

**THE UNITED NATIONS OIL-FOR-FOOD PROGRAM:  
ISSUES OF ACCOUNTABILITY AND TRANSPARENCY**

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**HEARING**  
BEFORE THE  
**COMMITTEE ON**  
**INTERNATIONAL RELATIONS**  
**HOUSE OF REPRESENTATIVES**  
**ONE HUNDRED EIGHTH CONGRESS**

SECOND SESSION

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**THE UNITED NATIONS OIL-FOR-FOOD  
PROGRAM: ISSUES OF ACCOUNTABILITY  
AND TRANSPARENCY**

**WEDNESDAY, APRIL 28, 2004**

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Committee met, pursuant to call, at 10:30 a.m., in Room 2172, Rayburn House Office Building, Hon. Henry J. Hyde (Chairman of the Committee) presiding.

Chairman HYDE. The Committee will come to order. Many times the Chair has announcements to make, some of which are perfunctory, some of which are enormously substantive, and I have one of the latter kind to make.

One of our Members who is not here today, and you will understand why, Dana Rohrabacher, at 6 o'clock p.m., April 27, his wife Rhonda gave birth to triplets, Annika, Christian and Tristen. So I don't expect we will hear from Mr. Rohrabacher today, but in absentia we congratulate him and wish him, and especially his wife, well.

All right. The Committee will come to order. Of the long list of Saddam Hussein's crimes, the most relentless were those committed against the Iraqi people. A grim catalog of outrages range from mass killings at one extreme to the needless privation and steady grinding away of hope that formed the context of daily life. The elimination of his regime last year revealed a population rendered destitute by 2 decades of dictatorship and the results of the conflicts he initiated against neighboring countries. Unfortunately, efforts by the international community to counter the threat Saddam Hussein posed to his neighbors and others unavoidably added to the burden borne by the Iraqi people. In an effort to spare them, especially women and children, from the harshest effects of the embargo placed on the regime in the aftermath of Saddam's invasion of Kuwait, the United Nations initiated a program in 1996 to provide the Iraqi people with food, medicine and other aid. The humanitarian relief was to be paid for by monitored sales of Iraqi oil. This undertaking came to be known as the Oil-for-Food Program and is credited correctly with saving the lives of millions.

Unfortunately, numerous allegations have been made that this humanitarian program was undermined by systematic abuse, including graft and outright theft, that is estimated in the billions of dollars. The latest and most authoritative report is that released by the General Accounting Office. It estimates that between 1997 and

2002, Saddam's regime obtained over \$10 billion in illegal revenues from the Oil-for-Food Program through illicit surcharges and commissions as well as smuggling.

If these charges prove true, the most obvious victims are those Iraqis who failed to receive needed assistance. But the damage extends much further. The massive windfall resulting from this alleged organized theft allowed Saddam to maintain his grip on the country, line his pockets, and to make companies and countries dance to his tune with consequences we are still struggling to contain.

But there is yet a deeper threat. Those who believe that the United Nations and its many programs play a vital role around the world, and I count myself among them, must also fear for the potential impact on the reputation and credibility of the U.N. as an institution. The institution's work in other areas should not be needlessly impeded or placed in doubt by these still-emerging allegations. It is, therefore, incumbent upon those with responsibility for these programs, as well as those charged with investigating their failings, to ensure that the truth emerges however unpleasant that task or the results may be.

Did U.N. officials responsible for administering the Oil-for-Food Program properly undertake their oversight and management responsibilities? Were some of the administrative provisions ignored or violated by Iraq with the knowledge of U.N. officials? Did the U.N. fail to undertake their responsibilities in overseeing the contracting process? Were program accounts for the administration of the program properly audited? Have they been made public? These and other important questions are the reasons for this and succeeding hearings on this subject. Our Committee's hearing today will begin to unravel the allegations of corruption and fraud that, if true, significantly undermine the effectiveness of the Oil-for-Food Program.

Last week U.N. Secretary General Kofi Annan named the highly respected Paul Volcker, former Chairman of the Federal Reserve, to lead an independent investigation of the program. In Iraq the Finance Ministry has begun its own inquiry with the help of international auditing firms in an attempt to locate stolen assets. I have high hopes that these and other investigations will soon distill truth from allegations of wrongdoing and will lead to remedial measures and reforms wherever needed. It is axiomatic that the success of these investigations requires that investigators have full and complete access to essential information and witnesses, wherever found.

Given the U.N.'s expanding role in the establishment of a new government in Iraq, and in assisting that country's reconstruction, it is imperative that the questions surrounding the Oil-for-Food Program be answered as fully and as soon as possible so that its efforts in that country, as well as in the many other vital programs it is responsible for around the world, are not compromised and yet more needless suffering emerge from the fading embers of Saddam's regime.

I now turn to my friend and colleague, Tom Lantos, the Ranking Democratic Member, for his opening remarks.

[The prepared statement of Mr. Hyde follows:]

PREPARED STATEMENT OF THE HONORABLE HENRY J. HYDE, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON INTER-  
NATIONAL RELATIONS

*Publicity is one of the purifying elements of politics . . . Nothing checks all the bad practices of politics as public exposure.—Woodrow Wilson, 1913*

Of the long list of Saddam Hussein's crimes, the most relentless were those committed against the Iraqi people. The grim catalog of outrages range from mass killings at one extreme to the needless privation and steady grinding away of hope that formed the context of daily life. The elimination of his regime last year revealed a population rendered destitute by two decades of dictatorship and the results of the conflicts he initiated against neighboring countries.

Unfortunately, efforts by the international community to counter the threat Saddam Hussein posed to his neighbors and others unavoidably added to the burden borne by the Iraqi people. In an effort to spare them, especially women and children, from the harshest effects of the embargo placed on the regime in the aftermath of Saddam's invasion of Kuwait, the United Nations initiated a program in 1996 to provide the Iraqi people with food, medicine, and other aid. The humanitarian relief was to be paid for by monitored sales of Iraqi oil. This undertaking came to be known as the Oil-for-Food Program, and it is credited, correctly, with saving the lives of millions.

Unfortunately, numerous allegations have been made that this humanitarian program was undermined by systematic abuse, including graft and outright theft, that is estimated in the billions of dollars. The latest and most authoritative report is that released by the General Accounting Office. It estimates that between 1997 and 2002, Saddam's regime obtained over \$10 billion in illegal revenues from the Oil-for-Food Program through illicit surcharges and commissions as well as smuggling.

If these charges prove true, the most obvious victims are those Iraqis who failed to receive needed assistance. But the damage extends much further. The massive windfall resulting from this alleged organized theft allowed Saddam to maintain his grip on the country, line his pockets, and to make companies—and countries—dance to his tune, with consequences we are still struggling to contain.

But there is yet a deeper threat. Those who believe that the United Nations and its many programs play a vital role around the world—and I count myself among them—must also fear for the potential impact on the reputation and credibility of the United Nations as an institution. The institution's work in other areas should not be needlessly impeded or placed in doubt by these still-emerging allegations. It is, therefore, incumbent upon those with responsibility for these programs, as well as those charged with investigating their failings, to ensure that the truth emerges, however unpleasant that task or the results may be.

Did UN officials responsible for administering the Oil-for-Food Program properly undertake their oversight and management responsibilities? Were some of the administrative provisions ignored or violated by Iraq with the knowledge of UN officials? Did the UN fail to undertake their responsibilities in overseeing the contracting process? Were program accounts for the administration of the program properly audited? Have they been made public? These and other important questions are the reasons for this and succeeding hearings on this subject.

Our Committee's hearing today will begin to unravel the allegations of corruption and fraud that if true, significantly undermined the effectiveness of the Oil-for-Food Program. Last week, UN Secretary General Kofi Annan named the highly respected Paul Volcker, the former Chairman of the Federal Reserve, to lead an independent investigation of the program. In Iraq, the finance ministry has begun its own inquiry, with the help of international auditing firms, in an attempt to locate stolen assets. I have high hopes that these and other investigations will soon distill truth from allegations of wrongdoing and will lead to remedial measures and reforms wherever needed. It is axiomatic that the success of these investigations requires that investigators have full and complete access to essential information and witnesses, wherever found.

Given the UN's expanding role in the establishment of a new government in Iraq and in assisting that country's reconstruction, it is imperative that the questions surrounding the Oil-for-Food Program be answered as fully and as soon as possible so that its efforts in that country, as well as in the many other vital programs it is responsible for around the world, are not comprised and yet more needless suffering emerge from the fading embers of Saddam's regime.

I now turn to my friend and colleague, Tom Lantos, the Ranking Democratic Member, for his opening remarks.

Mr. LANTOS. Thank you very much, Mr. Chairman. Let me thank you for calling this important hearing.

Since the end of January, when an Iraqi newspaper alleged that a senior United Nations official had received bribes from Saddam Hussein, the U.N. has been the target of a series of allegations involving potential mismanagement, unethical behavior, and collusion with the despicable Saddam Hussein regime. The notion that such a high-level U.N. official could have been on Saddam's payroll is sickening, if true, and it must be thoroughly investigated. If wrongdoing is found to have occurred, serious disciplinary action must be taken immediately.

At the same time, Mr. Chairman, I must say that I am becoming increasingly concerned that certain U.N. critics have used the allegation in an Iraqi newspaper to discredit the United Nations when the case against the organization is far from clear. Mr. Chairman, any responsible inquiry regarding these charges must be fair and based on fact. Our preliminary research indicates that the United Nations is being blamed for Iraqi sanctions violations such as oil smuggling for which the United Nations had no responsibility of enforcement; that the United Nations took action to prevent some of the Oil-for-Food abuses of which it is being accused; and that much responsibility for the problems that beset the Oil-for-Food Program lies with the members of the Security Council, including our own government.

We need to recognize that the Secretary General has moved to launch a credible independent investigation of the specific allegations leveled at its employees. We must first look at the scope of the problem. The press has repeatedly referred to a \$10 billion U.N. scandal, blaming the U.N. for all of the illegal revenue that Saddam obtained by violating U.N. sanctions. Our Committee needs to be much more precise than that. According to the GAO, the largest portion of the 10 billion that Saddam was able to obtain in illegal payments came from the \$5.7 billion worth of oil his people smuggled out of Iraq completely outside of the Oil-for-Food Program.

The U.N. Secretariat clearly bears no responsibility for this portion of the scandal. Member states had the responsibility to observe the prohibition against allowing Saddam to sell oil outside the program. And the U.N. Secretariat had neither the authority nor the means to monitor or to enforce this requirement.

It is important to note that these sales, such as those made to our friends and allies like Jordan and Turkey, often took place with United States knowledge or acquiescence. A significant portion of the illegal Iraqi sales were made to Syria, with the United States State Department offering little more than token protest. Despite President Assad's promise to Secretary of State Powell in the earliest days of this Administration, Syria continued its massive illegal oil imports from Iraq, and the United States remained virtually silent as Assad violated with impunity his pledge to our Secretary of State.

The second part of the so-called 10 billion scandal involves allegations that U.N. mismanagement was responsible for allowing Saddam to siphon off 4.4 billion in kickbacks on Oil-for-Food contracts. In investigating this charge, it appears that some U.N. offi-



cials frequently raised concerns about possible Iraqi fraud in Oil-for-Food contracts starting as far back as 2001. We know that in March 2001, U.N. Secretary General Annan issued a report warning that Saddam had begun to implement a system of surcharges on sales of oil under the Oil-for-Food Program, which led to reforms of the program. Around the same time *The New York Times* reported that Iraqi officials had begun to demand kickbacks from companies seeking to sell humanitarian goods under the program.

When these reports began to surface, we understand U.N. officials carefully scrutinized Iraqi contracts to determine if they were overpriced. We are told that these U.N. officials then held up hundreds of contracts by demanding that the missions which submitted them on behalf of their companies fully explain the apparent overcharges. In many cases the missions were unable or unwilling to defend the contracts, and those contracts were never approved. In cases where the missions did attempt to justify the overpricing, the U.N. forwarded them to the Sanctions Committee with notes expressing skepticism about prices. There were dozens of such cases. Nevertheless, the State Department never exercised its power as a Sanctions Committee member to block any of the overpriced contracts flagged by the U.N. or otherwise tried to halt Saddam's kickback scheme. Other members of the Security Council, including France, Russia and China, also failed to act.

By contrast, when the Coalition Provisional Authority took over administrative responsibility for Oil-for-Food in the fall of 2003, the Defense Contract Audit Agency had no trouble identifying contracts with overpriced items. In reviewing the active contracts, Mr. Chairman, the defense auditors found \$656 million in potential overcharges, roughly 10 percent of the overall value of the contracts reviewed.

Some of the revelations in the audit report simply boggle the mind. The State Department's representatives in New York in February 2002 even approved the sale of a fleet of 300 Mercedes-Benz luxury automobiles for use by the Iraqi Government. Incredibly, three large, overpriced contracts also approved in 2002 belonged to Syrian entities. The defense auditors estimate the amount of overpricing in these contracts at a mind-boggling 44 percent. I simply don't understand, Mr. Chairman, how the State Department could have approved any Syrian contracts whatsoever at a time when Syria was ostentatiously flouting the sanctions regime through its illegal oil imports and casually mocking our Secretary of State by ignoring its pledges to him.

I fully understand that our highest priority as a Sanctions Committee member was to make sure that Iraq could not get its hands on illicit and dual-use items. But surely another important priority should have been to prevent the conclusion of overpriced contracts that invited kickbacks. We have learned that our government had 60 dual-use experts in multiple agencies reviewing every contract that was submitted by the Security Council under Oil-for-Food, yet to our knowledge, not a single U.S. expert was tasked with investigating the contracts for possible overcharges.

The final part of this alleged scandal is the one that the U.N. clearly has to answer for; the allegation that a U.N. official accepted bribes from Saddam. This allegation first surfaced at the end of

January 2004. At that time an Iraqi newspaper published a list of 270 names of individuals, including U.N. Oil-for-Food Administrator Benon Sevan, all of whom the newspaper alleged had received oil vouchers directly from Saddam Hussein. Mr. Chairman, these oil vouchers entitled the bearer to the right to buy Iraqi oil. They could be sold for a commission to middlemen, who then resold them at a profit to oil companies. The newspaper claimed that the list was derived from an Iraqi Government document. We do not know whether this document even exists and, even if it does, whether the information it contains is accurate. Therefore, it is critical, before anyone jumps to conclusions, that investigators be given access to this document at the earliest possible time.

U.N. Secretary General Kofi Annan has recognized the seriousness of the bribery allegation and has worked to assemble an independent panel of unimpeachable integrity, headed by former Federal Reserve Chairman Paul Volcker, to thoroughly investigate the charges relating to the U.N.'s management of the Oil-for-Food Program. As we move forward together investigating the charges that have been leveled at the U.N. Secretariat, it will be critical for us to work together to get the facts.

To summarize, Mr. Chairman, we know that the U.N. is not responsible for oil smuggling outside the Oil-for-Food Program. We know that the U.N. Secretariat took action to prevent some of the abuses within the program. What we still need to learn is the following: One, why our government and other Security Council members did not oppose more vigorously Saddam's illicit oil sales and padded humanitarian contracts; second, whether governments sponsoring companies that submitted dirty contracts had knowledge that fraud was occurring; and third, if there is any truth to the bribery charge as leveled against the U.N. and its personnel. Mr. Chairman, that is a tall order, and it will put many of the world's governments, including our own, under a microscope.

I want to thank you again, Mr. Chairman, for calling this important hearing, and I pledge to continue to work closely with you and our Committee inquiry into every aspect of this most serious matter.

Chairman HYDE. And thank you very much, Mr. Lantos.

It is the Chair's judgment that we will entertain two more statements, one from Mrs. Ileana Ros-Lehtinen, should she desire to make one, and I don't see her here; the other from Mr. Ackerman, as Ranking Member of the Subcommittee, the appropriate Subcommittee. And then for the other Members, because we have two panels and because of the importance and complexity of the issues before us, I am not going to entertain other opening statements. But your statements will be made a part of the record at this point in the record, or whenever you wish to have them entered, and then we can get everybody perhaps an opportunity to question the witnesses, and we can hear the witnesses and not have the time shortened because of votes and that sort of thing.

So with your patience and understanding, the Chair recognizes Mr. Ackerman.

Mr. ACKERMAN. I thank you, Mr. Chairman, for holding a hearing related to Iraq. For a time it appeared that we might get through the entire year without any. However, I can't help but note

that these hearings continue a recent Committee tradition of Iraq hearings that are retrospective in nature. Clearly there is much that can and should be learned from the past, but I honestly think that the urgent circumstances we face in Iraq today require this Committee to focus on the present and the immediate future.

I am pleased to learn, Mr. Chairman, that next week there will be a hearing Iraq focusing on the transition of sovereignty, and I thank you for that, but today we are to face the thicket of thorny questions surrounding the Oil-for-Food Program and the many allegations of corruption and mismanagement. Given the urgency of examining other truly critical related questions, one might think the object of this Committee was to ignore those weighty questions and devote our only hearing this year to discredit the U.N., thereby jeopardizing its role in any political transition in Iraq. I am certain, absolutely certain, that the Chairman has no such motive, since doing so would undercut the President's most recent new plan for handling the political transition, giving the whole problem to the United Nations.

I must say that I am perplexed by the Majority's sudden interest in the Oil-for-Food Program and possible corruption therein. These allegations actually surfaced some 3 years ago, yet our friends in the Majority seemed little interested in them then. But now that our ever-reliable font of information on Iraq, Ahmed Chalabi, has brought them to our attention, I suppose they deserve a little closer scrutiny. I hope these allegations of impropriety are nearer to the truth than the allegations and intelligence information he has been providing us for \$340,000 a month. While it doesn't seem that much of his information regarding weapons of mass destruction has panned out, maybe we can do better here. Mr. Chalabi's area of expertise is financial impropriety, having been indicted and convicted in Jordan of bank fraud. Maybe, Mr. Chairman it is really time to take him off the payroll.

Mr. Chairman, before we totally trash the Oil-for-Food Program and the United Nations, perhaps we should review the good it actually did. Over the course of its operation, the program actually fed 27 million Iraqis and decreased the malnutrition rate among Iraqi children by 50 percent. It contributed to a national vaccination program that helped reduce child mortality, and it eradicated polio in Iraq. It provided more dependable access to water and electricity, a feat which the CPA can't quite seem to replicate, and it provided foodstuffs and medicine worth over \$15 billion.

Now to the allegations. The GAO says that Saddam skimmed over \$10 billion from this program, but 5.7 billion, according to the GAO, was from smuggling and activity not directly related to the Oil-for-Food Program, but one which member states of the Sanctions Committee, including the United States, could have taken action against, but did not. So that leaves a balance of \$4.4 billion of kickbacks, fees, surcharges and graft and corruption that Saddam's regime gained from oil contracts.

Okay. But by 2001, the Bush Administration was clearly aware of these, as were other members of the Security Council. But again, the member states did nothing to try to stop this. Is the U.N. actually to blame because of the lack of will of us and the other member states? I am sure my friends on the other side of the aisle

would not suggest that we empower the Secretary General in such a way that he can compel us and other states to act.

Obviously there are allegations against U.N. officials which must be taken seriously, as we all know. The Secretary General has appointed a commission, as pointed out by the Chairman, headed by Paul Volcker to look into these.

I would point out, Mr. Chairman, that none, none, none of the money we are having a hearing about today is U.S. taxpayer money. None. For actual oversight of U.S. tax dollars, I suggest my colleagues visit the Web site of National Public Radio, since the Congress in general, and this Committee in particular, seem little interested in this role. There they could listen to a series of reports done last week called "The Spoils of War" that detail serious allegations of corruption and mismanagement of United States taxpayer dollars for the reconstruction of Iraq.

Here are a few of the highlights: "Iraqi private companies routinely pay bribes to United States contractors to get reconstruction contracts." "Iraqi Health Ministry officials sell hospital supplies on the black market." "Translators working for the CPA promise to provide contracts to Iraqis and demand as much as 50 percent of the contract's value in return."

I would ask unanimous consent to put the transcripts of the NPR programs into the record at this point.

Chairman HYDE. Without objection. So ordered.

[The information referred to was not submitted.]

Mr. ACKERMAN. Thank you.

And for those who are dubious of National Public Radio, the Associated Press reported the other day—

Chairman HYDE. The gentleman's time has expired.

Mr. ACKERMAN. If I could have just an additional 20 seconds, Mr. Chairman?

Chairman HYDE. Without objection.

Mr. ACKERMAN. The Associated Press reported the other day that United States contractors have received billions in reconstruction contracts for Iraq, having recently paid \$300 million in fines for bid-rigging, fraud, delivery of faulty military parts and environmental damage. Now there is some crime, Mr. Chairman.

If we are going to have hearings about corruption and mismanagement in Iraq, and I think we should, I respectfully suggest that we start with those misusing and wasting United States taxpayer money first.

Thank you, Mr. Chairman.

Chairman HYDE. The Chair will briefly respond by asserting as vigorously as it can that no one is interested in bashing the U.N. This should not be partisan. We are inquiring into allegations, and they are only allegations, of the fraudulent diversion of billions of dollars. It is true they are not directly United States money, but because the United States is investing billions of dollars in the reconstruction of Iraq, monies that ought to be going for that purpose that have been diverted to somebody's pocket do deny efficacy to the funds the United States has appropriated, and so, however indirectly, we are involved.

Notice of this sooner, I plead guilty. We have been pretty busy this year, and as soon as this matter came to my attention, we de-

cided we would be derelict if we didn't take a look at it. And I want to look at it, and we will go wherever the testimony leads us, no matter who is responsible, and I hope we can do it in a bipartisan way.

Mr. ACKERMAN. Mr. Chairman.

Chairman HYDE. Yes.

Mr. ACKERMAN. Would you, please, if you would care to, tell us your view of whether or not this Committee should be holding hearings on the corruption, disappearance, misuse and abuse of U.S. taxpayer dollars and to follow that trail wherever it might go as well?

Chairman HYDE. Absolutely.

Mr. ACKERMAN. Thank you, Mr. Chairman.

Chairman HYDE. Absolutely. All right.

I would like to welcome Howar Ziad. Mr. Ziad is a Representative of the Kurdistan Regional Government in the U.N. Liaison Office of New York. He has extensive international business experience, including with International Computers, Ltd., Sloane Management Services and Lombarda Holdings. Mr. Ziad is a graduate of Baghdad College and completed a 2-year program at Oxford College of Technology. We welcome Mr. Ziad.

Danielle Pletka is currently Vice President of Foreign and Defense Policy Studies at the American Enterprise Institute for Public Policy Research, and previously she served as a senior professional staff member for the Near East and South Asia with the U.S. Senate Committee on Foreign Relations. Ms. Pletka was also a Staff Writer for *Insight Magazine* and an Editorial Assistant at *The Los Angeles Times* and *Reuters* in Jerusalem. Ms. Pletka earned her B.A. from Smith College and her Master's from Johns Hopkins University. And we welcome you, Ms. Pletka.

Claudia Rosett writes a column, "The Real World," on issues of tyranny and human rights, especially as these relate to the war on terror, for *The Wall Street Journal*. She has covered international affairs for the past 22 years from all over the world, contributing to such publications as *The New York Times*, *Commentary*, *The American Spectator* and *The Weekly Standard*, and makes frequent guest appearances on radio and TV. She received her B.A. from Yale University, her Master's in English Literature from Columbia University, and her Master's of Business Administration from the University of Chicago. Welcome, Ms. Rosett.

John G. Ruggie joins us as the Evron and Jeane Kirkpatrick Professor of International Affairs and Director of the Center for Business and Government at Harvard University's Kennedy School of Government. Previously he served as the Assistant Secretary General and Chief Adviser for strategic planning to United Nations Secretary General Kofi Annan. Prior to that position, he was both a Dean and Professor at Columbia University School of International and Public Affairs. Mr. Ruggie received his B.A. in politics and history from McMaster University in Canada, a Ph.D. in political science from the University of California, Berkeley, and a Doctor of Laws Honoris Causa from McMaster. Welcome, Mr. Ruggie.

Michael Soussan is an editor of *African Geopolitics*, a bilingual quarterly journal on African affairs. He consults for universities, think tanks and private companies with an interest in Iraq. Pre-

viously he served as Program Coordinator for the United Nations Oil-for-Food Program. Mr. Soussan earned his Master's in International Relations from the Institut d'Etudes Politiques and a B.A. from Brown University. Welcome, Mr. Soussan.

We are honored to have you all appear before the Committee today, and, Mr. Ziad, we will start with you. Please proceed with a 5-minute summary, give or take the 5 minutes. And your full statement will be made a part of the record. Mr. Ziad.

