

A note of introduction to "With Much of Iraq Turned Into Scrap, A Market Heats Up"

Since 2006, Supply Chain Visions has been deployed in Iraq, supporting the quest for peace and stability. Steve Geary has been on the ground leading various initiatives related to economic development, employment, and supply chain reconstruction. For security reasons, we have been asked to refrain from speaking with the press about our work.

Said the Honorable Murray Gurfein, a judge who ruled on the Pentagon papers case in the 1970's, "A cantankerous press, an obstinate press, a ubiquitous press, must be suffered by those in authority in order to preserve the right of the people to know." And so it is with our involvement in Iraq. The press has discovered our work. While we continue to remain silent, the Wall Street Journal has chosen to profile some of the work that we are proud to have led.

Hope and faith in the future of Iraq by the Iraqi people is a critical factor in bringing stability to the region and bringing our troops home, and it is in support of that vision that we have deployed.

We are proud to see our work recognized on page 1 of the Wall Street Journal.

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With Much of Iraq Turned Into Scrap, A Market Heats Up

Mr. Khafaji, Man of Iron,
Seeks Way Past Export Ban;
'A Very Good Business'
By PHILIP SHISHKIN

ISKANDARIYAH, Iraq -- Sabah al-Khafaji has spent decades making things of metal. Among his creations: portable military radar and a revolving glass-and-steel restaurant atop a Baghdad television tower.

These days, the 61-year-old engineer is starting a new career -- breaking things made of metal. "You know, scrap is a very good business," he says.

Just south of Baghdad, the factory he runs is littered with shredded junk: vehicle fragments, twisted pipes, old bed frames and chain-link fence. Mr. Khafaji and a Kuwaiti partner plan to ship it to world markets, where scrap prices are soaring. But first, they have to overcome an Iraqi government export ban.



Steve Geary with Sheik Sabah Al Khafaji at SCAI, Iskandariyah, Iraq, May 2007



Meeting to launch the scrap project at Camp Victory, Iraq, December 2006



A race is on to cash in on Iraq's scrap metal, one of this bruised and battered nation's most abundant resources. The scramble began soon after the 2003 U.S. invasion. Following the fall of Saddam Hussein's regime, smugglers loaded trucks with scrap and sent them across Iraq's barely guarded borders. The definition of what constituted scrap was broad. Good machinery and expensive equipment were looted and packed off, too. Horrified, Mr. Khafaji mobilized workers to guard their factory from thieves.

Elsewhere in Iraq, looters dismantled the country's smelters and steel plants. Scrap that would have been turned into steel now had no domestic use and piled up instead.

Eager to regulate the scrap free-for-all, the U.S.-led Coalition Provisional Authority began selling export licenses in 2004. Armed with the new permits and scrap-laden trucks, exporters headed south to Umm Qasr, Iraq's only port on the Persian Gulf.

Gunmen working for local authorities stopped the trucks and told the exporters their licenses were no good. "What they wanted was a piece of the action," recalls Musab al-Kateeb, who worked for the Iraqi trade ministry at the time.

The thwarted exporters demanded refunds for their licenses. In a hastily arranged meeting, the trade ministry upbraided officials from Southern Iraq and ordered them to honor the export permits. Tempers flared. "The meeting ended very badly," recalls Mr. al-Kateeb.

That summer, the Iraqi government took over from the CPA and slapped a blanket ban on all scrap exports. The immediate rationale was to clamp down on smuggling, but there was another reason.

Officials plan to build new housing, requiring large amounts of steel reinforcing bars. Iraqis want to make them locally out of recycled scrap, instead of relying on expensive imports of finished steel. Though rich in crude oil, Iraq lacks iron ore.

"We'd like to have a good reserve of scrap inside Iraq," says Sami al-Araji, Iraq's deputy minister for industry and minerals.

As U.S. forces settled in for a long stay, American-made scrap started piling up, too. Consider Camp Anaconda, a U.S. logistics base 80 miles north of Mr. Khafaji's factory.

With 30,000 residents, Anaconda is a small American town in the middle of Iraq. It has a weekly newspaper and a movie theater that seats 800. The camp's junkyard stretches for several city blocks with rows of gutted trucks, an occasional airplane and mounds of scrap about 30 feet high.

