, expressing confidence that the ministries are now capable of overseeing the contracts and ensuring deliveries. CPA noted the following key issues:

-- Corruption: We warned against the return of corrupt practices in the program. Allawi agreed fully that the new government would need to be vigilant, and that there would need to be full oversight and accountability in the program.

-- Information Technology: CPA has provided computers and

connectivity as the core of an e-government project to manage OFF contracts. We encouraged Allawi to build on that base.

OFF North

5. (SBU) Following an explanation of the program in the North, CPA provided details regarding the transfer of \$745 million for ongoing projects and \$1.6 billion for new projects and other priorities. These transfers represent all the funds available for the communities of the Kurdistan Regional Government from the DFI. Ambassador Bremer noted that some Kurds believe the Kurdistan Regional Government (KRG) is entitled to more money and warned there is likely to be continued criticism from some Kurdish leaders. CPA raised the following issues:

-- Budget: The KRG will look to Baghdad for funding in 2005 and beyond. Ambassador Bremer encouraged coordination between the KRG and Baghdad ministries.

-- Office of Project Coordination (OPC). OPC, founded by CPA to administer ongoing OFF projects, will continue as the planning and coordination arm of the KRG. CPA will provide technical advisors for a one-year period. Ambassador Bremer and David Warlick emphasized the importance of oversight of the funds and coordination with the KRG.

Corruption Investigations

6. (SBU) CPA officials briefed the Prime Minister on the Ernst and Young audit under the supervision of the Board of Supreme Audit, and the UNs independent investigation undertaken by Paul Volker. Ambassador Bremer also clarified the interest of Ahmed

Chalabi in the investigation and the nature of KPMGs involvement to date. Ambassador Bremer stressed the importance of ensuring a full, transparent, and impartial investigation, which Allawi recognized. We also noted the complexity of the investigation and the need for patience to unravel the corrupt practices that took place. CPA raised several issues for consideration:

-- Documents. David Warlick explained steps taken to safeguard and inventory records and urged dedicated action to identify all relevant OFF records, as well as the need to make available witnesses.

-- Recovery of Assets. CPA noted the extent of corrupt practices since 1998 and the difficulties in following the trail of money.

-- Prosecution. CPA explained that many influential Iraqis and others could be implicated as information is uncovered.

BREMER

NNNN