**STATEMENT OF HOWAR ZIAD, REPRESENTATIVE, KURDISTAN REGIONAL GOVERNMENT, UNITED NATIONS LIAISON OFFICE**

Mr. ZIAD. I am making this presentation on behalf of Kurdistan Regional Government. Chairman Hyde, Ranking Member Lantos, Members of the Committee, before I begin my statement, I wish to thank Members of the Committee and the United States Congress on behalf of the people of Iraqi Kurdistan for having protected us from Saddam's tyranny and for securing the liberation of all Iraq from his murderous rule. The Iraqi Kurds could not have survived without the American-operated northern no-fly zone, nor could Iraq have been liberated last year without the brave efforts of the men and women of the United States Armed Forces. We will remain grateful allies of the United States forever.

I am grateful for the opportunity to address the scandal that lies at the core of the United Nations Oil-for-Food Program. This United States-supported program began in 1995 and was corrupted by the U.N. Secretariat, U.N. Office of the Iraq Program and Saddam's regime. It is a scandal that must be exposed because it prolonged the suffering of the Iraqi people under Saddam, despite the fact that it was designed to relieve their suffering.

The Oil-for-Food Program was set up by the U.N. Security Council Resolution 986 with the noble aim of providing food and medicine directly to Iraq while maintaining economic sanctions that were imposed upon Iraq in the wake of Saddam Hussein's invasion of Kuwait. Under this scheme, the Iraqi oil was sold on international markets to raise revenue to purchase humanitarian goods only. Both the Clinton and Bush Administration supported the Oil-for-Food Program to alleviate the very real suffering of all Iraqis.

In the end, few Iraqis gained much from the program. The Kurds, whose very survival was seen as an affront to Saddam's regime, were the targets of discrimination by the officers of the United Nations program, who preferred pleasing and appeasing Saddam over ending malnutrition and treating the sick amongst the Kurds.

The Oil-for-Food Program was based on the twin notions of first, international oversight of the oil sales and purchase and delivery of humanitarian goods with the proceeds; second, sharing among all Iraqis of the revenue. Iraqi Kurdistan was to receive 13 percent of the total revenues. Unfortunately, the people of Iraq did not receive anything near the amount that was their right.

Let me offer just a few examples of what the United Nations promised and failed to deliver while mispending Oil-for-Food funds: A new general hospital for the city of Sulaimania, which has around 750,000 inhabitants. Funds for the Sulaimania General Hospital were allocated in 1998, but 6 years on, the hospital has

yet to be built. The U.N. body responsible was the World Health Organization with specific authority for this project delegated to its East Mediterranean Regional Office in Cairo.

Disposable surgical gloves for the maternity hospital in Sulaimania. During 2002, the hospital received no more than 2,000 gloves per month when it needed 10,000.

A diagnostic oncology facility for Iraqi Kurdistan. The lack of such facility prevented the proper treatment of cancer patients in Iraqi Kurdistan.

Despite these problems, the Iraqi Kurdistan demonstrably used its meager share of Oil-for-Food goods more efficiently than the Iraqi regime. While Saddam's regime, with the backing of UNICEF, claimed that infant mortality was rising in the 15 provinces under his control, in Iraqi Kurdistan infant mortality actually fell.

The results of the United Nations' mismanagement of the Oil-for-Food Program were not confined to shaving a few dollars that ended in Saddam's pockets or in the hands of U.N. officials. Rather, the amounts were in the billions of dollars, and the loss was borne disproportionately by the Kurds.

Here are some of the best examples of the thievery perpetrated by Saddam and officials affiliated with the program: In 2002, the U.N., with the full approval of the Secretary General, allocated \$20 million to build an Olympic stadium for Uday Saddam Hussein.

Chairman HYDE. Mr. Ziad, could you take 2 more minutes and complete your statement?

Mr. ZIAD. Thank you, Mr. Chairman.

During the period of the Oil-for-Food Program was in place, the Kurds should have received approximately 8.4 billion in humanitarian aid, representing 13 percent of the revenue generated by the program. Iraqi Kurdistan received goods worth only \$4.4 billion.

What we recommend is a full accounting of Oil-for-Food funds and purchases to be made under the auspices of a genuinely independent and external audit, immediate delivery to the Kurdistan Regional Government of approximately \$1.6 billion in cash which was sitting in the Kurdish account maintained, but not disbursed, by the U.N.

In conclusion, the people of Iraqi are hopeful that the U.N. will take appropriate action to make up for its scandalous behavior under the Oil-for-Food Program.

I will cut some of the presentation to save you time, Mr. Chairman. That concludes my opening statement. I have submitted a longer statement for the record to the Committee that is available for review. Once again, thank you for the honor of testifying before you today. I am prepared to answer any questions you might have.

Chairman HYDE. Thank you very much.

[The prepared statement of Mr. Ziad follows:]

PREPARED STATEMENT OF HOWAR ZIAD, REPRESENTATIVE, KURDISTAN REGIONAL GOVERNMENT, UNITED NATIONS LIAISON OFFICE

Mr Chairman, members of the Committee:

I would like to make a brief statement and present the committee with a more detailed document, both of which I would like to request to be entered into the official record.

Allow me to begin my statement by thanking you for inviting me here today to talk to you. Please allow me to all thank you on behalf of the people of Iraqi Kurdistan for having protected us from Saddam's tyranny and for then liberating our fellow Iraqis from his murderous rule. We could not have survived without the northern no-fly zone, nor could Iraq have been liberated last year without the bravery of the men and women in uniform of the United States' armed forces. We are truly grateful and we are your allies and partners.

Thank you also for the opportunity to present to you the scandal that lies at the core of the UN Oil for Food Program (OFF). To do so, I need to provide you with a little bit of context about how a plan, that the US government backed in 1995, was perverted by the UN Secretariat, the UN Office of the Iraq Program and Saddam's regime. OFF was set up by UN Security Council Resolution 986 with the noble aim of protecting Iraqis from the folly of Saddam's government. President Clinton's administration supported OFF as a means of responding to complaints that Iraqis were suffering. At the heart of OFF were the twin notions of:

1. international oversight of Iraqi oil sales, spending of the resulting oil revenues and delivery of humanitarian goods; and
2. revenue sharing between Iraqis. There was a separate account for Iraqi Kurdistan which was 13% of the revenues.

OFF implicitly recognised that Iraqi Kurdistan had special needs and was beyond Saddam's control. Iraqi Kurdistan had been devastated by:

- Over 30 years of ethnic cleansing during which Kurds were forcibly moved out of their homes and in many cases replaced by Arab colonists;
- The *Anfal* genocide of 1987–1988 during which an estimated 4,500 Kurdish villages and towns were destroyed and during which up to 182,000 persons were killed. Up to 1 million of the 4 million inhabitants of Iraqi Kurdistan were internally displaced;
- Repeated use of chemical weapons by the Iraqi regime against Kurdish civilians. The best known instance was the murder of around 5,000 civilians in Halabja on March 16, 1988. Chemical weapons were used against civilians in an estimated 200 locations;
- An estimated 16 million landmines had rendered large areas of Iraqi Kurdistan uninhabitable and continued to claim the lives of scores of civilians every year;
- In addition, Iraqi Kurdistan was under multiple embargoes. It was under UN sanctions, a boycott imposed by Saddam's regime and intermittent embargoes imposed by the regional states.

As a result, Iraqi Kurdistan was allocated 13% of the value of goods from Iraqi oil revenues sold under OFF. The UN Security Council earmarked money for the Kurds to prevent Saddam's regime discriminating against the Kurds.

Despite the best efforts of the United States and the UK, the UN Secretariat immediately set up OFF in a manner that ensured that the process was cumbersome and bureaucratic. The structure of implementation of OFF was of the UN Secretariat's making, not, as some UN officials have claimed, the responsibility of the Security Council.

In addition, UN staff repeatedly showed a marked bias against the Kurds. For too many UN staff, the Kurds were to be treated with suspicion because they were enemies of Saddam's regime and because they are the friends of the United States. The OIP appeased Saddam's regime by excluding Americans and Britons and by hiring nationals from Arab countries.

We noted these problems early on and in March 1999 we complained to the UN. We always found a sympathetic hearing from our friends in the United States and the UK, but the UN generally responded with contempt. Benon Sevan, the head of OIP, told Jeffrey Goldberg of *The New Yorker* in March 2002:

"If they [i.e. the Kurds] had a theme song, it would be 'Give Me, Give Me, Give Me,'" Sevan said.<sup>1</sup>

Let me give you a few examples of what we wanted the UN to give us:

- A new general hospital for the city of Sulaimani, which has around 750,000 inhabitants. The current situation is that we have three small hospitals none of which is suitable for an urban center the size of Sulaimani, a city that also

<sup>1</sup>THE GREAT TERROR by JEFFREY GOLDBERG Issue of 2002–03–25 Posted 2002–03–25 available at: <http://newyorker.com/fact/content/?020325fa—FACT1> (last accessed April 25, 2004).



houses many of those who were ethnically cleansed by Saddam's regime from Kirkuk during the years following 1991. Funds for the Sulaimani General Hospital were allocated in 1998, but six years on the hospital has yet to be built. The UN body responsible was the World Health Organization (WHO), with specific authority for this project delegated to its East Mediterranean Regional Office (EMRO). WHO-EMRO is headed by Dr Hussein Abdel-Razzak Al Gezairy, the regional director who has been in his job since 1982;

- Disposable surgical gloves for the maternity hospital in Sulaimani. During 2002 the hospital was receiving no more than 2,000 gloves per month when it needed 10,000;
- A diagnostic and oncology facility for Iraqi Kurdistan. The lack of any such facility prevented the proper treatment of cancer in Iraqi Kurdistan, another "achievement" of WHO-EMRO;
- A program of demining. Instead, little money was allocated to demining and the problem of landmines continues to blight Iraqi Kurdistan. We estimate that no more than 10% of the mined that Saddam's regime had laid in Iraqi Kurdistan were removed.

A key problem with OFF was that procurement was in the hands of the Iraqi regime, which meant that Baghdad was ordering humanitarian goods for the Kurdish 13% account. The excuse used by OIP was that this created economies of scale. In reality, the result was:

- A poor quality procurement;
- A process that gave Saddam's regime another opportunity corrupt the system;
- Ample opportunities for Saddam to use procurement as a political tool with which to punish Iraqi Kurdistan.

An example of the poor implementation of OFF came in early 2001. A shipment of wheat flour arrived at the Jordanian-Iraqi border. As per UN regulations, a sample was taken and sent to a laboratory in Jordan for quality control. In the meantime, as per UN regulations and in order not to interrupt the supply of food, the shipment was sent to Iraqi Kurdistan and was distributed to the population. Several weeks later, however, a laboratory report came back reporting excess levels of contamination. A junior UN official suggested that the UN immediately issue public announcements warning the population and telling them they would receive replacement rations. This official's suggestion was overruled.

Given the problems that we were having, UNOPS proposed to OIP that the UN agencies share its humanitarian project assessments and evaluations with the Kurdistan Regional Government. OIP specifically refused to allow this.

Despite all these problems, Iraqi Kurdistan demonstrably used its meagre share of OFF goods more efficiently than the Iraqi regime. While Saddam's regime, with the backing of UNICEF, claimed that infant mortality was rising in the 15 provinces under his control, in Iraqi Kurdistan infant mortality actually fell.

OIP was quick to assist Saddam's regime with goods paid for by the 59% account (which covered the 15 provinces under his control). The best known example of the absurd lengths to which OIP went in its appeasement of Saddam's regime was its decision in 2002 to allocate, with the full approval of the Secretary-General, \$20m towards building an Olympic Stadium for Uday Saddam Hussein, the sadistic elder son of the Iraqi dictator. That was the sad result of OFF, no hospitals for the Kurds, money for Uday.

The delays in spending money allocated to the 13% account meant that so many vital goods never arrived that in the end we received just 7% of the value of humanitarian goods. Instead of preventing discrimination, a key aim of UN Security Council Resolution 986, OFF proved to be yet another act of discrimination against the Kurds.

- The total value of humanitarian goods to the Kurdish 13% account should have been around \$8.4bn (13% of the \$64.4bn of UN declared Iraqi oil sales);
- Iraqi Kurdistan, according to our calculations, received goods worth only around \$4.4bn (6.8% of the \$64.4bn of UN declared Iraqi oil sales);
- The UN Secretariat admitted in July 2003 that there was \$1.6bn in cash of unspent 13% account money (2.5% of the \$64.4bn of UN declared Iraqi oil sales, or close to one-fifth of the money owed to the Iraqi Kurds);
- Iraqi Kurdistan is therefore owed some \$4bn in OFF humanitarian goods. Thus far, projects with a value of \$750m (0.9% of the \$64.4bn of UN declared Iraqi oil sales have been handed over to the Office of Project Coordination,

a body set up by the Kurdistan Regional Government and the Coalition Provisional Authority.

What should come next? We propose:

- A full and independent inquiry into OFF that is entirely separate from the UN. The current inquiry and its remit is inadequate to the task;
- All OFF funds and purchases must be fully accounted for under the auspices of a genuinely independent and external audit. A full statement of must be delivered by OIP for the Kurdish 13% account. We hope that you will fully support our request for what is rightfully ours;
- Iraqi Kurdistan should receive all withheld OFF funds, with interest, and be compensated for delayed good deliveries. It is not right that the US taxpayer be asked to take up the burden created by the incompetence and corruption that was rife in OFF.

#### THE UN OIL FOR FOOD PROGRAM (OFF) AND THE IRAQI KURDS

##### 1. *How OFF was supposed to work*

To alleviate the effect of UN sanctions imposed in 1990, the UN and the Iraqi regime agreed OFF. A key official negotiating OFF was the then UN Under Secretary-General, Kofi Annan. OFF was set up by UN Security Council Resolution 986, passed in 1995 (UNSCR 986/1995, appendix 1) which stipulated that Iraq only be sold oil was under UN supervision. Humanitarian goods were then to be supplied to the areas of Iraq under the Iraqi regime's control and to the three northern governorates of Iraqi Kurdistan.

The oil revenues were divided up into four streams:

- 59% for humanitarian goods to be delivered to the areas of Iraq under Saddam's control;
- 13% for humanitarian goods to be delivered to Iraqi Kurdistan;
- 3% to cover UN administrative costs (of which 2.2% OFF and 0.8% arms inspections);
- 25% to be paid in compensation for the Iraqi invasion of Kuwait.

Implementation of OFF was regulated by the Memorandum of Understanding (MOU) between the UN and the Iraqi regime and the KRG (appendix 2). OFF was run by the UN Office of the Iraq Program (OIP), headed by Benon Sevan.<sup>2</sup>

Humanitarian goods were defined in the MOU paragraph 5 of Section II (appendix 2) as: "medicine, health supplies, foodstuffs and materials and supplies for essential civilian needs." Although nothing like the full allocation of goods was ever delivered to Iraqi Kurdistan, the definition of humanitarian goods was stretched to include funding for "Project of construction of olympic sports city" (sic).<sup>3</sup> The cost of the project was \$20m.<sup>4</sup> Sports in Iraq were under the control of Saddam Hussein's older son, Uday.

#### EXECUTIVE SUMMARY

##### *Key concerns*

- The UN Oil-for-Food programme (OFF) failed to deliver the promised benefits to the citizens of Iraq. In particular the population of the three northern governorates of Iraqi Kurdistan (Dohuk, Suleimani and Irbil, henceforth Iraqi Kurdistan) never received their full allocation of OFF humanitarian goods;
- Iraqi Kurdistan was allocated 13% of the value of goods from Iraqi oil revenues sold under OFF. The total value of humanitarian goods to the Kurdish 13% ac-

<sup>2</sup> Office of the Iraq Programme Oil-for-Food, homepage <http://www.un.org/Depts/oip/> (last accessed April 11, 2004).

<sup>3</sup> Borad (sic) OF Youth and Sports M.O.U (phase 11), 13-05-00034 SECT(34) Project of construction of olympic sports city Including :Architecture works Civil works Electrical works Mechanical works All other requirements, available at <http://www.un.org/Depts/oip/dp/dp11/13-05.pdf> (last accessed April 11, 2004).

<sup>4</sup> ANNEX III [Original: English] Distribution plan for phase XII Submitted by the government of Iraq to the Secretary-General in accordance with the memorandum of understanding of 20 May 1996 and Security Council resolution 1409 (2002) paragraph 237 "\$20 million will be allocated for the construction of the Olympic stadium which include several electrical and mechanical works as well as sanitary installations. In addition, this amount will be utilized for the importation of equipment sets, air conditioning sets, communication networks and electronic computers." Available at <http://www.un.org/Depts/oip/dp/dp12/execsummary.pdf> (last accessed April 11, 2004)

count should have been equal to \$8.4bn. The international community earmarked money for the Kurds to safeguard against Saddam's regime discriminating against the Kurds and in recognition of the disproportionate suffering of Iraqi Kurdistan during the years of Saddam's rule;

- In practise, Iraqi Kurdistan received goods worth only around \$4.4bn (6.8% of Iraqi oil revenues);
- Iraqi Kurdistan is therefore owed some \$4bn in OFF goods;
- OFF often maintained large cash balances of up to \$12bn. Interest earnings on these cash balances, and in particular on the value of goods owed to Iraqi Kurdistan, have not been accounted for;
- OFF failed to protect Iraqi Kurdistan against the kind of Arab nationalist discrimination against the Kurds that the Iraqi state had practiced for decades. Instead, OFF became a vehicle for discrimination by withholding humanitarian goods from the Kurds;
- Iraqi Kurdistan did not receive its full OFF allocation because of political manipulation by the Iraqi regime, with which the UN was complicit, UN inefficiencies and UN political bias;
- Iraqi Kurdistan demonstrably used its meagre share of OFF goods more efficiently than the Iraqi regime.

#### *Recommendations*

- Iraqi Kurdistan is now a recognised legal entity within the framework of the Transitional Administrative Law (TAL) and, along with the government of Iraq, may be in a position to take legal action to recover what it is owed from OFF.
- There must be a full and independent inquiry into OFF that is entirely separate from the UN
- All OFF funds and purchases must be fully accounted for under the auspices of a genuinely independent and external audit;
- Iraqi Kurdistan should receive all withheld OFF funds, with interest, and be compensated for delayed good deliveries.

#### ANALYSIS

##### *1. How OFF was supposed to work*

To alleviate the effect of UN sanctions imposed in 1990, the UN and the Iraqi regime agreed OFF. A key official negotiating OFF was the then UN Under Secretary-General, Kofi Annan. OFF was set up by UN Security Council Resolution 986, passed in 1995 (UNSCR 986/1995, appendix 1) which stipulated that Iraq only be sold oil was under UN supervision. Humanitarian goods were then to be supplied to the areas of Iraq under the Iraqi regime's control and to the three northern governorates of Iraqi Kurdistan.

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<sup>5</sup>Office of the Iraq Programme Oil-for-Food, homepage <http://www.un.org/Depts/oip/> (last accessed April 11, 2004).

<sup>6</sup>Borad (sic) OF Youth and Sports M.O.U (phase 11), 13-05-00034 SECT(34) Project of construction of olympic sports city Including :Architecture works Civil works Electrical works Mechanical works All other requirements, available at <http://www.un.org/Depts/oip/dp/dp11/13-05.pdf> (last accessed April 11, 2004).

of the project was \$20m.<sup>7</sup> Sports in Iraq were under the control of Saddam Hussein's older son, Uday.

## 2. OFF and the KRG

Iraqi Kurdistan is governed by the Kurdistan Regional Government (KRG) with two administrations. One administration is based in Irbil and is majority controlled by the Kurdistan Democratic Party (KDP). The other in Suleimani is majority controlled by the Patriotic Union of Kurdistan (PUK). Although each administration has its own ministries for social services, the two administrations integrated their operations for OFF.

The KRG authorities have been providing comprehensive public services to their populations since 1992. These include healthcare, education, personal security and social services to approximately four million Iraqi citizens in Iraqi Kurdistan, a region the size of Vermont.

Although the KRG authorities provided essential support services for the implementation of OFF projects, they never received their administrative costs associated with running these public services from OFF. Instead, the KRG was responsible for paying salaries of all schoolteachers, doctors, health care workers and public utility employees, as well as covering the costs of law enforcement duties. This was done by raising revenues through local duties and taxes. The burden on the KRG of administrative costs was higher than for the Iraqi regime because:

- the Iraqi regime imposed a blockade of Iraqi Kurdistan in violation of its undertakings. The MOU (MOU paragraph 5 in Section II, see appendix 2) had clearly stated that the Iraqi regime “throughout the country” would “effectively guarantee equitable distribution” of “medicine, health supplies, foodstuffs and materials and supplies for essential civilian needs.” Instead, there was intermittent withholding of petrol supplies (appendix 8)
- there were embargoes applied by regional states specifically against Iraqi Kurdistan;
- the KRG had incurred the additional costs of having to start their administrations from scratch after the Iraqi regime withdrew its administration from Iraqi Kurdistan in October 1991.

## 3. How OFF withheld money to Iraqi Kurdistan

The supposed 13% in revenues from OFF equalled only 6.8% because of Iraqi regime obstruction that the UN facilitated and abetted. The UN Security Council mandated that 13% of Iraqi oil revenues were to provide humanitarian goods for Iraqi Kurdistan. Due to Iraqi obstruction, aided and abetted by the UN, goods worth only 6.8% of revenues were delivered.

The KRG realised early on that OFF was not working well and sent a memorandum to the UN in 1999 (appendix 3).

The Iraqi regime held up spending in Iraqi Kurdistan and discriminated against the region by:

- delaying or impeding the flow of materials and technical experts to Iraqi Kurdistan;
- refusing to issue visas to UN staff and experts. Under the MOU staff working for OFF had “the right of unimpeded entry into and exit from Iraq” and that visas be issued “promptly and free of charge” (MOU paragraph 46 in Section VIII, see appendix 2). The Iraqi regime frequently violated this obligation, a violation that the UN failed to address;
- refusing to allow a power station to be built in Iraqi Kurdistan;
- preventing supplies of vital goods. For example, during 2002, the chief maternity hospital in Suleimani was receiving no more than 2,000 surgical gloves per month when 10,000 were required (see appendix 7);
- exploiting the mention in UNSCR 986/1995 and the 1995 Memorandum of Understanding of the UN's support for “the sovereignty and territorial integrity of Iraq” to hold up spending Iraqi Kurdistan because of the alleged sepa-

<sup>7</sup> ANNEX III [Original: English] Distribution plan for phase XII Submitted by the government of Iraq to the Secretary-General in accordance with the memorandum of understanding of 20 May 1996 and Security Council resolution 1409 (2002) paragraph 237 “\$20 million will be allocated for the construction of the Olympic stadium which include several electrical and mechanical works as well as sanitary installations. In addition, this amount will be utilized for the importation of equipment sets, air conditioning sets, communication networks and electronic computers.” Available at <http://www.un.org/Depts/oip/dp/dp12/execsummary.pdf> (last accessed April 11, 2004)

ratism of the Iraqi Kurds. In fact, the KRG never declared independence and continued to use Iraqi currency and regard themselves as part of Iraq;

- recruiting UN staff to help Iraqi intelligence. In one case a Tunisian working for the UN was caught with explosives in his car while in Iraqi Kurdistan. Iraqi intelligence sabotaged the work of those UN personnel and offices that they could not suborn. Iraqi intelligence appears to have been behind the murder in 1998 of Nicholas Speight, a New Zealander working for UNOPS on de-mining;
- failing to allow necessary equipment, such as large number of de-mining equipment,;
- refusing to provide UN with map/records of the mine fields and a continuous targeted campaign against the UN program in the region;

The UN participated in withholding spending from the 13% account for Iraqi Kurdistan through:

- the employment of poor quality staff, personnel who clearly lacked expertise in their respective fields and who undertook inferior and wasteful procurement policies (appendix 4);
- delaying implementation of the building of a hospital in Suleimani, a city of 700,000 that still does not have a proper general hospital. Funds were allocated in 1998 but the hospital has yet to be built. The official responsible was Dr Hussein Abdel-Razzak Al Gezairy, the regional director of the World Health Organization (WHO) East Mediterranean Regional Office (EMRO).<sup>8</sup> Foreign and Kurdish doctors protested about the behaviour of the UN with regard to hospitals in a letter in 2002 (appendices 3 and 5);
- the absence of proper and adequate consultation with the local authorities;
- the lack of proper co-coordinating procedure by the various UN agencies among themselves;
- a poorly thought out the general concept and management of OFF from inception. Secretary-General Annan received a recommendation from UNOPS, the only self-financing UN agency which undertakes project-management services, to create one sole agency to run OFF. The sole agency recommended by UNOPS would have set policy, implemented the program and dealt with the Iraqi partners directly. Instead, the Secretary-General set up the Office of the Iraq Program (OIP) in New York and a coordinating office known as the UN Humanitarian Coordinator for Iraq (UNOCHI). UNOCHI reported to OIP. Also reporting to OIP, but working side by side to UNOCHI, were nine separate UN agencies, each of which in turn delegated the work to their Middle East regional offices which in turn dealt with the Iraqi partners;
- excessive bureaucracy that caused needless delays in carrying out already agreed projects;
- allowing the Iraqi regime to dictate hiring policies. There was a tacit agreement between OIP and the Iraqi regime that none of the foreign UN staff would be either British or American nationals. In addition, the OIP and UN agencies deliberately refused to employ any Kurd among its international staff, even though there are many well-known Kurds working within the UN system with valuable expertise on Iraq. The result was that a large number of staff from Arab countries, France and Russia ended up dominating the programme. Many of these staff members were openly hostile to the Iraqi Kurds. The actual programme heads of OFF ended up becoming lobbyists against the very sanction that the UN sought to enforce.

