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SAN FRANCISCO (MarketWatch) -- Moves by the U.S. military to relinquish responsibility to Iraq's security forces raise big questions over who will safeguard the shattered country's reconstruction in what is the biggest effort since the Marshall Plan.

The private security companies already protecting American officials and workers throughout the country may find themselves taking up some of the slack as the U.S. looks to bring home some of its 138,000 troops there.

Security spending is a windfall for the mostly privately held companies at work in Iraq. At the same time, it's a drain on budgets.

"One suspects that one way of compensating might be to do more private contracting," said Rep. David Price, D-N.C., author of a bill that seeks greater public disclosure of the stakes involved and oversight of security contracts in Iraq. See full story.

After the 2003 invasion, the Bush administration assumed security risks would be relatively short-lived. Instead, persistent insurgent violence and crime have forced civilian agencies and government contractors to turn to private companies to secure their own protection.

"This has gone far beyond what it has in past conflicts," Price said.

According to a July 30 report to Congress from the Special Inspector General for Iraq Reconstruction, security is gobbling up more and more money otherwise earmarked for rebuilding.

"Continuing threats require that funds be re-allocated from reconstruction projects to security, thus reducing the potential number of projects that can be completed," the report said. The inspector general also noted in the report that the more than \$2 billion that's been estimated by the U.S. for project security costs - nearly twice earlier estimates -- is too small because of delays or the need for far more security forces. See the SIGIR report.

Despite the dangers today, work is ongoing throughout the country.

"We continue to implement the reconstruction of Iraq, the rebuilding roads, schools, infrastructure, getting the electricity generation back up," said Kevin Sheridan, spokesman of the U.S. Agency for International Development.

"All of the things that it's going to take to make Iraq self sufficient, USAID is doing on the ground in conjunction with the efforts of the military and our contractors."

In the power and oil sectors, a lot of work must still be done. The Government Accountability Office said in a recent report that as of May, overall power generation and crude oil production are at lower levels than when the U.S. invaded.

Staying safe

Companies and agencies in Iraq who are not part of the massive supply chain needed to fuel and feed the American forces abroad tend to operate out from under the military's protective umbrella.

Even if the Army starts to send troops home for good, many private-sector engineers, trainers

and non-governmental advisers will likely remain in the country as they go about their work getting Iraq back on its feet.

And they will still need protection. How much depends on how safe or dangerous the country becomes.

"If you pull the military out, then the company has to decide whether it can rely on the remaining force to provide adequate security, or does it need to augment its security with a private force," said Alan Chvotkin of the Professional Services Council, an industry group in Washington that represents government contractors of all kinds.

Chvotkin points out that firms working as part of the military's boot print, accompanying forces to and from the battlefield, may find that fewer troops may mean less work.

"If troops come home, then contractors supporting the military will come home," said Chvotkin, whose group represents companies ranging from Halliburton subsidiary Kellogg Brown & Root (HAL: news, chart, profile) to Accenture (ACN: news, chart, profile) .

The rest operate on their own.

"For those contractors, the presumption is they are responsible for their own security," said Chvotkin.

Some prefer armored vehicles like SUVs and heavily-armed guards. Others want a more discreet approach so they can blend in instead of stick out.

Many of the companies and organizations that might be expected to remain at work are accustomed to working in hot spots. For them, fluid security situations are part of the job and fewer troops may not change that.

Still, either approach can require knowledge or manpower that many organizations don't always have in house.

Turning to Iraqis

That extra help may come from the companies currently operating in Iraq or new ones that are still being created. They aren't necessarily going to be all-American or British, either.

Doug Brooks, who is the head of the International Peace Operations Association, a private security contractor group in Washington, said that a larger trend is at work too that may lead to longer-term changes in Iraq.

There are 6,000 to 8,000 non-Iraqis involved in security work with 14,000 to 20,000 Iraqis working for those non-Iraqi companies, Brooks said. There are 16 Iraqi security companies registered with the Iraqi government with 53 that are pending, according to Brooks, with 34 foreign security firms registered and four pending.

"Clearly, you're going to see more and more Iraqis working for these companies, moving up through management positions. Ultimately, that's the way it should be," Brooks said. Some firms are 90% staffed by Iraqis, he pointed out.

If violence in Iraq increases as U.S. troop numbers come down, the companies and agencies working to provide basics like electricity and drinking water or fostering political development could decide it's simply too dangerous and leave. In that case, the opportunities for security companies could start to disappear.

"If the troops pull out, do the reconstruction companies pull out with them? If they do, then a big chunk of the market goes with them," said Brooks.

For the security contractors themselves, hundreds of dollars a day in pay may no longer be worth the risk.

That decision is still far off. But it will have to be faced once Iraq's political leadership comes up with a viable government, giving the U.S. military a chance to take some of the security burden off its forces. One outcome might be Iraq's decision to cut back the number of foreign workers it is willing to allow in the country.

While no formal death count exists, the Iraq Coalition Casualty Count, which relies on government information and published media reports, reports 255 contractors from around the world have been killed on the job.

Nevertheless, the companies involved in both security and reconstruction remain committed to their work there.

According to the GAO, the U.S., Iraq, and other nations have allocated more than \$60 billion for security, reconstruction and civil services. The contracts, whether to support the U.S. Army as Halliburton does with its mammoth logistics contracts worth billions to Triple Canopy's security services, are an important part of a company's government business group.

"They're not looking to pull out. Very few of our companies have left Iraq," said Chvotki

<http://www.marketwatch.com/story/us-troop-drawdown-looms-over-iraq-contractors?siteid=google>