"There's a lot of scrap on a lot of bases, says Brig. Gen. Gregory Couch, Anaconda's commander. "It's four years that we've been over here." Because of a 2004 American statute, U.S.-owned property is immune from the Iraqi laws. That makes Anaconda's scrap a prized export commodity, unlike the Iraqi scrap, which may not be exported.

Since 2003, Mr. Khafaji has been looking for work for his employees at the State Company for Automotive Industry here in Iskandariyah, south of Baghdad. The state-

owned outfit is a collection of warehouses and workshops scattered over a few square miles of desert on the edge of town.

In Saddam's day, the factory was swimming in government contracts. In the 1990s, the Iraqi military ordered Mr. Khafaji to design a mobile radar that could avoid American detection. His engineers built a trailer-mounted contraption that could scan the skies and drive away in 15 minutes. Another jewel in Mr. Khafaji's engineering career is the rotating restaurant perched atop the International Saddam Tower in Baghdad.

After the regime fell, the factory had little work and a bloated payroll of 4,000. Mr. Khafaji scavenged enough odd jobs for the factory to keep a full-time work force of 1,200. The rest "are just sitting at home and taking half of their salary," he says.

Last year, Mr. Khafaji approached his bosses at Iraq's Ministry of Industry and Minerals for permission to process and export American military scrap. "We said, 'Forget about it,'" recalls Waleed Khidder, the ministry's metals expert. Allowing a state-owned factory to participate, he adds, would have undermined the Iraqi government's export ban.

But Mr. Khafaji, an influential man in these parts, didn't forget about it. He's the chairman of the Iskandariyah city council and a sheik of a large Shiite Arab tribe. In a violent town, he drives his white SUV without guards.

This year, Mr. Khafaji has been talking scrap with a Pentagon task force. The task force's job is to revive Iraq's moribund state-owned factories and help them reach international markets.

The task force introduced Mr. Khafaji to Public Warehousing Co., a Kuwaiti firm that delivers food to U.S. troops in Iraq. (The U.S. government is investigating whether PWC and a host of other companies set inflated prices for the food sold to the U.S. military. PWC denies wrongdoing and says it is cooperating with the inquiry.)

This past spring, the Pentagon consultants suggested that Mr. Khafaji and PWC team up in a scrap-export venture. They pitched the project as a big moneymaker, saying in a document that an exporter could buy scrap for as little as \$14 a ton from the military and sell it at global rates approaching \$220.

Mr. Khafaji obtained approval from his bosses in Baghdad for a limited role for his factory, involving only scrap processing. The Kuwaitis would buy the scrap from the U.S. at Camp Anaconda and deal with getting the green light to export it.

One August morning, the first scrap convoy barreled down from Anaconda to Mr. Khafaji's factory. In an open lot under a blistering sun, his crane operators lashed chains to heavy containers and hoisted them off truck beds. Mr. Khafaji dispatched two dozen men with hand-held saws and hammers to break down and sort the scrap.

The biggest hurdle still is getting export approval from the Iraqi government. The Pentagon believes scrap originating with the U.S. military is not covered by the Iraqi ban. "If it's U.S.-owned, we have the authority and the right to export it," says Robert Love, director of operations for the Pentagon task force pushing the exports.

Iraqi officials note that Anaconda's scrap has been purchased by a private Kuwaiti firm, and is therefore no longer covered by the immunity accorded to the U.S. military. PWC says it is trying to obtain the export permission from the Iraqi government, but wouldn't comment further.

While his Kuwaiti partners navigate the Iraqi bureaucracy, Mr. Khafaji is pressing ahead with his part of the venture. His workers have finished shredding about 150 tons of PWC's scrap and are now loading it onto containers for rail shipment to the Southern seaport, he says.

Mr. Khafaji is planning to send three of his engineers to Kuwait for training in the scrap business. He wants to build a big shed in his factory to allow for all-weather scrap storage and cutting. If all goes well, he hopes to turn the factory into a scrap-processing hub.

"There's so much money in scrap," he says.