The UN gave itself a clear financial incentive to add bureaucracy to OFF through its very high 2.2% administrative fee. The size of the fee was entirely unjustified and has been widely condemned. One experienced oil executive, Edward C. Chow,<sup>9</sup> a visiting scholar at the Carnegie Endowment for International Peace, a Washington D.C. think tank, stated on April 17, 2003 that:

<sup>8</sup>Profile of Dr Hussein Abdel-Razzak Al Gezairy available at <http://www.emro.who.int/rd/biography.htm> (last accessed April 10, 2004). Dr Al Gezairy has been regional director since 1982.

<sup>9</sup>Biography available at <http://www.ceip.org/files/about/Staff.asp?r=171> (last accessed April 10, 2004).

“The U.N. Oil-for-Food Program currently takes an administrative cost margin of 2½ percent. That is enormous. I mean, that is absolutely huge. . . . That is outrageous.”<sup>10</sup>

Despite these obstacles, the KRG used the 6.8% goods that were handed over more efficiently than the 59% of oil revenues given to the Iraqi regime. For example, infant mortality in Iraqi Kurdistan dropped despite the UN sanctions, regional sanctions and the Kurdish civil war.

OFF also undermined the economy of Iraqi Kurdistan and continued the Iraqi regime policy of destroying Kurdish agriculture. During the 1980s Iraq had imported large quantities of foreign wheat even though wheat could be grown at a far lower cost in Iraqi Kurdistan. OFF engaged in the blanket distribution of free food. This prevented the rehabilitation of Iraqi Kurdistan’s agricultural sector. Farmers had no local market in which to sell agricultural products, which forced down prices and kept unemployment higher than necessary.

The end result of UN and Iraqi regime obstruction was that by the time of the Iraq war in March 2003, Iraqi Kurdistan was owed an estimated \$4bn or 47.6% of the value of goods that should have been delivered to Iraqi Kurdistan.

#### 4. *How the UN deliberately made OFF unaccountable*

The UN took immediate advantage of the impending hostilities in early 2003 to come up with a plan that would allow it to mingle monies in the 59% and 13% accounts. The logic of the plan was that the Iraq war would lead to a humanitarian catastrophe. The UN would therefore need immediate access to cash to provide humanitarian relief to Iraqis. The UN therefore planned to take unspent 13% account money and use it as it saw fit. The convenient result would be that full accounting for unspent 13% account money would become extremely difficult.

The two Kurdish leaders, Massoud Barzani of the KDP and Jalal Talabani of the PUK, wrote to Mr Annan on February 10, 2003 to protest at plans to merge the 13% and 59% accounts. They never received a reply to their letter (appendix 9).

##### 4.i. *UNSCR 1472/2003*

Kofi Annan then wrote to the UN Security Council in March 2003 proposing the very plan that the Kurdish leaders had decried a month earlier. The Security Council Resolution put this plan into effect with UNSCR 1472/2003, passed during Operation Iraqi Freedom on March 28, 2003 (appendix 10) which:

- authorized the UN Secretary General to assume responsibility for the implementation of the OFF program for forty-five days;
- allowed the UN Secretary General to move money between the 13% and 59% accounts;
- institutionalised the misuse of revenues destined for Iraqi Kurdistan. Existing unspent revenue, most of which came from the 13% account, could be spent as the UN Secretary General saw fit. Clause 4 (f) stated that the money could be spent: “irrespective of the phase in which such funds entered the escrow accounts or the phase to which those funds may have been allocated.” Clause 4 (f) clearly related to unspent by Kurdish 13% account money as there was little unspent money in the 59% account;
- further diminished accountability. The transfer between the 13% and 59% accounts was to be “on an exceptional and reimbursable basis” but there was no appropriate stipulation given as to the manner and timing of the reimbursement.

The Iraq war proved to be brief. There were no large refugee movements, shortages of food or epidemics. The provision in UNSCR 1472/2003 to allow for the 13% and 59% accounts to be merged was therefore redundant. Despite this, the UN Secretariat sought permission to keep OFF going under the new rules. The KRG representation at the UN warned against any measures which would leave OFF unaccountable and which might make it difficult to trace 13% account money (appendix 11). Again the UN paid no heed to the views of the KRG.

During post-war negotiations on a new UNSCR to potentially lift sanctions, and so end the need for OFF, the UN Secretariat asked UN Security Council to prolong the life of OFF. OFF was temporarily suspended on March 17, 2003 when the UN pulled its staff out of Iraq. UNSCR 1472/2003 of March 28, 2003 kept OFF going

<sup>10</sup>Carnegie Endowment for International Peace, “BRIEFING ON IRAQ’S FUTURE: WHAT NOW?” Transcript available at: <http://www.ceip.org/files/events/2003-04-18-iraq-future-tscript.asp> (last accessed April 10, 2004).

for a further 45 days. Benon Sevan, the executive director of OIP, was forced to admit to a closed meeting of UN Security Council on April 22, 2003 that:

- 11 of these 45 days had been taken up with dealing with procedural matters;
- that just \$454.6 million in contracts had been processed by OFF out of what he estimated was \$10 billion in contracts

As OFF was to end on May 12, 2003, Mr Sevan sought and received permission for a three-week prolongation to OFF. The UN Security Council unanimously agreed to keep OFF going until June 3, 2003.

*4.ii. UNSCR 1483/2003*

After some weeks of negotiation, during which countries which had opposed the liberation of Iraq and had criticized sanctions threatened to keep sanctions in place, the UN decided to lift most of the sanctions that had been imposed by UNSCR 661/1990, with UNSCR 1483/2003 (appendix 12) on May 22, 2003 (there was a follow up resolution, UNSCR 1500/2003 available at appendix 13).

At the recommendation of the UN Secretary-General, UNSCR 1483/2003 stipulated that:

- remaining funds of the 13% account allocated to Iraqi Kurdistan were to be put into the Development Fund for Iraq, DFI (clause 16 d) which the Coalition had set up to succeed OFF;
- OFF was to be closed down six months after the resolution on November 21, 2003.

The issue of the unspent 13% account money was not addressed.

*4.iii. UN admission that it held \$1.6 billion in Kurdish cash*

The extent to which the UN had failed Iraqi Kurdistan started to come into the open during the summer of 2003. In a joint article in *The New York Times* ("What Iraq Needs Now" July 9, 2003), Massoud Barzani and Jalal Talabani stated that:

"It is a scandal that \$4 billion destined for the Kurds sits, unused, in a United Nations-controlled French bank account because of past obstruction by Saddam Hussein and the present incompetence of the United Nations bureaucracy."

In reply, Edward Mortimer, Director of Communications for the UN Secretary General in a letter dated July 11, 2003 "UN and Iraqi Kurds" (*The New York Times* July 14, 2003) stated that:

"In fact, as of May 22, when the Security Council adopted Resolution 1483, there was only \$1.6 billion in uncommitted funds in the account for the Kurdish-controlled area."

The statement about the "\$1.6 billion in uncommitted funds" (i.e. cash) was an admission that 19% of the money due to Iraqi Kurdistan had not been spent on humanitarian goods as was promised.

*4.iv. UNSCR 1511/2003 and OFF project handover*

UNSCR 1511/2003 of October 8, 2003 (appendix 14) gave recognition to the Iraqi Governing Council (IGC). UNSCR 1511/2003 stated in clause 4 that:

"the Governing Council and its ministers are the principal bodies of the Iraqi interim administration, which, without prejudice to its further evolution, embodies the sovereignty of the State of Iraq during the transitional period until an internationally recognized, representative government is established and assumes the responsibilities of the Authority [Coalition Provisional Authority]."

The recognition of the IGC meant that for the first time the Kurds ended up fully in charge of their OFF projects. When OFF was closed the UN handed over all OFF projects to the Coalition Provisional Authority (CPA), which then gave them to the IGC. All Iraqi Kurdistan 13% projects were given by the IGC to the KRG Office of Project Coordination (OPC) in Irbil.<sup>11</sup> The total value of projects under OPC is just \$750 million, of which not one penny had been allocated to de-mining.

OPC is precisely the structure that OFF should have adopted from the beginning but did not. OPC is a professional, streamlined business-style framework that is independent of the KRG but that has the full support of the KRG and operates according to international norms of accountability and transparency.

<sup>11</sup>The Office of Project Coordination website is <http://www.opc-krq.net/> (last accessed April 20, 2004).

Significantly, OPC is headed by Dr. Akram Jaff, a former Middle East Director of FAO (a UN agency). Dr. Jaff was never employed or consulted by OIP during the operation of OFF, despite his obvious expertise in the field of humanitarian affairs and, in particular, Iraqi Kurdistan.

*4.v. The lack of accounting*

The UN handover of OFF to CPA has been grossly inadequate. For example, not a simple bank statement has been given by the UN in New York to CPA or the IGC.<sup>12</sup>

With regard to the 13% Iraqi Kurdistan account, the situation is even more unsatisfactory. Of the \$4 billion that is likely owed to Iraqi Kurdistan:

- just \$750 million in money committed to humanitarian goods and humanitarian projects has been given to OPC;
- the \$1.6 billion in “uncommitted funds” (i.e. cash) has not been accounted;
- the balance of the likely \$4 billion owed to Iraqi Kurdistan is \$1.65 billion. This money remains unaccounted for;
- there is no explanation as to what has happened to interest earnings on any of the unused 13% account monies.

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APPENDICES

APPENDIX 1

UNITED NATIONS SECURITY COUNCIL RESOLUTION 986 (1995)  
APRIL 14 1995

The Security Council,

Recalling its previous relevant resolutions,

Concerned by the serious nutritional and health situation of the Iraqi population, and by the risk of a further deterioration in this situation,

Convinced of the need as a temporary measure to provide for the humanitarian needs of the Iraqi people until the fulfilment by Iraq of the relevant Security Council resolutions, including notably resolution 687 (1991) of 3 April 1991, allows the Council to take further action with regard to the prohibitions referred to in resolution 661 (1990) of 6 August 1990, in accordance with the provisions of those resolutions,

Convinced also of the need for equitable distribution of humanitarian relief to all segments of the Iraqi population throughout the country,

Reaffirming the commitment of all Member States to the sovereignty and territorial integrity of Iraq,

Acting under Chapter VII of the Charter of the United Nations,

1. Authorizes States, notwithstanding the provisions of paragraphs 3 (a), 3 (b) and 4 of resolution 661 (1990) and subsequent relevant resolutions, to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of one billion United States dollars every 90 days for the purposes set out in this resolution and subject to the following conditions:

(a) Approval by the Committee established by resolution 661 (1990), in order to ensure the transparency of each transaction and its conformity with the other provisions of this resolution, after submission of an application by the State concerned, endorsed by the Government of Iraq, for each proposed purchase of Iraqi petroleum and petroleum products, including details of the purchase price at fair market value, the export route, the opening of a letter of credit payable to the escrow account to be established by the Secretary-General for the purposes of this resolution, and of any other directly related financial or other essential transaction;

(b) Payment of the full amount of each purchase of Iraqi petroleum and petroleum products directly by the purchaser in the State concerned into the escrow account to be established by the Secretary-General for the purposes of this resolution;

2. Authorizes Turkey, notwithstanding the provisions of paragraphs 3 (a), 3 (b) and 4 of resolution 661 (1990) and the provisions of paragraph 1 above, to permit the import of petroleum and petroleum products originating in Iraq sufficient, after the deduction of the percentage referred to in paragraph 8 (c) below for the Compensation Fund, to meet the pipeline tariff charges, verified as reasonable by the

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<sup>12</sup>Claudia Rosett “Turtle Bay’s Carnival of Corruption: Digging deeper into the scandalous Oil-for-Food program”, *National Review Online*, March 21, 2004, <http://www.nationalreview.com/comment/rosett200403212155.asp> (last accessed April 12, 2004).



independent inspection agents referred to in paragraph 6 below, for the transport of Iraqi petroleum and petroleum products through the Kirkuk-Yumurtalik pipeline in Turkey authorized by paragraph 1 above;

3. Decides that paragraphs 1 and 2 of this resolution shall come into force at 00.01 Eastern Standard Time on the day after the President of the Council has informed the members of the Council that he has received the report from the Secretary-General requested in paragraph 13 below, and shall remain in force for an initial period of 180 days unless the Council takes other relevant action with regard to the provisions of resolution 661 (1990);

4. Further decides to conduct a thorough review of all aspects of the implementation of this resolution 90 days after the entry into force of paragraph 1 above and again prior to the end of the initial 180 day period, on receipt of the reports referred to in paragraphs 11 and 12 below, and expresses its intention, prior to the end of the 180 day period, to consider favourably renewal of the provisions of this resolution, provided that the reports referred to in paragraphs 11 and 12 below indicate that those provisions are being satisfactorily implemented;

5. Further decides that the remaining paragraphs of this resolution shall come into force forthwith;

6. Directs the Committee established by resolution 661 (1990) to monitor the sale of petroleum and petroleum products to be exported by Iraq via the Kirkuk-Yumurtalik pipeline from Iraq to Turkey and from the Mina al-Bakr oil terminal, with the assistance of independent inspection agents appointed by the Secretary-General, who will keep the Committee informed of the amount of petroleum and petroleum products exported from Iraq after the date of entry into force of paragraph 1 of this resolution, and will verify that the purchase price of the petroleum and petroleum products is reasonable in the light of prevailing market conditions, and that, for the purposes of the arrangements set out in this resolution, the larger share of the petroleum and petroleum products is shipped via the Kirkuk-Yumurtalik pipeline and the remainder is exported from the Mina al-Bakr oil terminal;

7. Requests the Secretary-General to establish an escrow account for the purposes of this resolution, to appoint independent and certified public accountants to audit it, and to keep the Government of Iraq fully informed;

8. Decides that the funds in the escrow account shall be used to meet the humanitarian needs of the Iraqi population and for the following other purposes, and requests the Secretary-General to use the funds deposited in the escrow account:

(a) To finance the export to Iraq, in accordance with the procedures of the Committee established by resolution 661 (1990), of medicine, health supplies, foodstuffs, and materials and supplies for essential civilian needs, as referred to in paragraph 20 of resolution 687 (1991) provided that:

(i) Each export of goods is at the request of the Government of Iraq;

(ii) Iraq effectively guarantees their equitable distribution, on the basis of a plan submitted to and approved by the Secretary-General, including a description of the goods to be purchased;

(iii) The Secretary-General receives authenticated confirmation that the exported goods concerned have arrived in Iraq;

(b) To complement, in view of the exceptional circumstances prevailing in the three Governorates mentioned below, the distribution by the Government of Iraq of goods imported under this resolution, in order to ensure an equitable distribution of humanitarian relief to all segments of the Iraqi population throughout the country, by providing between 130 million and 150 million United States dollars every 90 days to the United Nations Inter-Agency Humanitarian Programme operating within the sovereign territory of Iraq in the three northern Governorates of Dihouk, Arbil and Suleimaniyeh, except that if less than one billion United States dollars worth of petroleum or petroleum products is sold during any 90 day period, the Secretary-General may provide a proportionately smaller amount for this purpose;

(c) To transfer to the Compensation Fund the same percentage of the funds deposited in the escrow account as that decided by the Council in paragraph 2 of resolution 705 (1991) of 15 August 1991;

(d) To meet the costs to the United Nations of the independent inspection agents and the certified public accountants and the activities associated with implementation of this resolution;

(e) To meet the current operating costs of the Special Commission, pending subsequent payment in full of the costs of carrying out the tasks authorized by section C of resolution 687 (1991);

(f) To meet any reasonable expenses, other than expenses payable in Iraq, which are determined by the Committee established by resolution 661 (1990) to be directly related to the export by Iraq of petroleum and petroleum products permitted under

paragraph 1 above or to the export to Iraq, and activities directly necessary therefor, of the parts and equipment permitted under paragraph 9 below;

(g) To make available up to 10 million United States dollars every 90 days from the funds deposited in the escrow account for the payments envisaged under paragraph 6 of resolution 778 (1992) of 2 October 1992;

9. Authorizes States to permit, notwithstanding the provisions of paragraph 3 (c) of resolution 661 (1990):

(a) The export to Iraq of the parts and equipment which are essential for the safe operation of the Kirkuk-Yumurtaalik pipeline system in Iraq, subject to the prior approval by the Committee established by resolution 661 (1990) of each export contract;

(b) Activities directly necessary for the exports authorized under subparagraph (a) above, including financial transactions related thereto;

10. Decides that, since the costs of the exports and activities authorized under paragraph 9 above are precluded by paragraph 4 of resolution 661 (1990) and by paragraph 11 of resolution 778 (1991) from being met from funds frozen in accordance with those provisions, the cost of such exports and activities may, until funds begin to be paid into the escrow account established for the purposes of this resolution, and following approval in each case by the Committee established by resolution 661 (1990), exceptionally be financed by letters of credit, drawn against future oil sales the proceeds of which are to be deposited in the escrow account;

11. Requests the Secretary-General to report to the Council 90 days after the date of entry into force of paragraph 1 above, and again prior to the end of the initial 180 day period, on the basis of observation by United Nations personnel in Iraq, and on the basis of consultations with the Government of Iraq, on whether Iraq has ensured the equitable distribution of medicine, health supplies, foodstuffs, and materials and supplies for essential civilian needs, financed in accordance with paragraph 8 (a) above, including in his reports any observations he may have on the adequacy of the revenues to meet Iraq's humanitarian needs, and on Iraq's capacity to export sufficient quantities of petroleum and petroleum products to produce the sum referred to in paragraph 1 above;

12. Requests the Committee established by resolution 661 (1990), in close coordination with the Secretary-General, to develop expedited procedures as necessary to implement the arrangements in paragraphs 1, 2, 6, 8, 9 and 10 of this resolution and to report to the Council 90 days after the date of entry into force of paragraph 1 above and again prior to the end of the initial 180 day period on the implementation of those arrangements;

13. Requests the Secretary-General to take the actions necessary to ensure the effective implementation of this resolution, authorizes him to enter into any necessary arrangements or agreements, and requests him to report to the Council when he has done so;

14. Decides that petroleum and petroleum products subject to this resolution shall while under Iraqi title be immune from legal proceedings and not be subject to any form of attachment, garnishment or execution, and that all States shall take any steps that may be necessary under their respective domestic legal systems to assure this protection, and to ensure that the proceeds of the sale are not diverted from the purposes laid down in this resolution;

15. Affirms that the escrow account established for the purposes of this resolution enjoys the privileges and immunities of the United Nations;

16. Affirms that all persons appointed by the Secretary-General for the purpose of implementing this resolution enjoy privileges and immunities as experts on mission for the United Nations in accordance with the Convention on the Privileges and Immunities of the United Nations, and requires the Government of Iraq to allow them full freedom of movement and all necessary facilities for the discharge of their duties in the implementation of this resolution;

17. Affirms that nothing in this resolution affects Iraq's duty scrupulously to adhere to all of its obligations concerning servicing and repayment of its foreign debt, in accordance with the appropriate international mechanisms;

18. Also affirms that nothing in this resolution should be construed as infringing the sovereignty or territorial integrity of Iraq;

19. Decides to remain seized of the matter.

## APPENDIX 2

IMPLEMENTATION OF SECURITY COUNCIL RESOLUTION 986 (1995) AND THE  
MEMORANDUM OF UNDERSTANDING

MEMORANDUM OF UNDERSTANDING BETWEEN THE SECRETARIAT OF THE UNITED NATIONS AND THE GOVERNMENT OF IRAQ ON THE IMPLEMENTATION OF SECURITY COUNCIL RESOLUTION 986 (1995)

## SECTION I

*General provisions*

1. The purpose of this Memorandum of Understanding is to ensure the effective implementation of Security Council resolution 986 (1995) (hereinafter the Resolution).
2. The Distribution Plan referred to in paragraph 8 (a) (ii) of the Resolution, which has to be approved by the Secretary-General of the United Nations, constitutes an important element in the implementation of the Resolution.
3. Nothing in the present Memorandum should be construed as infringing upon the sovereignty or territorial integrity of Iraq.
4. The provisions of the present Memorandum pertain strictly and exclusively to the implementation of the Resolution and, as such, in no way create a precedent. It is also understood that the arrangement provided for in the Memorandum is an exceptional and temporary measure.

## SECTION II

*Distribution Plan*

5. The Government of Iraq undertakes to effectively guarantee equitable distribution to the Iraqi population throughout the country of medicine, health supplies, foodstuffs and materials and supplies for essential civilian needs (hereinafter humanitarian supplies) purchased with the proceeds of the sale of Iraqi petroleum and petroleum products.
6. To this end, the Government of Iraq shall prepare a Distribution Plan describing in detail the procedures to be followed by the competent Iraqi authorities with a view to ensuring such distribution. The present distribution system of such supplies, the prevailing needs and humanitarian conditions in the various Governorates of Iraq shall be taken into consideration with due regard to the sovereignty of Iraq and the national unity of its population. The plan shall include a categorized list of the supplies and goods that Iraq intends to purchase and import for this purpose on a six-month basis.
7. The part of the Distribution Plan related to the three northern Governorates of Arbil, Dihouk and Suleimaniyeh shall be prepared in accordance with Annex I, which constitutes an integral part of this Memorandum.
8. The Distribution Plan shall be submitted to the Secretary-General of the United Nations for approval. If the Secretary-General is satisfied that the plan adequately ensures equitable distribution of humanitarian supplies to the Iraqi population throughout the country, he will so inform the Government of Iraq.
9. It is understood by the Parties to this Memorandum that the Secretary-General will not be in a position to report as required in paragraph 13 of the Resolution unless the plan prepared by the Government of Iraq meets with his approval.
10. Once the Secretary-General approves the plan, he will forward a copy of the categorized list of the supplies and goods, which constitutes a part of the plan, to the Security Council Committee established by resolution 661 (1990) concerning the situation between Iraq and Kuwait (hereinafter the 661 Committee) for information.
11. After the plan becomes operational, each Party to the present Memorandum may suggest to the other for its consideration a modification to the plan if it believes that such adjustment would improve the equitable distribution of humanitarian supplies and their adequacy.

## SECTION III

*Establishment of the escrow account and audit of that account*

12. The Secretary-General, after consultations with the Government of Iraq, will select a major international bank and establish there the escrow account described in paragraph 7 of the Resolution, to be known as "the United Nations Iraq Account" (hereinafter the "Iraq Account"). The Secretary-General will negotiate the terms of this account with the bank and will keep the Government of Iraq fully informed of his actions in choosing the bank and opening the account. All transactions and deductions mandated by the Security Council under paragraph 8 of the Resolution

shall be made from the "Iraq Account", which will be administered in accordance with the relevant Financial Regulations and Rules of the United Nations.

13. The Iraqi authorities might designate a senior banking official to liaise with the Secretariat of the United Nations on all banking matters relating to the "Iraq Account".

14. In accordance with the United Nations Financial Regulations, the "Iraq Account" will be audited by the Board of Auditors who are external independent public auditors. As provided for in the Regulations, the Board of Auditors will issue periodic reports on the audit of the financial statements relating to the account. Such reports will be submitted by the Board to the Secretary-General who will forward them to the 661 Committee and to the Government of Iraq.

15. Nothing in this Memorandum shall be interpreted to create a liability on the part of the United Nations for any purchase made by the Government of Iraq or any agents acting on its behalf pursuant to the provisions of the Resolution.

