



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

July 2, 2004

The Honorable C. W. Bill Young
Chairman
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed is the third quarterly report required by Section 2207 of the Emergency Appropriations Act for Defense and for the Reconstruction of Iraq and Afghanistan, FY 2004. Section 2207 requires the Director of the Office of Management and Budget to report quarterly to the Committees on Appropriations on the uses of funds appropriated to the Iraq Relief and Reconstruction Fund (IRRF). This report updates information contained in the report I submitted on April 5, 2004. This report relies on the capable planning and analysis of the Coalition Provisional Authority (CPA) in Baghdad. With the dissolution of CPA, the next quarterly report will be based largely on information compiled by the new U.S. mission in Iraq.

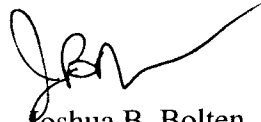
Much has occurred in Iraq since the April report. On June 28, 2004, CPA disbanded and the U.S. established diplomatic relations with a sovereign Iraq. Responsibilities for the U.S.-Iraq bilateral relationship are vested in a new U.S. ambassador and embassy. Sovereignty was transferred to the Interim Iraqi Government whose primary task is to prepare Iraq for a national election no later than January of next year.

Security still remains the most difficult challenge facing the coalition in its efforts to assist the new Iraqi government. Increases in insurgent activities have slowed reconstruction, particularly in the electricity and oil sectors. To address this situation, the Department of Defense has focused its efforts on improving the capabilities of the Iraqi security services, including the Iraqi Police Service, the Iraqi Armed Forces, and the Iraqi National Guard (formerly the Iraqi Civil Defense Corps). Today, the Iraqi security services are growing in number and are receiving the proper training and equipment they will need as Iraqis assume greater responsibility for their own security.

This report makes minor revisions to the spending plan submitted on April 5, 2004. Over the next month the new country team, led by Ambassador Negroponte, will examine the priorities and programs funded by the IRRF. With the benefit of that information, the Department of State plans to consult with Congress concerning any changes suggested by their review. While the report focuses primarily on the uses of the Supplemental funds appropriated by the U.S. Congress, it also provides information on donor contributions to relief and reconstruction efforts in Iraq.

Funds provided in the FY 2003 Emergency Supplemental Appropriations Act were subject to reporting provisions in section 1506 of that Act that are similar to the requirements in section 2207 of the current FY 2004 Act. I believe the enclosed report reflects the information required by both statutory provisions.

Sincerely,

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Joshua B. Bolten
Director

Identical Letter Sent to The Honorable David R. Obey, The Honorable Ted Stevens, and
The Honorable Robert C. Byrd



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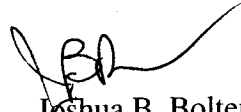
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