#### SECTION IV

##### *Sale of petroleum and petroleum products originating in Iraq*

16. Petroleum and petroleum products originating in Iraq will be exported via the Kirkuk-Yumurtalik pipeline through Turkey and from the Mina al-Bakr oil terminal. The 661 Committee will monitor the exports through those outlets to ensure that they are consistent with the Resolution. Transportation costs in Turkey will be covered by an additional amount of oil, as foreseen in the Resolution and in accordance with procedures to be established by the 661 Committee. The arrangement between Iraq and Turkey concerning the tariffs and payment modalities for the use of Turkish oil installations has been provided to the 661 Committee.

17. Each export of petroleum and petroleum products originating in Iraq shall be approved by the 661 Committee.

18. Detailed provisions concerning the sale of Iraqi petroleum and petroleum products are contained in Annex II, which constitutes an integral part of this Memorandum.

#### SECTION V

##### *Procurement and confirmation procedures*

19. The purchase of medicine, health supplies, foodstuffs, and materials and supplies for essential civilian needs of the Iraqi population throughout the country, as referred to in paragraph 20 of resolution 687 (1991), will, subject to paragraph 20 below, be carried out by the Government of Iraq, will follow normal commercial practice and be on the basis of the relevant resolutions of the Security Council and procedures of the 661 Committee.

20. The purchase of humanitarian supplies for the three northern Governorates of Arbil, Dihouk and Suleimaniyeh, as provided for in the Distribution Plan, will be carried out in accordance with Annex I.

21. The Government of Iraq will, except as provided for in paragraph 20, contract directly with suppliers to arrange the purchase of supplies, and will conclude the appropriate contractual arrangements.

22. Each export of goods to Iraq shall be at the request of the Government of Iraq pursuant to paragraph 8 (a) of the Resolution. Accordingly, exporting States will submit all relevant documentation, including contracts, for all goods to be exported under the Resolution to the 661 Committee for appropriate action according to its procedures. It is understood that payment of the supplier from the "Iraq Account" can take place only for items purchased by Iraq that are included in the categorized list referred to in Section II of the present Memorandum. Should exceptional circumstances arise, applications for the export of additional items may be submitted to the 661 Committee for its consideration.

23. As noted above, the 661 Committee will take action on applications for the export of goods to Iraq in accordance with its existing procedures subject to future modifications under paragraph 12 of the Resolution. The 661 Committee will inform the Government of Iraq, requesting States, and the Secretary-General of the actions taken on the requests submitted.

24. After the 661 Committee has taken action on the applications for export in accordance with its procedures, the Central Bank of Iraq will request the bank holding the "Iraq Account" to open irrevocable letters of credit in favour of the beneficiaries. Such requests shall be referred by the bank holding the "Iraq Account" to the United Nations Secretariat for approval of the opening of the letter of credit by the latter bank, allowing payment from the "Iraq Account" upon presentation of credit-conform documents. The letter of credit will require as condition of payment, inter alia, the submission to the bank holding the "Iraq Account" of the documents

to be determined by the procedures established by the 661 Committee, including the confirmations by the agents referred to in paragraph 25 below. The United Nations, after consultations with the Government of Iraq, shall determine the clause to be inserted in all purchase orders, contracts and letters of credit regarding payment terms from the "Iraq Account". All charges incurred in Iraq are to be borne by the applicant, whereas all charges outside Iraq are for the account of the beneficiary.

25. The arrival of goods in Iraq purchased under the plan will be confirmed by independent inspection agents to be appointed by the Secretary-General. No payments can be made until the independent inspection agents provide the Secretary-General with authenticated confirmation that the exported goods concerned have arrived in Iraq.

26. The independent inspection agents may be stationed at relevant Iraqi entry points, customs areas or other locations where the functions set out in paragraph 27 of this Section can be performed. The number and location of the stationing points for the agents will be designated by the United Nations after consultations with the Government of Iraq.

27. The independent inspection agents will confirm delivery to Iraq of shipments. They will compare the appropriate documentation, such as bills of lading, other shipping documents or cargo manifests, and the documents issued by the 661 Committee, against goods actually arriving in Iraq. They will also have the authority to perform duties necessary for such confirmation, including: quantity inspection by weight or count, quality inspection including visual inspection, sampling, and, when necessary, laboratory testing.

28. The inspection agents will report all irregularities to the Secretary-General and to the 661 Committee. If the problem is related to normal commercial practice (e.g., some shortlanded goods), the 661 Committee and the Government of Iraq are informed, but normal commercial resolution practices (e.g., claims) go forth. If the matter is of serious concern, the independent inspection agents will hold the shipment in question pending guidance from the 661 Committee.

29. As regards the export to Iraq of parts and equipment which are essential for the safe operation of the Kirkuk-Yumurtalik pipeline system in Iraq, the requests will be submitted to the 661 Committee by the national Government of the supplier. Such requests will be considered for approval by the Committee in accordance with its procedures.

30. If the 661 Committee has approved a request in accordance with paragraph 29, the provisions of paragraph 24 shall apply. However, since the supplier can expect payment against future oil sales, as stated in paragraph 10 of the Resolution, the proceeds of which are to be deposited in the "Iraq Account", the bank holding the "Iraq Account" will issue an irrevocable letter of credit stipulating that payment can only be effected when at the time of drawing the "Iraq Account" has sufficient disposable funds and the United Nations Secretariat approves the payment.

31. The requirement of authenticated confirmation of arrival provided for in this Section shall apply also to the parts and equipment mentioned in paragraph 29.

#### SECTION VI

##### *Distribution of humanitarian supplies purchased under the Distribution Plan*

32. The distribution of humanitarian supplies shall be undertaken by the Government of Iraq in accordance with the Distribution Plan referred to in Section II of the present Memorandum. The Government of Iraq will keep the United Nations observation personnel informed about the implementation of the plan and the activities that the Government is undertaking.

33. The distribution of humanitarian supplies in the three northern Governorates of Arbil, Dihouk and Suleimaniyeh shall be undertaken by the United Nations Inter-Agency Humanitarian Programme on behalf of the Government of Iraq under the Distribution Plan with due regard to the sovereignty and territorial integrity of Iraq in accordance with Annex I.

#### SECTION VII

##### *Observation of the equitable distribution of humanitarian supplies and determination of their adequacy*

#### GENERAL PROVISIONS

34. The United Nations observation process will be conducted by United Nations personnel in Iraq under the overall authority of the Department of Humanitarian Affairs at United Nations Headquarters in New York in accordance with the provi-

sions described below. Such observation shall apply to the distribution of humanitarian supplies financed in accordance with the procedures set out in the Resolution.

35. The objectives of the United Nations observation process shall be:

- (a) to confirm whether the equitable distribution of humanitarian supplies to the Iraqi population throughout the country has been ensured;
- (b) to ensure the effectiveness of the operation and determine the adequacy of the available resources to meet Iraq's humanitarian needs.

#### OBSERVATION PROCEDURES

36. In observing the equitable distribution and its adequacy, United Nations personnel will use, inter alia, the following procedures.

##### *Food items*

37. The observation of the equitability of food distribution will be based on information obtained from local markets throughout Iraq, the Iraqi Ministry of Trade, the information available to the United Nations and its specialized agencies on food imports, and on sample surveys conducted by United Nations personnel. The observation will also include the quantity and prices of food items imported under the Resolution.

38. To provide regular updated observation of the most pressing needs, a survey undertaken by United Nations agencies in cooperation with the appropriate Iraqi ministries will serve as a baseline for the continuing observation of nutritional status of the population of Iraq. This information will take account of public health data generated by the Ministry of Health (MOH) and the relevant United Nations agencies.

##### *Medical supplies and equipment*

39. Observation regarding distribution of medical supplies and equipment will focus on the existing distribution and storage system and will involve visits to hospitals, clinics as well as medical and pharmaceutical facilities where such supplies and equipment are stored. Such observation will also be guided by health statistics data from MOH and surveys by relevant United Nations agencies.

##### *Water/sanitation supplies and equipment*

40. Observation of distribution of water/sanitation supplies and equipment will focus on the determination that they are used for their intended purposes. Confirmation will be carried out by collecting data on the incidence of water-borne diseases and by water quality control checks by visits to water and sanitation facilities by representatives of relevant United Nations agencies. In this regard the United Nations will rely on all relevant indicators.

##### *Other materials and supplies*

41. With reference to materials and supplies which do not fall within the three areas indicated above, in particular, those needed for the rehabilitation of infrastructures essential to meet humanitarian needs, observation will focus on confirmation that such materials and supplies are delivered to the predefined destinations in accordance with the Distribution Plan and that they are used for their intended purposes, and on the determination of whether these materials and supplies are adequate or necessary to meet essential needs of the Iraqi population.

#### COORDINATION AND COOPERATION

42. The United Nations observation activities will be coordinated by the Department of Humanitarian Affairs at United Nations Headquarters in New York. Observation will be undertaken by United Nations personnel. The exact number of such personnel will be determined by the United Nations taking into account the practical requirements. The Government of Iraq will be consulted in this regard.

43. The Iraqi authorities will provide to United Nations personnel the assistance required to facilitate the performance of their functions. United Nations personnel will coordinate with the Iraqi competent authorities.

44. In view of the importance of the functions which United Nations personnel will perform in accordance with the provisions of this Section of the Memorandum, such personnel shall have, in connection with the performance of their functions, unrestricted freedom of movement, access to documentary material which they find relevant having discussed the matter with the Iraqi authorities concerned, and the possibility to make such contacts as they find essential.

## SECTION VIII

*Privileges and Immunities*

45. In order to facilitate the successful implementation of the Resolution the following provisions concerning privileges and immunities shall apply:

(a) officials of the United Nations and of any of the Specialized Agencies performing functions in connection with the implementation of the Resolution shall enjoy the privileges and immunities applicable to them under Articles V and VII of the Convention on the Privileges and Immunities of the United Nations, or Articles VI and VIII of the Convention on the Privileges and Immunities of the Specialized Agencies to which Iraq is a party;

(b) independent inspection agents, technical experts and other specialists appointed by the Secretary-General of the United Nations or by heads of the Specialized Agencies concerned and performing functions in connection with the implementation of the Resolution, whose names will be communicated to the Government of Iraq, shall enjoy the privileges and immunities accorded to experts on mission for the United Nations or for the Specialized Agency under Article VI of the Convention on the Privileges and Immunities of the United Nations or the relevant Annexes of the Convention on the Privileges and Immunities of the Specialized Agencies respectively;

(c) persons performing contractual services for the United Nations in connection with the implementation of the Resolution, whose names will be communicated to the Government of Iraq, shall enjoy the privileges and immunities referred to in sub-paragraph (b) above concerning experts on mission appointed by the United Nations.

46. In addition, officials, experts and other personnel referred to in paragraph 45 above shall have the right of unimpeded entry into and exit from Iraq and shall be issued visas by the Iraqi authorities promptly and free of charge.

47. It is further understood that the United Nations and its Specialized Agencies shall enjoy freedom of entry into and exit from Iraq without delay or hindrance of supplies, equipment and means of surface transport required for the implementation of the Resolution and that the Government of Iraq agrees to allow them to, temporarily, import such equipment free of customs or other duties.

48. Any issue relating to privileges and immunities, including safety and protection of the United Nations and its personnel, not covered by the provisions of this Section shall be governed by paragraph 16 of the Resolution.

## SECTION IX

*Consultations*

49. The Secretariat of the United Nations and the Government of Iraq shall, if necessary, hold consultations on how to achieve the most effective implementation of the present Memorandum.

## SECTION X

*Final clauses*

50. The present Memorandum shall enter into force following signature, on the day when paragraphs 1 and 2 of the Resolution become operational and shall remain in force until the expiration of the 180 day period referred to in paragraph 3 of the Resolution.

51. Pending its entry into force, the Memorandum shall be given by the United Nations and the Government of Iraq provisional effect.

SIGNED this 20th day of May 1996 at New York in two originals in English.

For the United Nations

(Signed) Hans CORELL  
Under-Secretary-General  
The Legal Counsel

For the Government of Iraq

(Signed) Abdul Amir AL-ANBARI  
Ambassador Plenipotentiary  
Head of the Delegation of Iraq

## ANNEX I

1. In order to ensure the effective implementation of paragraph 8 (b) of the Resolution, the following arrangements shall apply in respect of the Iraqi Governorates

of Arbil, Dihouk and Suleimaniyeh. These arrangements shall be implemented with due regard to the sovereignty and territorial integrity of Iraq, and to the principle of equitable distribution of humanitarian supplies throughout the country.

2. The United Nations Inter-Agency Humanitarian Programme shall collect and analyze pertinent information on humanitarian needs in the three northern Governorates. On the basis of that information, the Programme will determine the humanitarian requirements of the three northern Governorates for discussion with the Government of Iraq and subsequent incorporation in the Distribution Plan. In preparing estimates of food needs, the Programme will take into consideration all relevant circumstances, both within the three northern Governorates and in the rest of the country, in order to ensure equitable distribution. Specific rehabilitation needs in the three northern Governorates shall receive the necessary attention.

3. Within a week following the approval of the Distribution Plan by the Secretary-General, the Programme and the Government of Iraq will hold discussions to enable the Programme to determine how the procurement of humanitarian supplies for the three northern Governorates can be undertaken most efficiently. These discussions should be guided by the following considerations. The bulk purchase by the Government of Iraq of standard food commodities and medicine may be the most cost-effective means of procurement. Other materials and supplies for essential civilian needs, specifically required for the three northern Governorates, may be more suitably procured through the United Nations system in view of technical aspects related to their proper use.

4. To the extent that purchases and deliveries are made by the Government of Iraq in response to the written communication of the Programme, an amount corresponding to the cost of the delivered goods will be deducted from the amount allocated to the Programme from the "Iraq Account".

5. Humanitarian supplies destined for distribution in the three northern Governorates shall be delivered by the Programme to warehouses located within these Governorates. Such supplies can also be delivered by the Government of Iraq or the Programme, as appropriate, to warehouses in Kirkuk and Mosul. The warehouses shall be managed by the Programme. The Government of Iraq shall ensure the prompt customs and administrative clearances to enable the safe and quick transit of such supplies to the three northern Governorates.

6. The Programme shall be responsible in the three northern Governorates for the storage, handling, internal transportation, distribution and confirmation of equitable distribution of humanitarian supplies. The Programme will keep the Government of Iraq informed on the implementation of distribution.

7. Whenever possible and cost-effective, the Programme shall use appropriate local distribution mechanisms which are comparable to those existing in the rest of Iraq in order to effectively reach the population. Recipients under this arrangement will pay a fee for internal transportation, handling, and distribution as in the rest of the country. The Programme shall ensure that the special needs of internally displaced persons, refugees, hospital in-patients and other vulnerable groups in need of supplementary food are appropriately met, and will keep the Government of Iraq informed.

8. The Programme will observe that humanitarian supplies are used for their intended purposes, through visits to sites and by collecting relevant data. The Programme will report to the Department of Humanitarian Affairs at United Nations Headquarters in New York and the Government of Iraq any violation observed by the Programme.

#### ANNEX II

1. The State concerned or, if the 661 Committee so decides, the national petroleum purchaser authorized by the 661 Committee, shall submit to the Committee for handling and approval the application, including the relevant contractual documents covering the sales of such petroleum and petroleum products, for the proposed purchase of Iraqi petroleum and petroleum products, endorsed by the Government of Iraq or the Iraqi State Oil Marketing Organization (hereinafter SOMO) on behalf of the Government. Such endorsement could be done by sending a copy of the contract to the 661 Committee. The application shall include details of the purchase price at fair market value, the export route, opening of a letter of credit payable to the "Iraq Account", and other necessary information required by the Committee. The sales of petroleum and petroleum products shall be covered by contractual documents. A copy of these documents shall be included in the information provided to the 661 Committee together with the application for forwarding to the independent inspection agents described in paragraph 4 of this Annex. The contractual documents should contain the following information: quantity and quality of petro-



leum and petroleum products, duration of contract, credit and payment terms and pricing mechanism. The pricing mechanism for petroleum should include the following points: marker crude oil and type of quotations to be used, adjustments for transportation and quality, and pricing dates.

2. Irrevocable confirmed letters of credit will be opened by the oil purchaser's bank with the irrevocable undertaking that the proceeds of the letter of credit will be paid directly to the "Iraq Account". For this purpose, the following clauses will have to be inserted in each letter of credit:

"— Provided all terms and conditions of this letter of credit are complied with, proceeds of this letter of credit will be irrevocably paid into the "Iraq Account" with . . . Bank."

"— All charges within Iraq are for the beneficiary's account, whereas all charges outside Iraq are to be borne by the purchaser."

3. All such letters of credit will have to be directed by the purchaser's bank to the bank holding the "Iraq Account" with the request that the latter adds its confirmation and forwards it to the Central Bank of Iraq for the purpose of advising SOMO.

4. The sale of petroleum and petroleum products originating in Iraq will be monitored by United Nations independent oil experts appointed by the Secretary-General of the United Nations to assist the 661 Committee. The monitoring of oil exports will be carried out by independent inspection agents at the loading facilities at Ceyhan and Mina al-Bakr and, if the 661 Committee so decides, at the pipeline metering station at the Iraq-Turkey border, and would include quality and quantity verification. They would authorize the loading, after they receive the information from the United Nations oil experts that the relevant contract has been approved, and report to the United Nations.

5. The United Nations will receive monthly reports from SOMO on the actual volume and type of petroleum products exported under the relevant sales contracts.

6. The United Nations Secretariat and SOMO shall maintain continuing contact and in particular United Nations oil experts shall meet routinely with SOMO representatives to review market conditions and oil sales.

*Letter dated 20 May 1996 from the Head of delegation of Iraq addressed to the Legal Counsel*

In reference to the memorandum of understanding signed today and as I advised you during the discussion that a letter would be sent to you concerning the position of Iraq as to the cost of production and transportation of oil inside Iraq, I state below Iraq's position, which I request that you include in the official record of our discussion:

The Iraqi delegation explained during the discussion that the cost of production and transportation of petroleum excluding expenses in local currency, is currently estimated at US\$ 2.00 per barrel. Such cost had to be deducted from the sale price or recovered through the production and export of extra quantity of petroleum and petroleum products. In either case the amount referred to above would be deposited in the "Iraq account" to be utilized for the import of spare parts and other items necessary for the maintenance and sustaining of production and transportation operations as is the established practice in the oil industry, otherwise production and transportation operations would be hindered and eventually come to a halt.

Nevertheless, and in order to facilitate the conclusion of this memorandum of understanding, the Iraqi delegation agreed not to insist on the acceptance of its position by the United Nations Secretariat delegation at this stage and agreed to have it included in a separate letter addressed to the Head of the delegation of the United Nations Secretariat for consideration in any future discussion.

Although the matter is not discussed, the Iraqi delegation wishes to state that a third outlet for Iraqi petroleum export could be via the Syrian Arab Republic.

(SIGNED) AMBASSADOR A. AMIR ANBARI  
HEAD OF THE DELEGATION OF IRAQ

APPENDIX 3

OIL-FOR-FOOD PROGRAM IN NORTHERN GOVERNATES SUPPORTING DOCUMENT FOR THE JOINT MEMORANDUM ON BEHALF OF THE KURDISTAN REGIONAL GOVERNMENT (PUK & KDP) PRESENTED TO THE IRAQ REVIEW PANEL—MARCH 15, 1999

The Kurds and the KRG authority in the region of Iraqi Kurdistan were not consulted in the drafting of the original UNSC resolution 986 and the MOU that regulates its implementation. However the UN Security Council must have found in the

devastated condition of Iraqi Kurdistan and the great need for rehabilitation of the region—compelling reasons to set the region's share of SCR 986 revenues at 13–15%. Regrettably, a decision by the UN has arbitrarily chosen the lower limit. We believe a fair and sensible review of the various aspects of 986 must take into consideration the totality of reasons, conditions, and rationale that led to the establishment of the program, and the distinction made with regard to UN's own implementation in the three northern governorates as separate from GOI's control in the rest of the country.

The amount of 986 revenue targeted for the various phases of the program are not being realized for the full and effective implementation of the requirements of those phases. In the enhanced (Phase IV) program, no more than half of the projected amount has been realized. Phase V is not expected to fair any better.

The time and funding necessary for the resettlement of nearly hundreds of thousands of internally displaced people (due to the destruction of some 4,500 villages and to forcible transfer of the population as part of GOI's policy of ethnic cleansing) can hardly be met by the allocations under the existing phases of the program.

The financial requirements for the rehabilitation of the electricity sector, which in its present state has serious adverse affects on water and sanitation as well as on essential services in the region, need to go far beyond the presently projected allocations for that sector under UNSC resolution 986 program.

It is being argued that resolution of some of the problems in the 986 program require changes in the MOU and decisions by the Security Council. As there is great pressure on the United Nations Office of the Iraq Program to make the 986 implementation program work, there should also be the willingness to make the necessary changes in that system. Consequently, a review of the program should effect changes that will:

- allow the UN the capacity to buy local crops from Kurdish farmers and alleviate the apparent disincentive to agriculture resulting from the food distribution program;

- enable WFP to deliver the region's share of flour in the food basket as wheat to be milled in the region's established mills that conform to Iraqi standards;

- allow for the transfer of the responsibility for the procurement of medicine, medical supplies and equipment and their distribution to a system or agency different from the existing one.

The United Nations direct handling and implementation of the program in the three northern governorates is not only in full agreement with the intent of SCR 986 and the MOU, but it also means that the United Nations, in close consultation with the region's authorities is the source of all decisions and assessments. However, in the face of this there is increasing tendency by the GOI to force decisions from Baghdad with the aim of bringing the program under its direct control.

A joint FAO/WFP mission that was to investigate the issue of disincentive to agriculture resulting from the food distribution program has been barred from entering the region.

The delivery of some 140 vehicles (pickups, four wheel drives, etc.) ordered by UNICEF and intended for the northern governorates under UNSC resolution 986, has been hampered under the pretext of customs regulations and number plate registration procedures that are being introduced for the first time. An estimated 21 million anti-personnel mines, that on a daily basis threaten civilian lives, have been planted throughout the Kurdish territory.

When compared to the resources needed for an effective de-mining operation, present efforts at de-mining under 986 seem truly insignificant. Additionally, Baghdad has not only withheld the appropriate location maps from the relevant UN agencies, but it also continues to raise objections to present efforts at de-mining.

Under the provisions of the MOU, Iraq has been entrusted with the procurement of bulk food and medical supplies for the whole of Iraq. Due to the slow pace of distribution of medical supplies (and consequent accumulation of such supplies in GOI warehouses); the slow contracting procedures by Kimadia (the Iraqi state company for drug imports); and WHO's lack of ability or willingness to challenge forced decisions by the GOI, the 986 food and medicine sector suffers continued problems and shortcomings.

WHO denies having responsibility for the quality or usability of medicines and medical equipment procured by the GOI. When evidence of quality control is asked for it is not given. The agency does not have much of a presence in the region and those who are in charge claim not to have the necessary control or decision-making authority.

Within the 986 health care and medicine sector, some of the medicines procured by the GOI are given to public clinics, pharmacies and other groups in the private sector. Similar private health facilities in are not covered by this arrangement. The

result, on top of the exclusion itself, is that medicines are smuggled into the region and sold on the black market. In such a situation it is nearly impossible to hold anyone responsible for the sale or distribution of expired or unsuitable medicine.

The program recommended, in January 1998, an increase in the caloric value of the food baskets and the addition of full cream adult milk and weaning cereal. These supplements did not arrive in sufficient quantities to permit distribution. In fact, it was only a year later in January 1999 that stocks were sufficient to permit their distribution in the food basket for the first time. High-protein biscuits for pregnant women and therapeutic milk for malnourished children under five years of age were provided for in the enhanced distribution plan. Considerable delay occurred in the signing of contracts by the Iraqi Ministry of Health pertaining to the provision of these items.

It should also be noted that in addition to a less efficient food ration delivery in the north, there are no arrangements for the stockpiling of food items in the northern governorates to which food is transferred on a daily basis. There is little doubt that due to this dependence on GOI's procurement of food items, repeated staff relocations and periodic mounting tensions can and do adversely affect the food distribution program in the north.

KRG authorities have had to divert much-needed funds from their own projects to purchase medicine that is supposed to have been supplied by the WHO under the program.

Low oil prices and limitations on Iraq's ability to pump oil are often given as reasons for the lower rate of funds made available for the program. Subsequently, as the latest report by the UN Secretary General shows, delays in the submission of and holds placed on applications are also reasons for the inability to utilize funds apportioned to the oil spare parts sector under Phase IV. The supposedly adverse affect of the slow rate of reimbursement from ESC (13%) account to the ESB (53%) account is, when compared to the above reasons, but a small factor in the shortfall of oil revenues for the program's implementation.

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APPENDIX 4

Kurdistan Regional Government  
Council of Ministers  
Ministry of Health

Private Bureau

Date: September 3, 2001

Number:

TO: Mr. Tun Myat, Chief Coordinator, OIP, Iraq  
Cc: Mr. John Almstrom, Coordinator, North, Erbil  
Cc: Dr. Badraddin Fehri  
Cc: HE Dr. Barham Salih, Prime Minister

Subject: A Critical Health Situation.

Dear Mr. Myat,

I am writing as a matter of urgency on the status of our health services in our region, which has reached a critical stage needing immediate attention.

For the past 6 months we have been awaiting such simple matters as "Sticker Numbers" to start the following essential projects:

- &#61623; Heart Rehabilitation Center
- &#61623; X-Ray Center
- &#61623; Addition of an Emergency Section at the Education Hospital
- &#61623; Extension and renovation of Chemchamal Hospital

The region is still suffering from deficiency and total lack of essential drugs and medical supplies, that have nearly paralyzed the work of our hospitals. Such shortages have had catastrophic consequences on the patients requiring emergency treatments. Examples of such essential requirements are lack of surgical gloves, sutures, Anti D Ampule for Rh negative, And drugs for cancer, after kidney transplants, drugs given to chronic patients, as those needed for hypertension, heart disease, and other essential drugs that are constantly needed in the course of treating of a variety of illnesses. We have been obliged, during the course of the last 9 months, and due to our emergency needs, to obtain such drugs from the local markets, from a number of sources, at exorbitant prices, and with inherent dangers, as we had no other alternatives.

We wish to emphasize that the situation has reached a point that requires immediate attention. We have continuously emphasized the urgent need of specific drugs and material referred to above in a number of meetings with yourself and with Dr. Popal. I am sorry to say that in spite of promises, the situation has remained unchanged.

We are amazed at the chronic lack of drugs, referred to as life-saving drugs, among all other drugs that are being supplied to us, as if such drugs have been hand-picked. We find no logic or satisfying statements from your offices here, in Erbil, or even from Baghdad. We request that such queries be relayed to Geneva or to New York immediately in order to soon get logical answers and solutions.

In a jointly held sectoral meeting, in Sulaimania, on May 15th, in your presence, Dr. Popal, and our colleagues from Erbil, promises were made to address the chronic shortages of essential medicines, and other problems related to health sector. Unfortunately, nothing has changed.

Further, our people are asking us as whatever happened to the fate of the 400-Bed Hospital for which sufficient funds have been allocated since Phase VII of the Distribution Plan.

We believe that, with amply available funds, there is no excuse in delaying the delivery of our essential health needs. Our people will not forgive those responsible for such delays. People cannot be blamed if they were to hold the WHO responsible for the needless deaths of our citizens who die due to lack of medicine and inadequate hospitals. WHO's delaying tactics, inefficiency, and irresponsibility can not be tolerated any longer.

I hope you take very seriously the content of this letter and please find us answers to our questions.

Sincerely,

DR. YADGAR R. HESHMET  
MINISTER OF HEALTH

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APPENDIX 5

KURDISTAN REGIONAL GOVERNMENT MINISTRY OF HUMANITARIAN AFFAIRS SULAIMANI

*Memorandum on the Implementation of UN Oil for Food Program In Iraqi Kurdistan*

According to the Security Council Resolution 986 (1995) and the Memorandum of Understanding (MOU), 1996, together with a special Annex, the United Nations Secretariat is entrusted to implement the responsibilities of providing humanitarian assistance and rehabilitation of the three governorates of Dihok, Arbil and Sulaimani, which constitute the Iraq Kurdistan region. Hence, 13% of the revenues were to be allocated to the Kurdistan region. It is worth remembering that the reason the UN was chosen for this task was that Iraqi Government could not be trusted to carry out the humanitarian and rehabilitation program in Kurdistan region, given the political background of devastation it had inflicted on the region during the previous decade.

The UN program has benefited the region enormously. It has led to marked improvement in the citizens' welfare and health standards according to all statistical indicators. The contrast with the way the program has been handled in the rest of Iraq is glaring in all aspects. However, after five years of experience since the program started, it is appropriate to review the overall performance of the UN Agencies in the implementation process, with the view of identifying the shortcomings in the practical application and overall management of the program. We recognize the difficult environment in Iraq under which the UN Agencies operate in Kurdistan region. The goal of this exercise is to offer constructive criticism to improve the performance of the biggest civilian economic project undertaken by the UN ever. We call upon the UN Secretariat and the Security Council members to address the issues raised in this memorandum on a priority basis as they are matters of immediate relevance to the security and well being of the citizens of Kurdistan region. We are willing and prepared to discuss the issues with all the parties involved in order to achieve the full benefit from this unique program.

*Iraqi Tactics*

The first issue of concern is the Iraqi Government's continuous and shrill attempts to thwart attempts to attend to the immediate needs of the region. These, especially in the last year, have affected the implementation process negatively to a great extent. Contrary to the letter and spirit of the MOU, the Iraqi regime has not allowed the UN to fulfill the responsibilities entrusted to it by the Security

Council. The Iraqi measures have ranged from intimidation of UN staff, proven cases of Iraqi intelligence attempts of sabotage against UN personnel and offices in the region, denying and delaying UN requests for visas its staff and experts and other personnel performing contracted services for the UN in Iraqi Kurdistan; failure to allow necessary equipment, such as large number of demining equipment, including mechanical mini-flails for the demining program, to be released at the border; refusal to provide UN with map/records of the mine fields and a continuous targeted campaign against the UN program in the region to the extent of the Iraqi delegate denouncing the UN in the Security Council debate for looking after of welfare of dogs used in the demining program! The regime has the audacity to accuse the UN of failure to implement the program effectively, while continuously trying to deny the UN the essential tools to implement the program. Unfortunately, this trend toward undermining the integrity of the UN program has been escalating recently without any counter measures by the Security Council. The Iraqi tactic is to force the acquiescence of the UN staff in this process so that it becomes yet another political and economic tool in the hands of the regime to intimidate the region. The Security Council should use the leverage of the approval procedure for Iraqi applications for their needs to make sure they do not obstruct the humanitarian and rehabilitation efforts in Kurdistan region.

In addition, the Iraqi regime has escalated its campaign of ethnic cleansing in areas of Kurdistan still under its control i.e. Kirkuk, Khanaqin, Makhmoor and Sheikhan causing the forced displacement of thousands of Kurdish, Turkoman and Assyrian families from their homes. Thus, the arrival of the internal refugees has increased the economic and social burden of the regional authorities.

#### *UN Implementation Process*

Many of the problems relating to proper execution of the UN program are connected with the modality of implementation: absence of proper and adequate consultation with the local authorities, the lack of proper co-coordinating procedure by the various UN agencies among themselves and with the general concept and management of the program, excessive bureaucratization causing procrastination in carrying out already agreed projects, prevalence of poor quality staff who clearly lack expertise in their respective fields and inferior and wasteful procurement policies; all of which will considerably undermine the integrity of the overall program, if not checked soon. Among those agencies mentioned in particular are the World Health Organization (WHO) and Food and Agriculture Organization (FAO) whose performances need attention and improvement. The program needs a unified project management system under one authority, with lines of consultation with specialized agencies and local authorities.

#### *Procurement*

In the last six months there has been a serious deficiency and lack of essential drugs and medical supplies, which have nearly paralyzed the work of hospitals and clinics. Shortages in emergency treatment supplies, surgical gloves, cancer drugs, hypertension and heart drugs have been communicated to the Chief Coordinator of Office of Iraq Program and the Headquarters in New York without any response. The proposed hospital project in Sulaimani is a case study on lack of proper planning, management direction, clarity of decision-making, coordination and oversight, and concern for the immediate and future humanitarian needs of the community.

In addition to procurement delays, there have been many cases of wasteful procurement practices, due mainly to the mismanagement and lack of competent staff that make these important decisions. For example, the FAO procured 100,000 tons of feed at a price of @240 per ton that arrived at the height of the lush spring season, which was a total waste. Twenty-five chain tractors were procured which were completely unsuitable for agricultural production (Not a single implement accompanied them). Eight vehicles were quarantined in a warehouse last year in Sulaimani for eight months pending vehicle registration procedure.

#### *Recurring Costs*

According to UN figures there are 3.6 million citizens of Kurdistan region who are being provided with humanitarian and rehabilitation needs. In this regard it is important to bear in mind that the Iraqi Government unilaterally decided in 1992 to abdicate its financial and administrative responsibilities in the Kurdistan region. Furthermore, it imposed its own economic embargo on the region as a policy of intimidation. Therefore the regional authorities, for the last ten years, had the responsibility to undertake all those budgetary and public service duties abandoned by Baghdad. That includes not only providing security and law and order, but all other civic functions such as education, health, environment and justice. It has been extremely difficult to fund these services. The UN program is mandated to provide hu-

manitarian needs of the region. Yet it does not fund the basic activities such as education. We have, within our administration area, 75,000 students and 15,000 teachers to cater for. There are three universities in the whole region. The teachers desperately need assistance in updating their skills and training them in proper methods of induction, computer literacy and curriculum instruction. Kindergarten and primary level schools for children in particular need this assistance.

A specific proposal to train teachers and health worker has been languishing in the bureaucratic corridors of OIP for many months now. We need an immediate plan of action on this essential project.

#### *Rehabilitation*

The Kurdistan region was subjected to a decade of destruction and genocide prior to the Gulf war. It is estimated that the Iraqi Army destroyed more than 250,000 people perished 4000 villages during the Anfal campaign in the 1980's. The impact of this destruction on the infrastructure and the living communities, especially the rural life, was devastating. Therefore, the task of rehabilitating the infrastructure is essential to provide for the humanitarian needs of the community. The provision of water, sanitation, sewage, electricity and housing is essential in rehabilitating the normal community life. The UN program in this respect seriously lags far behind. There is no focused plan to address the infrastructure needs of the region. Efforts in this regard are ad hoc, perfunctory and lost in the bureaucratic haze of the UN system.

Examples of the neglect of infrastructure rehabilitation are: the region desperately needs cement for the rehabilitation projects. The existing cement factory in Tasluja can produce 5000–6000 tons of cement a day if overhauled. Currently it can only produce 500 tons a day. Again we are waiting for a decision from OIP on this vital issue.

The electricity needs of the region are not catered for. The three 29 MW generating plants are unable to run 24 hours a day, the way public utilities should normally run.

#### *Summary*

We consider the UN Oil for Food program as a unique opportunity for the UN to demonstrate that it can make a huge difference in the lives of citizens, especially those who have been subjected to oppression. The UN and the Security Council member should address the shortcomings of the program as an urgent matter. We again reach out to state that we are ready to play our part in instituting reforms in the implementation process to make sure full benefit is achieved.

October 22, 2001

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#### APPENDIX 6

“H.E. Dr Neel Mani  
Director,  
Department of the Iraq Programme  
World Health Organisation,  
Avenue Appia 20,  
Geneva 27  
Switzerland.

Your Reference: IRP–E17/180/2, IRQ (A) 147

Our Ref: The Arbil Cancer Hospital Plan

Your Excellency,

As you kindly suggested, I traveled to “northern Iraq” hoping to discuss the plan with the local WHO staff and the Kurdistan Regional Government. I am writing to inform you of the results of my trip to Northern Iraq and meetings with Dr Popal, and the local WHO staff in Erbil concerning the Cancer Hospital plan which we spent a year preparing.

I am sorry to tell you that I was far from being encouraged to continue our efforts as a result of the totally negative attitudes I met with from all concerned at WHO.

I shall try to summarise the reasons as follows:

1—Dr Popal did not actually attend the meeting which he himself arranged for me. The meeting was to be with himself and the WHO “feasibility” team as well as the KRG Minister for Health.

2—Those I met with were unable to understand the need for the project and were using a variety of political arguments against even considering it. They had not been informed of the plan before my arrival but even so they were highly opposed

to consider it on the basis of claims which Mr Siddiqi said were in the MOU but when challenged he admitted not having read the MOU or the SCR986. None of the others had done so either.

3—Not even the WHO representative, Dr Sheherezad, who was also in the building at the time, attended either of the two meetings.

4—A team member by the name of Khalid Al-Dik seemed to think I should have gone to the South of Iraq to look after the people there and was vehemently against the plan.

5—After one week or so to allow the WHO team to read the plan we held another meeting during which Eng Adham Ismail was present. This gentleman expressed gratitude for our “great” work and described the plan as “the best he had ever come across”. He repeated this several times during and, at the end of, the meeting. The minutes of both meetings were misrepresentation and concocted to suit the decision they had arrived at even before reading the plan. There was a great deal of economy with the truth and Mr Ismail’s comments were completely left out.

6—The Minutes of both meetings conclude with “No commitments on the part of WHO whatever were given”. This quite unnecessary and rather emphatic negative statement could only have been made to send a message to “someone” that all is well and there will never be any scope for a positive reply and we find it rather offensive in the light of the atrocious health conditions we found on the ground.

7—The reasons for being so negative were explained by Mr Siddiqi and Mr Al-dik and if true then the message is clear: We cannot do anything of real value or efficacy so any effort to alleviate the suffering of the Kurds WHO or anyone else is quite useless. Keep out!!

8—Even so the new obstacles Mr Siddiqi, the team leader, was placing in the way of WHO support were:

A—Lack of sufficient survey and statistics indicating the level of cancer incidences

B—The claim that a 200 bed hospital was too big and a smaller number of beds should be aimed at.

These claims were both unfounded since we had actually included whatever statistics we had available from the Ministry of Health. Furthermore there were the statistics which the team members had included in a paper submitted in a hurry by Mr Al-Dik to the Minister of Health Dr Jamal urging him to consider it instead of our plan before my arrival. He had obtained the figures from the local authorities and included them in his paper and depended on them in his arguments. Those statistics indicated that we had already undersized the hospital considerably.

At any rate, it should be expected that WHO had and has a duty to carry out accurate surveys to find out not the extent of the spread of cancer but all other major diseases and they had not done any. Therefore, WHO could hardly blame us for not having the data. Furthermore, it is a known fact that the rate of cancer among any population is at least 5 (five) percent and 10 (ten) percent in most cases. Therefore, we should plan for at least 5 x 3.6 million/100 or 180,000 incidences among the population of the three northern governorates.

A 200 bed hospital would not cover more than 0.0005% of that population which means either the WHO Staff in Erbil are completely unaware of the prevalent incidences of cancer worldwide or they were deliberately creating obstacles against the project. My own very strong feeling was that they had been instructed by the Iraqi regime which had been precluded from deciding on such matters not to allow any worthwhile project to be carried out in Kurdistan.

Given that enormous salaries are paid to WHO and other UN staff in Northern Iraq, I found a terrible lack of things to show for it. After six years of the oil for food programme and a great deal of money in banks in France have been allocated for the Kurds, the sewerage system is almost non-existent. Erbil is a stinking filthy place. Surveys are not being done to identify disease. The existing rotting hospitals are lacking in medicine, instrumentation, trained nurses and doctors and funds. There no statistics to indicate child mortality, or mortality in general. I visited and videoed entire hospitals and interviewed personnel and doctors and I found the majority of medicines unavailable or expired. I have full interviews with medical staff which affirm this. Laboratories are inadequately supplied with expired chemicals which are totally useless, the wrong chemicals, or wrong instruments which they have to wait very long periods for. Disposable tools and tubes are being washed several times to carry out the most basic tests. Generally WHO is blamed for all these shortcomings and the main reason seems to be the pro-Iraqi staff hired by the organisation. Everywhere I went whether in Erbil, Suleimania or Dihok the story was the same. Everyone seems to blame WHO and there is ample evidence that this may be true.

Since the UN and WHO is particular are there to implement resolution 986 and look after the population of the three northern governorates, the charge is that they

have both failed. The main reason is allowing the Saddam regime, the reason for the suffering and backwardness of the health service in Kurdistan to have a final say in the recruitment of international civil servants mandated by law to serve the community there and to veto anything he does not want for the Kurds to benefit from and that includes absolutely everything.

At a time when there is over \$7 billion unspent Kurdish funds and WHO staff get huge salaries this may be a great injustice against the Kurds no less in magnitude to the repeated Genocidal acts committed against them by the people your organisation seems very keen to keep happy.

During the last meeting I held with the WHO team we agreed that the Ministry of Health would write to them indicating their agreement to carry out a quick survey and that the WHO Office would soon carry the survey out. The Minister wrote the letter in my presence the same day and it was delivered by hand the next day. So far WHO Erbil have not replied. In the minutes of the two meetings Dr Siddiqi and Dr Shehrezad both claim that the "local authorities" had not written officially to ask for the project to be implemented. This is quite false and I have evidence that the Ministry had twice written to them indicating their full support for the hospital, once in Arabic and again in English.

I hope you will be able to provide a reasonable plan of action urgently for there are many thousands of people dying whose welfare has been entrusted to your organisation.

We remain, sir, truly yours,

DR F R HILMI  
FOR THE ARBIL CANCER HOSPITAL PROJECT TEAM

DR N PLOWMAN,  
MA, MD, FRCP, FRCR  
HEAD OF DEPARTMENT (CLINICAL ONCOLOGY)  
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Copies to:

The Secretary General of the UN, Mr Kofi Annan  
Mr Nechirwan Barzani, KRG Prime Minister, Erbil  
Dr Jamal Abudlhamid, Minister of Health, Erbil  
Ms Nasreen Barwari, Minister of Reconstruction, Erbil  
Mr Barham Salih, KRG Prime Minister Slemani  
Dr Yadgar, Minister of Health, KRG Slemani  
Mr Sadi Pire, Foreign Relations, PUK, Slemani"

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#### APPENDIX 7

UN DEAL LEAVES IRAQI KURDS AT BAGHDAD'S MERCY BY GUY DINMORE IN NORTHERN IRAQ AND CAROLA HOYOS, UNITED NATIONS CORRESPONDENT, FINANCIAL TIMES PUBLISHED: JULY 6 2002 5:00 | LAST UPDATED: JULY 8 2002

In theory, the Kurds of northern Iraq have never had it so good, effectively independent from Baghdad and guaranteed a substantial slice of the country's oil income under the United Nations oil-for-food programme.

The reality is rather different.

Zhiyan Ahmad Abdullah fights a daily battle with shortages of basic supplies as director of the main maternity hospital in Sulaimani, one of the two regional capitals controlled by rival Kurdish factions.

"We have many, many problems," she says in despair, having to cope with nearly 30 deliveries a day. "Each month we get 1,000 pairs of gloves, at best 2,000. But we need 10,000, so we have to re-use them."

The same shortages apply to drugs for delivery, blood-bags and blood-testing equipment.

Prostaglandin, used for abortions, has never been supplied, forcing doctors to use more dangerous methods for terminating pregnancies.

"Really, the WHO is to blame," says Dr Abdullah, referring to the World Health Organisation, which is responsible for delivering medical aid under the oil-for-food programme.



“This programme serves the rest of Iraq more than Kurdistan. A lot of money goes to serving those who work in the UN. For example, a local UN employee earns about \$600 [λ390] a month. My salary is \$80 and my nurses get only \$10.”.

The Baghdad government led by President Saddam Hussein is allowed to purchase supplies and implement distribution directly, but because the Kurdish north has no international recognition it has to acquire aid through Kimadia, the official Baghdad procurement agency, and rely on the UN for distribution.

This, as regional Kurdish officials argue, leaves the north at the mercy of Baghdad and what they call the inefficiency and even corruption within the dozen or so UN agencies involved in Iraq.

A commonly voiced complaint is that the WHO programme is dominated by Arabs who have little sympathy for the Kurds and rely on Baghdad.

One official in the Kurdish region, which effectively broke away from Baghdad in 1991 and is partly protected by a US-imposed no-fly zone, estimated that only 37 per cent of the oil income allocated for the north had been spent on humanitarian goods and services. Infrastructure projects, such as water, electricity and a \$400m hospital, have been blocked by Baghdad.

“Baghdad vetoes many projects, and the UN does not defend us,” says Sami Abdul-Rahman, deputy prime minister in the Kurdish regional government based in Arbil, calling the UN agencies “bureaucratic, biased and cumbersome” . . .

WHO blames the sanctions regime for some of the problems. “The process is known to be laborious because of the lengthy procurement procedures imposed by the sanctions regime,” it says.

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#### APPENDIX 8

##### Iraq government cuts petrol supplies to Kurds

Date: 13 January 2003

Source: Reuters

SULAYMANIYAH, Kurdistan-Iraq, 12/1 2003 (Reuters)—Iraq’s government has cut off petrol supplies to the breakaway Kurdish-run north of the country, Kurdish officials said, sending prices soaring and ordinary Kurds rushing to stock up on fuel.

The officials said they did not know why the fuel supplies, brought across the front lines between Iraqi government troops and the Kurdish north in tankers, car fuel tanks and gerry cans, had been shut off for a second day on Sunday.

But the move comes amid U.S. preparations for a possible war in Iraq over Baghdad’s alleged weapons of mass destruction, with thousands of American troops being despatched to the Gulf.

The apparent embargo points up the fragility of the Kurds’ de facto autonomy from Baghdad won when U.S. and British planes began enforcing a no-fly zone over the area in 1991 after Iraqi troops put down an uprising against President Saddam Hussein.

Aside from a small oilfield in the east of the area and a converted refinery near the city of Sulaymaniyah which once refined sugar, north Iraq’s three million Kurds rely almost entirely on supplies brought from the government-held region.

Pump prices had more than quadrupled on Sunday compared with before the blockade, some petrol stations closed down altogether for lack of fuel while long queues formed at others as drivers sought to fill up while they could.

One Kurdish official in the city of Sulaymaniyah, in the east of the rugged enclave, said petrol had been cut off before due to wrangling over prices with Baghdad.

Iraqi Kurds would join other opposition groups in running the country under U.S. scenarios for a post-Saddam Iraq should a U.S.-led invasion topple the present government.

The Kurds played a leading role in mustering opposition parties in a conference in London last month and are due to host a further meeting of leaders opposed to Saddam near the eastern city of Arbil later this month.

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#### APPENDIX 9

##### IRAQI KURDISTAN REGION

February 10, 2003

His Excellency Kofi Annan  
General Secretary  
United Nations

One United Nations Plaza  
New York, New York 1007  
U.S.A.

Excellency:  
Re: Diversion of Funds in the 13% Account

We have received definite information that some people at the United Nations are planning to use funds deposited to the Oil-for-Food Programme 13% Account for the three governorates of Erbil, Duhok and Sulaimaniyah for the anticipated emergency situation in Iraq. We understand that there are plans to divert these funds, which currently total approximately US \$2 billion, away from their intended purpose of providing for the relief and rehabilitation of the three northern governorates.

Funds deposited in the 13% Account are specifically earmarked for humanitarian programs and projects in Iraqi Kurdistan. All these funds have been allocated for approved projects outlined in the thirteen Distribution Plans approved by the Government of Iraq and the Security Council. Hundreds of approved projects have funds allocated; however, they have not been implemented.

Because of the very slow project implementation rate, the 13% Account still maintains a very large cash balance. This situation has occurred mainly because of the many methods of obstruction used by the GOI, including not providing visas for experts and professionals required for the implementation of projects in the north or using pressure and influence on UN Agencies to delay project implementation. Other reasons for the slow implementation rate include the bureaucracy of the UN Agencies that has made the process of implementation of projects very slow and the extremely time-consuming decision making process. Also many projects are delayed due to hold from the 661 Committee.

Badly needed humanitarian projects, such as building houses for IDPs, schools and hospitals or water and sanitation networks, should not have funds diverted for other purposes. Every single cent of the funds of the 13% Account is needed for the provision of food and medicines for the local population as well as the rehabilitation of this region. The projects were carefully chosen between the Regional authorities and the UN Agencies for these purposes. Although there are many examples of the benefits of the Oil-for-Food program in Iraqi Kurdistan, still about 20 per cent of households survive on less than US \$200 a year and 40 per cent of households on less than US \$300 a year, which means that 50 per cent of the population remains totally dependent on the monthly food basket ( per survey conducted by SCF in 2001).

A large number of projects are designed to rehabilitate the three northern governorates, which were devastated during three decades of war and destruction by the Government of Iraq. The destruction of Iraqi Kurdistan is very well documented. Over 4,500 villages and towns out of a total of around 5,000 villages and towns were completely destroyed during 1970s and 1980s. An estimated 200, 000 people disappeared during successive campaigns of genocide against the people of the region by the Government of Iraq, including about 2,000 during the infamous Anfal campaigns of 1987–1988. In Halabja over 5,000 people in a chemical weapons attack in March 1988—although this is just one of the scores of villages that were attacked with chemical weapons by the Government of Iraq. Ethnic cleansing continues on a daily basis thus constantly increasing the demands on the local authorities to provide shelter and other public services for these very vulnerable families and individuals. Figures from UNCHS-Habitat show that about 23 per cent of the region's population are still IDPs.

We have feared that these funds might be diverted before they could be used and have sought assurances on several occasions that this would not be the case. We believed that the funds would continue to be held in the account for the use that they were intended and would not be diverted for other purposes.

Now we have learned that there is a move afoot to try to grab these funds from the victims of this repressive regime and use them for other purposes. This is like adding salt to the wound and deprives the citizens of this region of their legitimate rights to the financial resources allocated to them, their property, and their land. We believe that it is unconscionable for the UN to consider diverting funds from the 13% Account under the pretext of an anticipated emergency cover which we have no control.

Since we have no representative at the United Nations, we are asking you to take immediate action to stop any attempts to divert these funds from the humanitarian purposes for which they were intended with or without the benefit of a Security Council resolution..

You have played a vital role in making sure that our people received a fair share of the resources of this program and we are putting our trust in you trust in you

now to protect the funds allocated by the international community through resolutions of the Security Council and by the Memorandum for Understanding negotiated by the United Nations and the Government of Iraq.

Sincerely,

MASSOUD BARZANI  
PRESIDENT  
KURDISTAN DEMOCRATIC PARTY

JALAL TALABANI  
GENERAL SECRETARY  
PATRIOTIC UNION OF KURDISTAN

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APPENDIX 10

UNITED NATIONS SECURITY COUNCIL RESOLUTION 1472 (2003)

March 28, 2003

THE SECURITY COUNCIL

NOTING that under the provisions of Article 55 of the Fourth Geneva Convention (Geneva Convention Relative to the Protection of Civilian Persons in Time of War of August 12, 1949), to the fullest extent of the means available to it, the Occupying Power has the duty of ensuring the food and medical supplies of the population; it should, in particular, bring in the necessary foodstuffs, medical stores and other articles if the resources of the occupied territory are inadequate;

CONVINCED of the urgent need to continue to provide humanitarian relief to the people of Iraq throughout the country on an equitable basis, and of the need to extend such humanitarian relief measures to the people of Iraq who leave the country as a result of hostilities;

RECALLING its previous relevant resolutions, and in particular resolutions 661 (1990) of 6 August 1990, 986 (1995) of 14 April 1995, 1409 (2002) of 14 May 2002, and 1454 (2002) of 30 December 2002, as they provide humanitarian relief to the people of Iraq;

NOTING the decision made by the Secretary-General on 17 March 2003 to withdraw all United Nations and international staff tasked with the implementation of the "Oil-for-Food" Program (hereinafter "the Program") established under resolution 986 (1995);

STRESSING the necessity to make every effort to sustain the operation of the present national food basket distribution network;

STRESSING also the need for consideration of a further reassessment of the Program during and after the emergency phase;

REAFFIRMING the respect for the right of the people of Iraq to determine their own political future and to control their own natural resources;

REAFFIRMING the commitment of all Member States to the sovereignty and territorial integrity of Iraq;

ACTING UNDER CHAPTER VII OF THE CHARTER OF THE UNITED NATIONS,

1. REQUESTS all parties concerned to strictly abide by their obligations under international law, in particular the Geneva Conventions and the Hague Regulations, including those relating to the essential civilian needs of the people of Iraq, both inside and outside Iraq;

2. CALLS ON the international community also to provide immediate humanitarian assistance to the people of Iraq, both inside and outside Iraq in consultation with relevant states, and in particular to respond immediately to any future humanitarian appeal of the United Nations, and supports the activities of the International Committee of the Red Cross and of other international humanitarian organizations;

3. RECOGNIZES that additionally, in view of the exceptional circumstances prevailing currently in Iraq, on an interim and exceptional basis, technical and temporary adjustments should be made to the Program so as to ensure the implementation of the approved funded and non-funded contracts concluded by the Government of Iraq for the humanitarian relief of the people of Iraq, including to meet the needs of refugees and internally displaced persons, in accordance with this resolution;

4. AUTHORIZES the Secretary-General and representatives designated by him to undertake as an urgent first step, and with the necessary coordination, the following measures:

a) TO ESTABLISH alternative locations, both inside and outside Iraq, in consultation with the respective governments, for the delivery, inspection and authenticated

confirmation of humanitarian supplies and equipment provided under the Program, as well as to redirect shipments of goods to those locations, as necessary;

b) TO REVIEW, as a matter of urgency, the approved funded and non-funded contracts concluded by the Government of Iraq to determine the relative priorities of the need for adequate medicine, health supplies, foodstuffs and other materials and supplies for essential civilian needs represented in these contracts which can be shipped within the period of this mandate, to proceed with these contracts in accordance with such priorities;

c) TO CONTACT suppliers of these contracts to determine the precise location of contracted goods and, when necessary, to require suppliers to delay, accelerate or divert shipments;

d) TO NEGOTIATE and agree on necessary adjustments in the terms or conditions of these contracts and their respective letters of credit and to implement the measures referred to in 4 (a), (b) and (c), notwithstanding distribution plans approved under the Program;

e) TO NEGOTIATE AND EXECUTE new contracts for essential medical items under the Program and to authorize issuance of the relevant letters of credit, notwithstanding approved distribution plans, provided that such items can not be delivered in execution of contracts pursuant to 4 (b) and subject to the approval of the Committee established pursuant to resolution 661 (1990);

f) TO TRANSFER unencumbered funds between the accounts created pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995) on an exceptional and reimbursable basis as necessary to ensure the delivery of essential humanitarian supplies to the people of Iraq and to use the funds in the escrow accounts referred to in paragraphs 8 (a) and (b) of resolution 986 (1995) to implement the Program as provided for in this resolution, irrespective of the phase in which such funds entered the escrow accounts or the phase to which those funds may have been allocated;

g) TO USE, subject to procedures to be decided by the Committee established by resolution 661 (1990) prior to the end of the period set out in 10 below and based on recommendations provided by the Office of the Iraq Program, funds deposited in the accounts created pursuant to paragraphs 8 (a) and (b) of resolution 986 (1995), as necessary and appropriate, to compensate suppliers and shippers for agreed additional shipping, transportation and storage costs incurred as a result of diverting and delaying shipments as directed by him according to the provisions of 4 (a), (b) and (c) in order to perform his functions set out in 4 (d);

h) TO MEET additional operational and administrative costs resulting from the implementation of the temporarily modified Program by the funds in the escrow account established pursuant to paragraph 8 (d) of resolution 986 (1995) in the same manner as costs arising from those activities set forth in paragraph 8(d) of resolution 986 (1995) in order to perform his functions set out in (d);

i) TO USE funds deposited in the escrow accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995) for the purchase of locally produced goods and to meet the local cost for essential civilian needs which have been funded in accordance with the provisions of resolution 986 (1995) and related resolutions, including, where appropriate, the costs of milling, transportation and other costs necessary to facilitate the delivery of essential humanitarian supplies to the people of Iraq;

5. EXPRESSES its readiness as a second step to authorize the Secretary-General to perform additional functions, with the necessary coordination, as soon as the situation permits as activities of the Program in Iraq resume;

6. EXPRESSES FURTHER its readiness to consider making additional funds available, including from the account created pursuant to paragraph 8 (c) of resolution 986 (1995), on an exceptional and reimbursable basis, to meet further the humanitarian needs of the people of Iraq.

7. DECIDES that, notwithstanding the provisions of resolution 661 (1990) and resolution 687 (1991) and for the duration of the present resolution, all applications outside the Oil-For-Food Program submitted by the United Nations agencies, programs and funds, other international organizations and non-governmental organizations (NGOs) for distribution or use in Iraq of emergency humanitarian supplies and equipment, other than medicines, health supplies and food stuffs, shall be reviewed by the Committee established pursuant to resolution 661 (1990), under a 24-hour no-objection procedure;

8. URGES all parties concerned, consistent with the Geneva Conventions and the Hague Regulations, to allow full and unimpeded access by international humanitarian organizations to all people of Iraq in need of assistance and to make available all necessary facilities for their operations and to promote the safety, security and freedom of movement of United Nations and associated personnel and their assets as well as personnel of humanitarian organizations in Iraq in meeting such needs;

9. DIRECTS the Committee established pursuant to resolution 661 (1990) to monitor closely the implementation of the provisions in paragraph 4 above and, in that regard, requests the Secretary-General to update the Committee on the measures as they are being taken and, to consult with the Committee on prioritization of contracts for shipments of goods, other than foodstuffs, medicines, health and water sanitation related supplies;

10. DECIDES that the provisions contained in 4 of this resolution shall remain in force for a period of 45 days following the date of adoption of this resolution and may be subject to further renewal by the Council;

11. REQUESTS the Secretary-General to take all measures required for the implementation of the present resolution and to report to the Security Council prior to the termination of the period defined in 10;

12. DECIDES to remain seized of the matter.

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APPENDIX 11

Kurdistan Regional Government  
 UN Liaison Office  
 Tel: (212) 581 9525 Email: KurdistanUN@msn.com  
 Press Statement: May 16, 2003 New York

UN OIL-FOR-FOOD PROGRAM: IRAQI KURDS ASK FOR REFORM AND ACCOUNTABILITY

Thanks to the resolute and courageous leadership of President George W. Bush and Prime Minister Tony Blair, Iraq has now been completely liberated. As a result, on April 16, 2003, President George W. Bush called on the UN to lift economic sanctions against Iraq. The draft US-sponsored UN Security Council Resolution (UNSCR) would replace UN oversight of Iraq's oil revenues with an internationally supervised Iraqi Assistance Fund (IAF).

The leadership of Iraqi Kurdistan welcomes this proposal. We believe that the principle of international control of Iraqi oil revenues and supervision of the spending of these revenues in a transparent and accountable manner should be preserved to prevent the corruption and human rights violations that plague oil-dependent, Middle Eastern countries.

While welcoming the US proposals, we are concerned that they fail to address the issue of billions of unspent dollars in UN controlled accounts, nominally allocated to three Iraqi Kurdish provinces. Thanks to obstruction by Saddam's regime, unspent money for the Iraqi Kurds totals in excess of \$2.5bn and could even be double that figure. Under UN Security Council resolution (UNSCR) 986, 13% of Iraqi oil revenues are reserved for three Kurdish provinces. These provinces are desperately poor. The unspent funds are needed to cope with the ongoing reconstruction following the genocidal Anfal campaign of 1987-88. The Kurdish provinces contain around 800,000 internally displaced persons, roughly a quarter of the total population, and victims of ethnic cleansing by the Iraqi regime that continued until late March 2003. Basic infrastructure available elsewhere in Iraq still needs to be built for the Kurds.

The US-sponsored draft fails to specify that the IAF will operate on the same basis as UNSCR 986, with a separate account for the Kurdish provinces. The international community recognized the right of Iraqi Kurds to their legitimate share of Iraqi oil revenues with UNSCR 986. It would be a strange and retrograde step for a US-sponsored resolution to roll back the rights of Iraq's most brutalized citizens.

Under UNSCR 1472, the UN Secretary-General can divert unspent funds from the Kurdish 13% account for short-term humanitarian relief. UNSCR 1472 specified that the diversion of funds would be on an "exceptional and reimbursable basis". The Iraqi Kurds do not object to providing relief to their fellow Iraqis from the 13% account—quite the contrary. Regrettably, the US-sponsored draft resolution does not affirm the crucial principle that such monies should only be used exceptionally and should be reimbursed. Again, it would be odd if a resolution sponsored by the liberators of Iraq were to leave their main Iraqi allies, the Kurds, worse off.

BACKGROUND

*UN SCR 986 "Oil for Food" program*

Iraqi oil is sold under UN control. The proceeds are then broken down and used in the following manner:

- 72% of Iraqi oil export proceeds fund the humanitarian program and is broken down into 59% for the contracting and supplies of equipment by the then

government for 15 central and southern mainly Arab-inhabited provinces. The remaining 13% is allocated to three northern, mostly Kurdish, provinces;

- the balance of proceeds is spent as follows: 25% percent for the Compensation Fund for Gulf War reparation payments (the U.N. Compensation Commission); 2.5% for U.N. administrative and operational costs of the Oil-for Food program; 0.8% for the weapons inspection costs.

*Why is so much money for the Kurds unspent?*

The UN allowed Saddam's regime to hold up as the building and equipping of hospitals, water and sanitation projects, agricultural development, educational services, provision of electricity and the removal of landmines. Saddam's regime refused to grant entry visas to qualified staff and declined import permits for necessary equipment.

The Iraqi regime, with tacit UN approval, engaged in a campaign to exclude qualified staff from the US and UK. Additionally, not a single Kurd was employed as member of the international staff of the Oil-for-Food program. Instead, with the staff was deliberately selected from Arab states, to be used as couriers for information to the Iraqi secret police. These workers also impeded UN projects. In July 2001, Kurdish police caught a Tunisian national working for the UN with explosives in his car. The man was handed over to the UN.

Mismanagement and incompetence also held up projects. The Kurdish city of Sulaimani, with a population of over 600,000, is still waiting for a 400-bed hospital to be built five years after funds were allocated for it.

*Kurdish success with Oil-for-Food*

The Kurdish provinces are an example of the program's success when a cooperative local partner is available, in contrast to the way the Saddam regime manipulated Oil-for-Food to its own benefit. Despite being poorer, the Kurdish provinces experienced a dramatic decline in the child mortality rate, while in Saddam's Iraq it was claimed that the infant mortality rate increased dramatically.

The failure of the Oil-for-Food program outside of the Kurdish areas was a consequence of a deliberate program of subversion by Saddam Hussein. Saddam and his sons siphoned off significant funds from the Oil-for-Food program. As General Tommy Franks remarked when in Baghdad, it was more of an "oil for palace" program.

Any reformed UN Oil-for-Food program or the IAF program should examine the Kurdish experience.

*Allocating 13% to the three Kurdish provinces was an act of justice*

The decision to specifically allocate revenues to the three Kurdish provinces a just and innovative method of revenue sharing among the citizens of Iraq, designed to provide the humanitarian and reconstruction needs of the Kurdish region, which had been subjected to decades of political and economic discrimination as well as a brutal campaign of genocide, the infamous Anfal of 1987-1988 and close to 40 years of ethnic cleansing.

*UN indifference*

The Iraqi Kurds have made repeated representations to the UN about the management of the Oil-for-Food program. On February 10, 2003 Iraqi Kurdish leaders, Jalal Talabani and Massoud Barzani, wrote to UN Secretary-General Kofi Annan to discuss UN plans to allow the unspent cash allocated to the Iraqi Kurds to be used for short-term humanitarian relief resulting from the approaching allied invasion of Iraq. We regret that the UN failed to respond to the Iraqi Kurdish leaders' letter.

New York May 16, 2003

For further information contact:

Howar Ziad  
Kurdistan Regional Government  
UN Liaison Office, Tel: 212-581-9525, E-mail: KurdistanUN@msn.com  
Postal address: PO Box 231224 New York NY 10023

*The Security Council:*

*Recalling* all its previous relevant resolutions;

*Reaffirming* the sovereignty and territorial integrity of Iraq;

*Reaffirming* also the importance of the disarmament of Iraqi weapons of mass destruction and of eventual confirmation of the disarmament of Iraq;

*Stressing* the right of the Iraqi people freely to determine their own political future and control their own natural resources, welcoming the commitment of all parties concerned to support the creation of an environment in which they may do so as soon as possible, and expressing resolve that the day when Iraqis govern themselves must come quickly;

*Encouraging* efforts by the people of Iraq to form a representative government based on the rule of law that affords equal rights and justice to all Iraqi citizens without regard to ethnicity, religion, or gender, and, in this connection, recalls resolution 1325 (2000) of 31 October 2000;

*Welcoming* the first steps of the Iraqi people in this regard, and noting in this connection the 15 April 2003 Nasiriya statement and the 28 April 2003 Baghdad statement;

*Resolved* that the United Nations should play a vital role in humanitarian relief, the reconstruction of Iraq, and the restoration and establishment of national and local institutions for representative governance;

*Noting* the statement of 12 April 2003 by the Ministers of Finance and Central Bank Governors of the Group of Seven Industrialised Nations in which the members recognised the need for a multilateral effort to help rebuild and develop Iraq and for the need for assistance from the International Monetary Fund and the World Bank in these efforts;

*Welcoming* also the resumption of humanitarian assistance and the continuing efforts of the secretary general and the specialised agencies to provide food and medicine to the people of Iraq;

*Welcoming* the appointment by the secretary general of his special adviser on Iraq;

*Affirming* the need for accountability for crimes and atrocities committed by the previous Iraqi regime;

*Stressing* the need for respect for the archaeological, historical, cultural, and religious heritage of Iraq, and for the continued protection of archaeological, historical, cultural, and religious sites, museums, libraries, and monuments;

*Noting* the letter of 8 May 2003 from the Permanent Representatives of the United States of America and the United Kingdom of Great Britain and Northern Ireland to the President of the Security Council (S/2003/538) and recognising the specific authorities, responsibilities, and obligations under applicable international law of these states as occupying powers under unified command (the "Authority");

*Noting further* that other states that are not occupying powers are working now or in the future may work under the Authority;

*Welcoming further* the willingness of member states to contribute to stability and security in Iraq by contributing personnel, equipment, and other resources under the Authority;

*Concerned* that many Kuwaitis and Third-State Nationals still are not accounted for since 2 August 1990;

*Determining* that the situation in Iraq, although improved, continues to constitute a threat to international peace and security;

*Acting under Chapter VII of the Charter of the United Nations,*

1. *Appeals* to Member States and concerned organisations to assist the people of Iraq in their efforts to reform their institutions and rebuild their country, and to contribute to conditions of stability and security in Iraq in accordance with this resolution;

2. *Calls upon* all member states in a position to do so to respond immediately to the humanitarian appeals of the United Nations and other international organisations for Iraq and to help meet the humanitarian and other needs of the Iraqi people by providing food, medical supplies, and resources necessary for reconstruction and rehabilitation of Iraq's economic infrastructure;

3. *Appeals* to member states to deny safe haven to those members of the previous Iraqi regime who are alleged to be responsible for crimes and atrocities and to support actions to bring them to justice;

4. *Calls upon* the Authority, consistent with the Charter of the United Nations and other relevant international law, to promote the welfare of the Iraqi people through the effective administration of the territory, including in particular working towards the restoration of conditions of security and stability and the creation of conditions in which the Iraqi people can freely determine their own political future;

5. *Calls upon* all concerned to comply fully with their obligations under international law including in particular the Geneva Conventions of 1949 and the Hague Regulations of 1907;

6. *Calls upon* the Authority and relevant organisations and individuals to continue efforts to locate, identify, and repatriate all Kuwaiti and Third-State Nationals or the remains of those present in Iraq on or after 2 August 1990, as well as the Kuwaiti archives, that the previous Iraqi regime failed to undertake, and, in this regard, directs the high-level co-ordinator, in consultation with the International Committee of the Red Cross and the Tripartite Commission and with the appropriate support of the people of Iraq and in co-ordination with the Authority, to take steps to fulfil his mandate with respect to the fate of Kuwaiti and Third-State National missing persons and property;

7. *Decides* that all member states shall take appropriate steps to facilitate the safe return to Iraqi institutions, of Iraqi cultural property and other items of archaeological, historical, cultural, rare scientific, and religious importance illegally removed from the Iraq National Museum, the National Library, and other locations in Iraq since the adoption of resolution 661 (1990) of 2 August 1990, including by establishing a prohibition on trade in or transfer of such items and items with respect to which reasonable suspicion exists that they have been illegally removed, and calls upon the United Nations Educational, Scientific, and Cultural Organization, Interpol, and other international organisations, as appropriate, to assist in the implementation of this paragraph;

8. *Requests* the secretary general to appoint a Special Representative for Iraq whose independent responsibilities shall involve reporting regularly to the Council on his activities under this resolution, co-ordinating activities of the United Nations in post-conflict processes in Iraq, co-ordinating among United Nations and international agencies engaged in humanitarian assistance and reconstruction activities in Iraq, and, in co-ordination with the Authority, assisting the people of Iraq through:

(a) co-ordinating humanitarian and reconstruction assistance by United Nations agencies and between United Nations agencies and non-governmental organisations;

(b) promoting the safe, orderly, and voluntary return of refugees and displaced persons;

(c) working intensively with the Authority, the people of Iraq, and others concerned to advance efforts to restore and establish national and local institutions for representative governance, including by working together to facilitate a process leading to an internationally recognised, representative government of Iraq;

(d) facilitating the reconstruction of key infrastructure, in co-operation with other international organisations;

(e) promoting economic reconstruction and the conditions for sustainable development, including through co-ordination with national and regional organisations, as appropriate, civil society, donors and the international financial institutions;

(f) encouraging international efforts to contribute to basic civilian administration functions;

(g) promoting the protection of human rights;

(h) encouraging international efforts to rebuild the capacity of the Iraqi civilian police force; and

(i) encouraging international efforts to promote legal and judicial reform.

9. *Supports* the formation, by the people of Iraq with the help of the Authority and working with the special representative, of an Iraqi interim administration as a transitional administration run by Iraqis, until an internationally recognised, representative government is established by the people of Iraq and assumes the responsibilities of the Authority;

10. *Decides that*, with the exception of prohibitions related to the sale or supply to Iraq of arms and related materiel other than those arms and related materiel required by the Authority to serve the purposes of this and other related resolutions, all prohibitions related to trade with Iraq and the provision of financial or economic resources to Iraq established by resolution 661 (1990) and subsequent relevant resolutions, including resolution 778 (1992) of 2 October 1992, shall no longer apply;

11. *Reaffirms* that Iraq must meet its disarmament obligations, encourages the United Kingdom of Great Britain and Northern Ireland and the United States of America to keep the Council informed of their activities in this regard, and underlines the intention of the Council to revisit the mandates of the United Nations Monitoring and Verification Commission and the International Atomic Energy Agency as set forth in resolutions 687 (1991) of 3 April 1991, 1284 (1999) of 17 December 1999, and 1441 (2002) of 8 November 2002;

12. *Notes* the establishment of a Development Fund for Iraq to be held by the Central Bank of Iraq and to be audited by independent public accountants approved



by the International Advisory and Monitoring Board of the Development Fund for Iraq and looks forward to the early meeting of that International Advisory and Monitoring Board, whose members shall include duly qualified representatives of the secretary general, of the managing director of the International Monetary Fund, of the director-general of the Arab Fund for Social and Economic Development, and of the president of the World Bank;

13. *Notes further* that the funds in the Development Fund for Iraq shall be disbursed at the direction of the Authority, in consultation with the Iraqi interim administration, for the purposes set out in paragraph 14 below;

14. *Underlines* that the Development Fund for Iraq shall be used in a transparent manner to meet the humanitarian needs of the Iraqi people, for the economic reconstruction and repair of Iraq's infrastructure, for the continued disarmament of Iraq, and for the costs of Iraqi civilian administration, and for other purposes benefiting the people of Iraq;

15. *Calls upon* the international financial institutions to assist the people of Iraq in the reconstruction and development of their economy and to facilitate assistance by the broader donor community, and welcomes the readiness of creditors, including those of the Paris Club, to seek a solution to Iraq's sovereign debt problems;

16. *Requests also* that the secretary general, in co-ordination with the Authority, continue the exercise of his responsibilities under Security Council resolution 1472 (2003) of 28 March 2003 and 1476 (2003) of 24 April 2003, for a period of six months following the adoption of this resolution, and terminate within this time period, in the most cost effective manner, the ongoing operations of the oil-for-food programme (the "programme"), both at headquarters level and in the field, transferring responsibility for the administration of any remaining activity under the programme to the Authority, including by taking the following necessary measures:

(a) to facilitate as soon as possible the shipment and authenticated delivery of priority civilian goods as identified by the secretary general and representatives designated by him, in co-ordination with the Authority and the Iraqi interim administration, under approved and funded contracts previously concluded by the previous Government of Iraq, for the humanitarian relief of the people of Iraq, including, as necessary, negotiating adjustments in the terms or conditions of these contracts and respective letters of credit as set forth in paragraph 4 (d) of resolution 1472 (2003);

(b) to review, in light of changed circumstances, in co-ordination with the Authority and the Iraqi interim administration, the relative utility of each approved and funded contract with a view to determining whether such contracts contain items required to meet the needs of the people of Iraq both now and during reconstruction, and to postpone action on those contracts determined to be of questionable utility and the respective letters of credit until an internationally recognised, representative government of Iraq is in a position to make its own determination as to whether such contracts shall be fulfilled;

(c) to provide the Security Council within 21 days following the adoption of this resolution, for the Security Council's review and consideration, an estimated operating budget based on funds already set aside in the account established pursuant to paragraph 8 (d) of resolution 986 (1995) of 14 April 1995, identifying:

(i) all known and projected costs to the United Nations required to ensure the continued functioning of the activities associated with implementation of the present resolution, including operating and administrative expenses associated with the relevant United Nations agencies and programs responsible for the implementation of the programme both at headquarters and in the field;

(ii) all known and projected costs associated with termination of the programme;

(iii) all known and projected costs associated with restoring Government of Iraq funds that were provided by member states to the secretary general as requested in paragraph 1 of resolution 778 (1992) of 2 October 1992; and

(iv) all known and projected costs associated with the special representative and the qualified representative of the secretary general identified to serve on the International Advisory and Monitoring Board, for the six-month time period defined above, following which these costs shall be borne by the United Nations;

(d) to consolidate into a single fund the accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995);

(e) to fulfil all remaining obligations related to the termination of the programme, including negotiating in the most cost-effective manner, any necessary settlement payments, which shall be made from the escrow accounts established pursuant to paragraphs 8(a) and 8 (b) of resolution 986 (1995), with those parties that previously have entered into contractual obligations with the secretary general under the programme, and to determine, in co-ordination with the Authority and the Iraqi interim administration, the future status of contracts undertaken by the United Na-

tions and related United Nations agencies under the accounts established pursuant to paragraphs 8 (b) and 8 (d) of resolution 986 (1995);

(f) to provide the Security Council, 30 days prior to the termination of the programme, with a comprehensive strategy developed in close co-ordination with the Authority and the Iraqi interim administration that would lead to the delivery of all relevant documentation and the transfer of all operational responsibility of the programme to the Authority;

17. *Requests further* that the secretary general transfer as soon as possible to the Development Fund for Iraq \$1bn from unencumbered funds in the accounts established pursuant to paragraphs 8 (a) and 8 (b) of resolution 986 (1995), restore Government of Iraq funds that were provided by member states to the secretary general as request in paragraph 1 of resolution 778 (1992), and decides that, after deducting all relevant United Nations expenses associated with the shipment of authorised contracts, and costs to the programme outlined in paragraph 16 (c) above, including residual obligations, all surplus funds in the escrow accounts established pursuant to paragraphs 8 (a), 8 (b), 8 (d), and 8 (f) of resolution 986 (1995) shall be transferred at the earliest possible time to the Development Fund for Iraq;

18. *Decides* to terminate effective on the adoption of this resolution the functions related to the observation and monitoring activities undertaken by the secretary general under the programme, including the monitoring of the export of petroleum and petroleum products from Iraq;

19. *Decides* to terminate the Committee established pursuant to paragraph 6 of resolution 661 (1990) at the conclusion of the six months period called for in paragraph 16 above and further decides that the Committee shall identify individuals and entities referred to in paragraph 23 below;

20. *Decides* that all export sales of petroleum, petroleum products, and natural gas from Iraq following the date of the adoption of this resolution shall be made consistent with prevailing international market best practices, to be audited by independent public accountants reporting to the International Advisory and Monitoring Board referred to in paragraph 12 above in order to ensure transparency, and decides further that, except as provided in paragraph 21 below, all proceeds from such sales shall be deposited into the Development Fund for Iraq, until such time as an internationally recognised, representative government of Iraq is properly constituted;

21. *Decides* further that 5% of the proceeds referred to in paragraph 20 above shall be deposited into the Compensation Fund established in accordance with resolution 687 (1991) of 3 April 1991 and subsequent relevant resolutions and that, unless an internationally recognised, representative government of Iraq and the Governing Council of the United Nations Compensation Commission, in the exercise of its authority over methods of ensuring that payments are made into the Compensation Fund, decide otherwise, this requirement shall be binding on a properly constituted, internationally recognised, representative government of Iraq and any successor thereto;

22. *Noting* the relevance of the establishment of an internationally recognised, representative government of Iraq and the desirability of prompt completion of the restructuring of Iraq's debt as referred to in paragraph 15 above, further decides that, until December 31 2007, unless the Council decides otherwise, petroleum, petroleum products, and natural gas originating in Iraq shall be immune, until title passes to the initial purchaser from legal proceedings against them and not be subject to any form of attachment, garnishment, or execution, and that all states shall take any steps that may be necessary under their respective domestic legal systems to assure this protection, and that proceeds and obligations arising from sales thereof, as well as the Development Fund for Iraq, shall enjoy privileges and immunities equivalent to those enjoyed by the United Nations except that the above-mentioned privileges and immunities will not apply with respect to any legal proceeding in which recourse to such proceeds or obligations is necessary to satisfy liability for damages assessed in connection with an ecological accident, including an oil spill, that occurs after the date of adoption of this resolution;

23. *Decides* that all member states in which there are:

(1) funds or other financial assets or economic resources of the previous Government of Iraq or its state bodies, corporations, or agencies, located outside Iraq as of the date of this resolution, or

(2) funds or other financial assets or economic resources that have been removed from Iraq, or acquired, by Saddam Hussein or other senior officials of the former Iraqi regime and their immediate family members, including entities owned or controlled, directly or indirectly, by them or by persons acting on their behalf or at their direction,

*shall freeze* without delay those funds or other financial assets or economic resources and, unless these funds or other financial assets or economic resources are themselves the subject of a prior judicial, administrative, or arbitral lien or judgement, immediately shall cause their transfer to the Development Fund for Iraq, it being understood that, unless otherwise addressed, claims made by private individuals or non-government entities on those transferred funds or other financial assets may be presented to the internationally recognised, representative government of Iraq; and decides further that all such funds or other financial assets or economic resources shall enjoy the same privileges, immunities, and protections as provided under paragraph 22;

24. *Requests* the secretary general to report to the Council at regular intervals on the work of the special representative with respect to the implementation of this resolution and on the work of the International Advisory and Monitoring Board and encourages the United Kingdom of Great Britain and Northern Ireland and the United States of America to inform the Council at regular intervals of their efforts under this resolution;

25. *Decides* to review the implementation of this resolution within 12 months of adoption and to consider further steps that might be necessary;

26. *Calls* upon member states and international and regional organisations to contribute to the implementation of this resolution;

27. *Decides* to remain seized of this matter.

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APPENDIX 13

UN SECURITY COUNCIL RESOLUTION 1500 (2003)  
AUGUST 14, 2003

*The Security Council,*

Recalling all its previous relevant resolutions, in particular Resolution 1483 (2003) of 22 May 2003,

Reaffirming the sovereignty and territorial integrity of Iraq,

Reaffirming also the vital role for the United Nations in Iraq which was set out in relevant paragraphs of Resolution 1483,

Having considered the report of the Secretary-General of 15 July 2003 (S/2003/715),

1. Welcomes the establishment of the broadly representative Governing Council of Iraq on 13 July 2003, as an important step towards the formation by the people of Iraq of an internationally recognized, representative government that will exercise the sovereignty of Iraq;

2. Decides to establish the United Nations Assistance Mission for Iraq to support the Secretary-General in the fulfillment of his mandate under Resolution 1483 in accordance with the structure and responsibilities set out in his report of 15 July 2003, for an initial period of twelve months;

3. Decides to remain seized of this matter.

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APPENDIX 14

UNITED NATIONS SECURITY COUNCIL RESOLUTION 1511 (2003)  
OCTOBER 8, 2003

*The Security Council,*

REAFFIRMING its previous resolutions on Iraq, including resolution 1483 (2003) of 22 May 2003 and 1500 (2003) of 14 August 2003, and on threats to peace and security caused by terrorist acts, including resolution 1373 (2001) of 28 September 2001, and other relevant resolutions,

UNDERSCORING that the sovereignty of Iraq resides in the State of Iraq, reaffirming the right of the Iraqi people freely to determine their own political future and control their own natural resources,

REITERATING its resolve that the day when Iraqis govern themselves must come quickly, and

RECOGNIZING the importance of international support, particularly that of countries in the region, Iraq's neighbors, and regional organizations, in taking forward this process expeditiously,

RECOGNIZING that international support for restoration of conditions of stability and security is essential to the well-being of the people of Iraq as well as to the ability of all concerned to carry out their work on behalf of the people of Iraq, and welcoming Member State contributions in this regard under resolution 1483 (2003),

WELCOMING the decision of the Governing Council of Iraq to form a preparatory constitutional committee to prepare for a constitutional conference that will draft a constitution to embody the aspirations of the Iraqi people, and

URGING it to complete this process quickly,

AFFIRMING that the terrorist bombings of the Embassy of Jordan on 7 August 2003, of the United Nations headquarters in Baghdad on 19 August 2003, of the Imam Ali Mosque in Najaf on 29 August 2003, and of the Embassy of Turkey on 14 October 2003, and the murder of a Spanish diplomat on 9 October 2003 are attacks on the people of Iraq, the United Nations, and the international community, and

DEPLORING the assassination of Dr. Akila al-Hashimi, who died on 25 September 2003, as an attack directed against the future of Iraq,

In that context, RECALLING and REAFFIRMING the statement of its President of 20 August 2003 (S/PRST /2003/13) and resolution 1502 (2003) of 26 August 2003,

DETERMINING that the situation in Iraq, although improved, continues to constitute a threat to international peace and security,

ACTING UNDER CHAPTER VII OF THE CHARTER OF THE UNITED NATIONS,

1. REAFFIRMS the sovereignty and territorial integrity of Iraq, and UNDERSCORES, in that context, the temporary nature of the exercise by the Coalition Provisional Authority (Authority) of the specific responsibilities, authorities, and obligations under applicable international law recognized and set forth in resolution 1483 (2003), which will cease when an internationally recognized, representative government established by the people of Iraq is sworn in and assumes the responsibilities of the Authority, inter alia through steps envisaged in paragraphs four through seven and ten below;

2. WELCOMES the positive response of the international community, in fora such as the Arab League, the Organization of the Islamic Conference, the United Nations General Assembly, and the United Nations Educational, Scientific and Cultural Organization, to the establishment of the broadly representative Governing Council as an important step towards an internationally recognized, representative government;

3. SUPPORTS the Governing Council's efforts to mobilize the people of Iraq, including by the appointment of a cabinet of ministers and a preparatory constitutional committee to lead a process in which the Iraqi people will progressively take;

4. DETERMINES that the Governing Council and its ministers are the principal bodies of the Iraqi interim administration, which, without prejudice to its further evolution, embodies the sovereignty of the State of Iraq during the transitional period until an internationally recognized, representative government is established and assumes the responsibilities of the Authority;

5. AFFIRMS that the administration of Iraq will be progressively undertaken by the evolving structures of the Iraqi interim administration;

6. CALLS UPON the Authority, in this context, to return governing responsibilities and authorities to the people of Iraq as soon as practicable and requests the Authority, in cooperation as appropriate with the Governing Council and the Secretary-General, to report to the Council on the progress being made;

7. INVITES the Governing Council to provide to the Security Council, for its review, no later than 15 December 2003, in cooperation with the Authority and, as circumstances permit, the Special Representative of the Secretary-General, a timetable and a program for the drafting of a new constitution for Iraq and for the holding of democratic elections under that constitution;

8. RESOLVES that the United Nations, acting through the Secretary-General, his Special Representative, and the United Nations Assistance Mission in Iraq, should strengthen its vital role in Iraq, including by providing humanitarian relief, promoting the economic reconstruction of and conditions for sustainable development in Iraq, and advancing efforts to restore and establish national and local institutions for representative government;

9. REQUESTS that, as circumstances permit, the Secretary-General pursue the course of action outlined in paragraphs 98 and 99 of the report of the Secretary-General of 17 July 2003 (S/2003/715);

10. TAKES NOTE of the intention of the Governing Council to hold a constitutional conference and, recognizing that the convening of the conference will be a milestone in the movement to the full exercise of sovereignty, calls for its preparation through national dialogue and consensus-building as soon as practicable and requests the Special Representative of the Secretary-General, at the time of the convening of the conference, or, as circumstances permit, to lend the unique expertise of the United Nations to the Iraqi people in this process of political transition, including the establishment of electoral processes;

11. REQUESTS the Secretary-General to ensure that the resources of the United Nations and associated organizations are available, if requested by the Iraqi Governing Council and, as circumstances permit, to assist in furtherance of the program provided by the Governing Council in paragraph 7 above and encourages other organizations with expertise in this area to support the Iraqi Governing Council, if requested;

12. REQUESTS the Secretary-General to report to the Security Council on his responsibilities under this resolution and the development and implementation of a timetable and program under paragraph 7 above;

13. DETERMINES that the provision of security and stability is essential to the successful completion of the political process as outlined in paragraph 7 above and to the ability of the United Nations to contribute effectively to that process and the implementation of resolution 1483 (2003), and AUTHORIZES a multinational force under unified command to take all necessary measures to contribute to the maintenance of security and stability in Iraq, including for the purpose of ensuring necessary conditions for the implementation of the timetable and program as well as to contribute to the security of the United Nations Assistance Mission for Iraq, the Governing Council of Iraq and other institutions of the Iraqi interim administration, and key humanitarian and economic infrastructure;

14. URGES Member States to contribute assistance under this United Nations mandate, including military forces, to the multinational force referred to in paragraph 13 above;

15. DECIDES that the Council shall review the requirements and mission of the multinational force referred to in paragraph 13 above not later than one year from the date of this resolution, and that in any case the mandate of the force shall expire upon the completion of the political process as described in paragraphs 4 through 7 and 10 above, and EXPRESSES readiness to consider on that occasion any future need for the continuation of the multinational force, taking into account the views of an internationally recognized, representative government of Iraq;

16. EMPHASIZES the importance of establishing effective Iraqi police and security forces in maintaining law, order, and security and combating terrorism consistent with paragraph 4 of resolution 1483 (2003), and calls upon Member States and international and regional organizations to contribute to the training and equipping of Iraqi police and security forces;

17. EXPRESSES deep sympathy and condolences for the personal losses suffered by the Iraqi people and by the United Nations and the families of those United Nations personnel and other innocent victims who were killed or injured in these tragic attacks;

18. UNEQUIVOCALLY CONDEMNS the terrorist bombings of the Embassy of Jordan on 7 August 2003, of the United Nations headquarters in Baghdad on 19 August 2003, and of the Imam Ali Mosque in Najaf on 29 August 2003, and of the Embassy of Turkey on 14 October 2003, the murder of a Spanish diplomat on 9 October 2003, and the assassination of Dr. Akila al-Hashimi, who died on 25 September 2003, and EMPHASIZES that those responsible must be brought to justice;

19. CALLS UPON Member States to prevent the transit of terrorists to Iraq, arms for terrorists, and financing that would support terrorists, and emphasizes the importance of strengthening the cooperation of the countries of the region, particularly neighbors of Iraq, in this regard;

20. APPEALS to Member States and the international financial institutions to strengthen their efforts to assist the people of Iraq in the reconstruction and development of their economy, and urges those institutions to take immediate steps to provide their full range of loans and other financial assistance to Iraq, working with the Governing Council and appropriate Iraqi ministries;

21. URGES Member States and international and regional organizations to support the Iraq reconstruction effort initiated at the 24 June 2003 United Nations Technical Consultations, including through substantial pledges at the 23–24 October 2003 International Donors Conference in Madrid;

22. CALLS UPON Member States and concerned organizations to help meet the needs of the Iraqi people by providing resources necessary for the rehabilitation and reconstruction of Iraq's economic infrastructure;

23. EMPHASIZES that the International Advisory and Monitoring Board (IAMB) referred to in paragraph 12 of resolution 1483 (2003) should be established as a priority, and reiterates that the Development Fund for Iraq shall be used in a transparent manner as set out in paragraph 14 of resolution 1483 (2003);

24. REMINDS all Member States of their obligations under paragraphs 19 and 23 of resolution 1483 (2003) in particular the obligation to immediately cause the transfer of funds, other financial assets and economic resources to the Development Fund for Iraq for the benefit of the Iraqi people;

25. REQUESTS that the United States, on behalf of the multinational force as outlined in paragraph 13 above, report to the Security Council on the efforts and progress of this force as appropriate and not less than every six months;

26. DECIDES to remain seized of the matter.

Chairman HYDE. Ms. Pletka, you are next.

**STATEMENT OF DANIELLE PLETKA, VICE PRESIDENT, FOREIGN AND DEFENSE POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE**

Ms. PLETKA. Thank you, Mr. Chairman. Sorry. Technology gets the best of us.

Mr. Chairman, distinguished Members, thank you very much for inviting me to be here today. At first glance the Oil-for-Food scandal at the United Nations appears a story of bureaucratic shenanigans, graft and mismanagement. In fact, its implications are far wider. As the United States prepares to hand responsibility for Iraq to the United Nations, the U.N.'s administration of the Oil-for-Food Program brings into question the efficacy and integrity of the institution and its abilities to function credibly in Iraq. As we rely more and more on global bodies like the U.N., the ability of those bodies to enforce their members' will, to rely on their personnel and to operate transparently are matters that concern all responsible nations.

Since the publication of the alleged kickback list from the United Nations Oil-for-Food Program for Iraq, there has been a good deal of debate about the program. The temptation in the face of growing evidence of official corruption is to assign blame, pledge to root out this sort of malfeasance in the future and move on. Secretary General Annan has already asserted that any problems were the fault of the members of the Security Council. Others pinpoint Benon Sevan, the Director of the Office of the Iraq Program and an alleged recipient of a kickback voucher from Saddam.

In individual cases pay-offs can explain in part why the program had so many failings. After all, if it is true that Benon Sevan was being bribed by Saddam Hussein, then we can more easily understand why it was impossible to engage the Office of the Iraq Program in any systematic effort to effectively implement sanctions. Similarly, it should come as no surprise that if companies could get contracts through bribes, and without fear of punishment, they would do so. But generally speaking, there is plenty of blame to go around.

Originally the program was conceived to address the fact that the United Nations' sanctions on Iraq were inflicting suffering on the Iraqi people rather than on Saddam Hussein. The first resolution to suggest such a program, U.N. Security Council Resolution 706 in 1991, envisioned the U.N. Secretary General himself in control of contracting and revenues. Saddam Hussein was cut out of the whole process. But Saddam correctly judged that if he held out, a better deal would come along, and in 1995, with U.N. Security Council Resolution 986, it did.

The very nature of the U.N. Security Council 986 resolution invited corruption. Saddam Hussein's own government was responsible for developing distribution lists, deciding needs, contracting with suppliers and delivering goods to the end users in much of

Iraq. There was no requirement that Saddam find the best goods or the cheapest supplier. No surprise then that Saddam used the contracting process to reward friendly countries and punish enemies. Nor is it any surprise that many of the companies involved were willing to pay surcharges for lucrative contracts often to ship shoddy and unneeded goods into Iraq. For example, I gather a Department of Defense audit found that two-thirds of all Egypt contracts were deemed overpriced by an average of not 10. But 23 percent, and of the 124 Russian contracts that they investigated, 51 were found to have illegal surcharges. Imagine. These were not contracts in violation of sanctions, but allowed within the sanctions regime. Billions in business was also taking place outside the sanctions regime, benefiting Saddam Hussein directly. In many cases the United Nations was fully aware of those violations, but did almost nothing to stop them despite United States efforts.

Meanwhile, throughout the course of the 1990s, beginning as early as 1991, everyone from Kofi Annan to the Foreign Ministers and Presidents of Russia, China and France, not to speak of Saddam's friends in the Arab League, were all condemning the inhumanity of the sanctions regime. But even the loose system under U.N. Security Council Resolution 986 and its follow-on resolution, 1153, weren't good enough for Saddam and his allies. By 1999, he was allowed to sell an unlimited amount of oil, buy an unlimited amount of nonmilitary goods, and contract for exploration in existing oil fields.

If the Oil-for-Food Program itself was a problem, the regulation of so-called dual-use goods was even worse. Under the terms of the original resolution regulating the importation of such goods, U.N. Security Council Resolution 1051, there were meant to be weapons inspectors ensuring imports weren't diverted, but there were only 150 inspectors on the ground checking up on the program, and after 1998 there were none. In theory, the U.N. people were doing the job, but they didn't have the time, the expertise or the willingness to hire more personnel despite the fact that they were receiving fully 3 percent of Oil-for-Food revenues for their own costs.

Nor did the United Nations Secretariat or the Office of the Iraq Program express particular concern. Their main focus at the time and the object of constant protest to the United States and to any member of the press who would listen was the more than \$1 billion in holds, objections to particular contracts, that the United States and Britain had on goods going into Iraq.

Chairman HYDE. Ms. Pletka, can you summarize it in 2 more minutes?

Ms. PLETKA. I can summarize it in 2 more minutes. Yes, sir. I am sorry.

Chairman HYDE. Thank you.

Ms. PLETKA. These are the facts. For the most part those of us who paid attention to Iraq and to the sanctions were well aware of them in the early 1990s. Corruption, smuggling and sanctions violations were common knowledge. For the U.N. Secretary General to assert that they weren't aware of the problem is absurd. But Saddam is gone now and the sanctions regime is finished. Why do we care?

There are some obvious answers. The criminal behavior such as taking bribes, accepting vouchers and the like must be ferreted out. As Claudia Rosett has ably documented, there is almost no accountability within the United Nations. OIP officials have protested they did diligent oversight, and they underwent up to 100 audits, but GAO has not seen the audits and testified that, "it is unclear how OIP performed its oversight function."

Mr. Chairman, you have to file a financial disclosure form as most every one of your colleagues and many of your staff. The purpose is to reveal conflicts of interest or suspicious sources of income. And lying about that is subject to criminal penalty. A similar accountability system within the United Nations only applies to the rank of Assistant Secretary General and above, and it is not entirely clear what the punishment is if you violate or lie on those forms. Benon Sevan, who is alleged to have received an oil voucher from Saddam's government, hasn't even been suspended from his paid position and intends to resign without ever having been suspended. In such a bureaucracy, only a person's innate honor and honesty is a guarantor against corruption.

But there is a more serious issue at hand as well. Setting aside the question of corruption, even if the program had been squeaky clean, it is clear that those administering the Iraq sanctions were not fully committed to their success. And why should they have been? They don't work for the United States. There are five permanent members of the Security Council, and at least three of them did not support sanctions against Iraq. The leaders of France, China and Russia had all made clear that the time for sanctions—the time had come for sanctions to end. Indeed Syria, which sat on the Security Council during the height of the debate over Iraq, was the number one violator of U.N. sanctions on Iraq. Why should U.N. employees enforce with any enthusiasm a system that is not supported by the majority of the members of the United Nations?

For those who contend that we must always proceed on the basis of multilateralism and that the United Nations should be the default instrument of American foreign policy, this is a real dilemma. Many of us conclude instead the U.N. should be used when possible, but when consensus is unachievable or so dilutes our goals as to be useless to our purpose, then we must move on alone.

But it is fashionable in many quarters to reject that kind of thinking as "unilateralism and as illegitimate absent the U.N. good housekeeping seal of approval." Those who argue that need to explain why the corruption and mismanagement we are finding in the Oil-for-Food Program will not be characteristic of other such programs in the future. If the Council is divided, and cannot agree to enforce the resolution it agrees upon, it should come as no surprise that the staff of the United Nations, from the Secretary General on down, don't feel it incumbent upon them to carry out U.N. resolutions to the letter. And if they can take bribes without fear of punishment in order to subvert those resolutions, the problem of enforcement is graver still. If the U.N. is intended to be an arm of our foreign policy, then Iraq sanctions are indeed an objection lesson.

Thank you very much.

Chairman HYDE. Thank you, Ms. Pletka.



[The prepared statement of Ms. Pletka follows:]

PREPARED STATEMENT OF DANIELLE PLETKA, VICE PRESIDENT, FOREIGN AND DEFENSE POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE

Mr. Chairman, distinguished members, thank you for inviting me to be here today.

At first glance, the oil for food scandal at the United Nations appears a mundane story of bureaucratic shenanigans, graft and mismanagement. In fact, its implications are far wider. As the United States prepares to hand responsibility for Iraq to the United Nations, the UN's administration of the oil for food program brings into question the efficacy and integrity of the institution and its ability to function credibly in Iraq. As we rely more and more on global bodies like the UN, the ability of those bodies to enforce their members' will, to rely on their personnel and to operate transparently are matters that concern all responsible nations.

Since the publication of the alleged kickback list from the United Nations oil for food program for Iraq there has been a good deal of debate about the program. Playing out their own version of Casablanca, officials from the United Nations have declared themselves "shocked" that the oil for food program was a tangled web of, at best, incompetence, at worst, bribery, deceit, corruption.

The temptation in the face of growing evidence of official corruption is to assign blame, pledge to root out this sort of malfeasance in the future and move on. Secretary General Annan has already asserted that any problems were the fault of the members of the Security Council. Others pinpoint Benon Sevan, the director of the Office of the Iraq Program at the United Nations, and an alleged recipient of a kickback voucher from Saddam. In this political season, still others have asserted, variously, that the Clinton or Bush Administrations are to blame for the scandalous behavior at the UN.

In individual cases, payoffs can explain in part why the program had so many failings. After all, if it is true that Benon Sevan was being bribed by Saddam Hussein, then we can more easily understand why it was impossible to engage the Office of Iraq Program in any systematic effort to effectively implement sanctions. Similarly, it should come as no surprise that if companies could get contracts through bribes and without fear of punishment, they would do so.

But generally speaking, there is plenty of blame to go around, because the failings of the oil for food program can be traced directly back to the failings of international institutions in general and consensus-based multilateralism in particular.

Originally, the program was conceived to address the fact that United Nations sanctions on Iraq were inflicting suffering on the Iraqi people rather than on Saddam Hussein. The first resolution to suggest such a program, UNSCR 706 in 1991, envisioned the UN Secretary General in control of contracting and revenues; Saddam Hussein was cut out of the whole process. But Saddam correctly judged that if he held out, a better deal would come along; and in 1995 with UNSCR 986, it did.

The environment surrounding passage of 986 was typical at the UN. The crisis had passed, as had the pressure for decisive action, and the loose nature of the controls outlined in the resolution reflect that. The compromise contained in 986 gave rise to two classes of victim: first, the Iraqi people, who remained at the mercy of this dictator; and second, the rest of the world, which was relying on the effective administration of sanctions to contain the Iraqi threat.

The very nature of UNSCR 986 invited corruption. Saddam Hussein's own government was responsible for developing distribution lists, deciding needs, contracting with suppliers and delivering goods to the end users in much of Iraq. There was no requirement that Saddam find the best goods or the cheapest supplier. No surprise then that Saddam used the contracting process to reward friendly countries and punish enemies. Nor is it any surprise that many of the companies involved were willing to pay surcharges for lucrative contracts, often to ship shoddy and unneeded goods into Iraq. For example, I gather that a Department of Defense audit found that two thirds of all Egypt's contracts were deemed overpriced by an average of 23 percent, and of the 124 Russian contracts investigated, 51 were found to have illegal surcharges.

Imagine, these were not contracts in violation of sanctions, but allowed within the sanctions regime. Billions in business was also taking place outside the sanctions regime, benefiting Saddam Hussein directly. In many cases the United Nations was fully aware of those violations, but did almost nothing to stop them.

Meanwhile, throughout the course of the 1990s beginning as early as 1991, everyone from Kofi Annan to the Foreign Ministers of Russia, China and France, not to speak of Saddam's friends inside the Arab League, were all condemning the inhu-

manity of the sanctions regime. Each loosening of the sanctions (and they were officially loosened roughly every two years) came in response to enormous international pressure.

Denis Halliday, the UN administrator of the oil-for-food program, resigned in 1998 to protest the sanctions. Halliday said, "We are in the process of destroying an entire country" and labeled the sanctions as "nothing less than genocide."

But even the loose system under UNSCR 986 and its follow-on resolution 1153 weren't good enough for Saddam or his allies. By 1999 he was allowed to sell an unlimited amount of oil, buy an unlimited amount of non-military goods and contract for exploration in existing oil fields; he was building palaces, importing fleets of luxury cars and, best of all, there were no weapons inspectors inside Iraq.

If the oil for food program was a problem, the regulation of so-called dual use goods was even worse. Under the terms of the original resolution regulating the importation of such goods, UNSCR 1051, there were meant to be weapons inspectors insuring that imports weren't diverted. There were just 150 inspectors on the ground checking up on the oil for food program; and after 1998, there was no one inspecting dual use. In theory, the UN people were doing the job, but in practice they didn't have the time, the expertise or the willingness to hire more personnel. All this while they receiving fully three percent of the OFF revenues for their own costs.

Nor did the United Nations secretariat or the Office of the Iraq Program express particular concern. OIP officials who met with US government and congressional groups were hostile and angry, furious over any insinuations that the program could be improved in any way. Their main focus and the object of constant protest to the United Nations and to any member of the press who would listen was the more than \$1 billion in holds—objections to particular contracts—the United States and Great Britain had on goods going into Iraq.

These are the facts; for the most part, those of us who paid attention to Iraq and to the sanctions were well aware of them beginning in the early 1990s. Corruption, smuggling and sanctions violations were common knowledge. For the United Nations Secretary General or his spokesmen to assert that they weren't aware of the problems is absurd. But Saddam is now gone and the sanctions regime is over. So why do we care?

There are some obvious answers to that question: Criminal behavior such as taking bribes and accepting "vouchers" should be ferreted out and prosecuted. As Claudia Rosett has ably documented, there is almost no accountability within the United Nations. OIP officials have protested they did diligent oversight and underwent up to 100 audits. But GAO has not seen the audits and has testified that "it is unclear how [OIP] performed this function."

Mr. Chairman, you must file an annual financial disclosure, as must every one of your colleagues and many of your staff. The purpose is to reveal any potential conflicts of interest or suspicious sources of income. Lying about that income (including bribes and kickbacks)—or just lying about your assets—is subject to criminal penalty. A similar accountability system within the United Nations applies only to the rank of assistant secretary general and above. Indeed, it is not entirely clear what the penalty is within the United Nations if you are actually caught taking bribes.

Benon Sevan, who is alleged to have received an oil voucher from Saddam's government, has not even been suspended from his paid position. In such a bureaucracy, only a person's innate honesty is a guarantor against corruption. That's not much of a way to run a ship.

But there is a more serious issue at hand here. Set aside for a moment the question of corruption. Even if the program had been squeaky clean, it is clear that those administering the Iraq sanctions were not committed to their success. Why should they have been? They don't work for the United States. There are five permanent members of the Security Council, and at least three of them did not support sanctions against Iraq.

The leaders of France, China and Russia had all made clear that the time had come for sanctions to end, despite the fact that Saddam Hussein had not complied with the terms of the original cease fire resolution following his ouster from Kuwait. Indeed, Syria, which sat on the Security Council during the height of the debate over Iraq, was the #1 violator of UN sanctions on Iraq. Why should UN employees enforce with any enthusiasm a system that is not supported by the majority of the members of the United Nations?

For those who contend that we must always proceed on the basis of multilateralism and that the United Nations should be the default instrument of American foreign policy, this is a real dilemma. Many of us conclude instead that the United Nations should be used when possible, but when consensus in that body

is unachievable, or so dilutes our goals so as to be useless to our purpose, then we must move on alone.

It is fashionable in many quarters to reject this kind of thinking as "unilateralism" and as per se "illegitimate" absent the UN's good housekeeping seal of approval. Those who argue this, however, need to explain why the corruption and mismanagement we are finding in the OFF program will not be characteristic of other multilateral responses to similar problems in the future.

The history of the United Nations' dealings with Iraq is a story of international bickering, disagreement, and lowest common denominator solutions. In almost every instance where the Security Council was able to act, it was because of a crisis. Within weeks of the crisis passing, the unanimity of the Council disappeared.

If the Council is divided, and cannot agree to enforce the very resolutions it agrees upon, it should come as no surprise that the staff of the United Nations, from the Secretary General on down, do not feel it incumbent upon them to carry out UN resolutions to the letter of the law. And if they can take bribes without fear of punishment in order to subvert those resolutions, the problem of enforcement is graver still.

If the UN is intended to be an arm of our foreign policy, then Iraq sanctions are an object lesson. There must be drastic reform.

Chairman HYDE. Professor or Dr. Ruggie, please.

**STATEMENT OF JOHN G. RUGGIE, PH.D., EVRON AND JEANE KIRKPATRICK PROFESSOR OF INTERNATIONAL AFFAIRS, AND DIRECTOR, CENTER FOR BUSINESS AND GOVERNMENT, JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY**

Mr. RUGGIE. Thank you very much, Mr. Chairman. It is a great honor for me to be here. I would just like to touch on a few of the main points of my testimony. I have left with you a larger prepared statement.

Let me begin by saying at the outset that I would be deeply saddened if even one U.N. official were found guilty of wrongdoing in the Oil-for-Food Program. The Volcker panel will make appropriate investigations and recommendations to Kofi Annan, and I would expect, sir, that the Secretary General, if it turns out that someone is implicated, would waive all diplomatic immunities and permit any such individual to be tried in a court of law and suffer whatever punishment is meted out.

I am very troubled by the question that are you addressing, Mr. Chairman, about how this could have happened. The critics of the U.N. have made this into largely a morality tale of evil bureaucrats on the take, and we will see what the Volcker panel turns up in that connection. I would hope, sir, that we could take a broader look at the tough choices that governments, including the United States Government, faced and had to make throughout this process.

Let's recall, to begin with, that in 1991, at the end of the war, we left Saddam Hussein in place as the authoritarian leader of a society that we regarded until the war as a sovereign entity. The rest of the world, therefore, was obliged to treat Saddam Hussein as the leader of a sovereign nation.

A lot of things followed from that right from the beginning, including the question of how did he get to pick the contractors that were involved. The answer is very simple. He accepted no other proposition. He was perfectly happy to see his people suffer and die and blame us for their suffering and dying. And we, the United States, the United Kingdom and other countries, would have taken

the hit not only in terms of the moral cost of that, but also in terms of international public opinion.

We started the problem by the way we ended the war in 1991. My first point.

My second point in the mid-1990s it became clear that Saddam Hussein was smuggling oil out of Iraq. He was building up his own coffers. Sanctions were beginning to be questioned at the same time we knew that they were necessary. The humanitarian costs by that time became unbearable. Sir, they didn't become unbearable for Saddam. They became unbearable for us. We, the outside world, were put in a position of having to persuade Saddam Hussein to allow us to feed his people. And he, as I said, determined essentially the basic conditions under which we were allowed to do that. That is my second point.

My third point has to do with the Oil-for-Food Program and what it was and wasn't responsible for. Congressman Lantos has already said that the Oil-for-Food Program had nothing do with oil smuggling. The United States set up a maritime force in the Persian Gulf that was supposed to interdict the flow of oil out through the Gulf. And I remember at the time, sir, watching the evening news and seeing trucks roll into Turkey and into Jordan laden down with oil. So I assume it wasn't a secret to the United States Government if it was on ABC News.

There is a lesson to be learned here, Mr. Chairman. I believe that the United States, the United Kingdom and others ignored those oil exports for the simple reason that the sanctions, as sanctions invariably do, had the biggest impact on the neighboring countries. We weren't prepared to compensate for the economic losses that they suffered. Some of them are our close allies, including in the struggle against Saddam, and so as a matter of strategic policy choice I would guess we decided to look the other way.

My next point concerns who was doing what on the 661 Committee. Mr. Chairman, there were something like 30,000 contracts approved over the life of the 661 Committee. As best as I can determine, and I certainly haven't gone through all 36,000 contracts, but as best as I can determine, not a single member of the 661 Committee ever held up a single contract based on pricing issues. Several thousand were held up for potential dual-use technology problems; not a single one for pricing issues. The U.S. and the UK were the ones that were holding up contracts.

Never one, to the best of my knowledge, on pricing issues. Why? Did we not know? Were we stupid? Were we complicitous? My sense is that, again, we made a policy choice. The sanctions regime was fraying. Some of the contracts were going to other members of the committee. We needed to hold the sanctions together to make sure that Saddam did not get the capability to reconstitute his weapons of mass destruction, and that was the price that we were willing to pay is my guess.

Chairman HYDE. Doctor, can you summarize in 2 more minutes?

Mr. RUGGIE. I can, sir. I can. No problem.

What did the U.N. staff do about these things? Congressman Lantos has already alluded to this as well. It was the U.N. oil overseers who first alerted the 661 Committee to the oil pricing scam on the basis of which the U.S. and the U.K. then changed the sys-

tem. The price padding was harder to detect for a variety of technical reasons, but, again, dozens of contracts were held up by the Secretariat pending further analysis of pricing issues.

Congressman Hyde, the inference that I draw from this was that the United States paid a price in order to get a job done. The job was to contain Saddam Hussein and to make sure he didn't reconstitute his weapons of mass destruction, and to alleviate as much as possible the humanitarian costs of the sanctions. That may not have been the wisest policy choice, but that is the policy choice that two American Administrations made.

Finally, Mr. Chairman, if I may, at the end a comment from the heart. I am truly distressed, sir, by the cavalier manner in which the day-to-day contributions of humanitarian aid workers around the world are discounted, dismissed and even vilified by people who in some cases rarely venture beyond talk show green rooms and Washington think tanks. Over the past 10 years, the United Nations has lost more civilian members in conflict zones than it has peacekeepers. I lost good friends in Baghdad last August when the U.N. headquarters were blown up. They didn't have to be there, sir, but they wanted to help.

They are unsung humanitarian heroes, and I would like the record to show that I remembered them this morning. Thank you.

Chairman HYDE. Thank you, Dr. Ruggie.

[The prepared statement of Mr. Ruggie follows:]

PREPARED STATEMENT OF JOHN G. RUGGIE, PH.D., EVRON AND JEANE KIRKPATRICK PROFESSOR OF INTERNATIONAL AFFAIRS, AND DIRECTOR, CENTER FOR BUSINESS AND GOVERNMENT, JOHN F. KENNEDY SCHOOL OF GOVERNMENT, HARVARD UNIVERSITY

Chairman Hyde and distinguished members of the Committee: I am honored to be here today to discuss with you important issues concerning the United Nations oil-for-food program.

Allow me to introduce myself: Currently, I am the Evron and Jeane Kirkpatrick Professor of International Affairs, and the Frank and Denie Weil Director of the Center for Business and Government, at Harvard University's Kennedy School of Government. From 1997-2001, I served as Assistant Secretary-General and senior adviser for strategic planning to UN Secretary General Kofi Annan. I had no responsibility for the oil-for-food program, but UN-US relations fell into my portfolio. Although I have returned to full-time academic life, I continue to advise the Secretary General on an initiative called the Global Compact, which engages the private sector in the promotion of UN principles in the areas of human rights, labor standards and environmental sustainability. I am here today in my personal capacity as an American citizen and a professional student of international politics.

Let me state at the outset that I would be sickened if even one of my former colleagues at the UN were found guilty of wrong-doing in the oil-for-food program. But if that were to be the case, I expect that the Secretary-General would waive all diplomatic immunities and permit any such individual to be prosecuted in a court of law. As you know, an independent inquiry headed by Paul Volcker is now in place; the other members are the highly respected Justice Richard Goldstone of South Africa, and Swiss law professor Mark Pieth, an internationally recognized expert on money laundering. Their mandate includes investigating not only possible individual malfeasance but also whether there were improprieties in the administration and management of the program overall. The panel has been endorsed by a unanimous Security Council resolution, and the Secretary General has pledged to open every file, and make available every official, it needs to fulfill its mandate. Kofi Annan has demonstrated his commitment to transparency and integrity in very difficult situations before, including the inquiries into Rwanda, Srebrenica and the security failures at Baghdad headquarters. So I agree fully with Ambassador Negroponte's assessment at the Senate Foreign Relations Committee hearings on this subject on April 7, 2004, when he said: "I believe that the fundamental motivation of the Secretary-General is to have maximum transparency."

Mr. Chairman, Members of the Committee:

Like you, I am deeply troubled by the question “how could this have happened”—where “this” refers to Saddam Hussein’s smuggling, surcharges, bribes and kickbacks, part of it under the nose of the oil-for-food program. UN critics have claimed that individual greed and bureaucratic interests in the United Nations were responsible—some of them out of sheer eagerness to score points against the UN and to render it an illegitimate and irrelevant instrument of American foreign policy in the economic and political reconstruction of Iraq.

But even if charges against individuals were proven to be true—and it is important to remind ourselves that, so far, none have been—that story would remain partial and skewed. In the interest of maximizing the lessons learned, I want to suggest that this one episode of the world’s relations with Saddam Hussein, like so many others, illustrates the deeper reality that the United States and the United Nations often found themselves forced to choose the lesser of evils in trying to get the job done in Iraq. I will frame my answer to the “how could this have happened” question around ten core facts.

1. The 1991 Gulf war left Saddam in power as the authoritarian master of a sovereign state, and that is how the rest of the world, including the United Nations, was obliged to deal with him thereafter.
2. The world community, led by the United States, did impose a disarmament and sanctions regime on Saddam, designed to destroy his weapons of mass destruction and deny him the capability to reconstitute, or the resources to purchase, such weapons in the future. There were efforts from the start to include a humanitarian component in the sanctions to offset their adverse effects on the Iraqi people, but Saddam rejected it as an intrusion into Iraqi sovereignty. In any case, no one in 1991 anticipated that sanctions would have to remain in place as long as they did.
3. By the mid 1990s Saddam was still in power; by then he was smuggling substantial quantities of oil out of the country; and he was still suspected of developing weapons of mass destruction. So sanctions remained necessary. But the human costs they imposed on the Iraqi people became unbearable—not for Saddam, who couldn’t have cared less, but for the international community. So *we*—the outside world—persuaded *him* to allow us to feed *his* people and to provide them with necessary medicines and other humanitarian goods, funded through the supervised sale of Iraqi oil. That’s how the oil-for-food program came into existence. One of the questions that has been asked repeatedly of late is: why was Saddam allowed to pick and choose with whom to contract these sales and purchases? The answer is obvious: Saddam did not accept any other terms. He was fully prepared to let innocent Iraqis suffer, blame the consequences on the sanctions, and have us take the hit in international public opinion.

At this point I need to take a minute to describe the overall structure of the oil-for-food program. Imagine, for starters, that this Committee—the House Committee on International Relations—was assigned responsibility for supervising the current reconstruction of Iraq, and that you had to approve every contract with Bechtel, Halliburton or any other firm providing goods and services there. And imagine further that you designated a unit in one of the departments of government—say a group of civilians in the Pentagon—to prepare the paperwork for you, as well as to monitor and for some parts of the country actually to execute the program in Iraq. That’s how the oil-for-food program was set up: the Security Council exercised oversight, and the Office of the Iraq Program supported the Council’s work and was responsible for its implementation on the ground. Now I’ll get back to my narrative.

4. The oil-for-food program had no responsibility for preventing Saddam from smuggling oil out of the country. The United States set up a special maritime force in the Persian Gulf for that purpose, but according to the GAO it interdicted only about 25 percent of the outflow. And I remember watching clips on the evening news at the time showing trucks weighed down with Iraqi oil rolling into Jordan and Turkey; it was also public knowledge that oil was pipelined into Syria. Perhaps the United States thought the quantities involved weren’t large enough to worry about. Or perhaps we realized that the Iraq sanctions had hit Iraq’s neighbors particularly hard—as sanctions invariably do. And because some of them were our close allies, including in the struggle against Saddam, we may simply have chosen to ignore that illicit trade. Whatever the case, here’s the important point for the oil-for-food program: the recent GAO report states that Iraq gained \$10.1 billion from illegal oil revenues and kickbacks, but \$5.7 billion of

that—well over half—actually came from smuggling, which was entirely unrelated to the UN's responsibilities. Needless to say, the remaining \$4.4 billion is still a lot of money, and it is directly associated with the oil-for-food program. So let's look more closely at that.

5. The Security Council had oversight for the oil-for-food program—a committee of the whole called the 661 committee, after the number of the resolution that authorized the sanctions in the first place. It approved roughly 36,000 contracts over the life span of the program. Every member had the right to hold up contracts if they detected irregularities, and the US and Britain were by far the most vigilant among them. Yet, as best as I can determine, of those 36,000 contracts not one—not a single solitary one—was ever held up by any member on the grounds of pricing. Several thousand were held up because of dual-use technology concerns. What does this suggest about US and British motives, as permanent members of that committee? Stupidity? Complicity? Or competing priorities? I strongly suspect it was the last. Support for the sanctions was eroding fast. Saddam's allocation of contracts significantly favored companies in some of the countries that were also represented on the committee. So it seems reasonable to infer that the US and Britain held their noses and overlooked pricing irregularities in order to keep the sanctions regime in place and to put all their efforts into preventing dangerous technologies from getting into Saddam's hands. Besides, we need to bear in mind today that the magnitude of the skimming problem was not known to anyone at the time; it has become clear only as files have been opened in Baghdad.
6. What did the UN staff do about these things? Time—and the Volcker inquiry—may tell that they didn't do enough, or worse. But fairness requires us also to acknowledge that it was UN oil overseers who first alerted the 661 committee to Saddam's oil-pricing scam, in which he undercharged some buyers, who then made excess profits on resale and shared the proceeds with Saddam. The US and Britain then persuaded the committee to change the rules of the oil pricing game, significantly limiting if not completely eliminating the problem.
7. Detecting price padding in Iraq's purchase of goods in many cases was harder because obvious benchmarks were lacking, or because the goods were custom made. I understand that the Secretariat as a rule of thumb allowed a small margin of variation, roughly 10 percent, based on some comparative shopping. Saddam may well have learned to game the situation because he kept most surcharges within this band. Nevertheless, I am told that the Secretariat on numerous occasions delayed contracts for further investigation and alerted the 661 committee to unresolved pricing concerns in Iraq's purchase of humanitarian goods. But, as I noted earlier, the committee seems to have held up no contracts on these grounds.
8. Related to this point, the issue of transparency and accountability—or the alleged lack of it—at the UN has been raised repeatedly in the recent oil-for-food debates. The UN is an organization of governments; they make the rules, and the Secretariat is held accountable to them. In addition to having to approve all oil-for-food contracts, every member of the 661 committee received and reviewed the program's regular external financial audits. (I have appended a summary financial statement of the oil-for-food program, provided to me by the UN, to the text of this testimony.)

Mr. Chairman, distinguished Representatives:

The inference that I draw from these facts is that the overriding policy priorities were the maintenance of sanctions on Saddam Hussein in order to deny him weapons of mass destruction, together with limiting the adverse humanitarian impact of those sanctions on the Iraqi people. Other issues, including pricing scams and kickbacks, the full magnitude of which would have been difficult if not impossible to know at the time, seem to have been considered of lesser importance. Were these the wrong priorities? Could the same aims have been achieved through cleaner means? I'm not sure that I'm smart enough or wise enough to answer those questions, and I do know that we don't have time enough to settle them today. Nevertheless, in concluding, I would like to stress two final points that have been largely overlooked in the frenzy of charges against the United Nations and some of its officials:

9. From everything we now know, it would appear that Saddam's weapons of mass destruction were eliminated, and that he was prevented from rebuild-

ing them successfully. Intellectual honesty requires us to acknowledge that UN weapons inspections and sanctions contributed to that outcome.

10. In addition, however ill conceived the design of the oil-for-food program may have been, and whatever its management failures may turn out to be, it, too, served the purposes that were asked of it. According to the official records:
- Enough food was imported to feed all 27 million Iraqis, and their average daily caloric intake increased by 83 percent. Malnutrition rates among children under the age of five in the center/south in 2002 were half those of 1996; in the three northern governorates—the Kurdish region—chronic malnutrition decreased 56 percent.
  - The program substantially improved health services by expanding surgical and laboratory capacity, reducing communicable diseases, ensuring the importation of vaccines that eliminated polio from the country, and helping to reduce child mortality.
  - Oil-for-food contributed significantly to demining, an increase in agricultural production and helped prevent further degradation of the country's public services. Clean water and more reliable electricity were provided for millions of Iraqis and the infrastructure and functioning for the country's housing, transportation and education systems were improved.
  - And the evidence suggests that the oil-for-food program worked better in every respect in the northern governorates—or the Kurdish region—because the UN was directly responsible and did not have to work through Iraqi government agencies. Northern Iraq is more prosperous and stable today as result.

America is discovering in Iraq today that we don't have a surplus of policy instruments to deal with the proliferating and escalating challenges that confront us there. In fact, the reverse is true. If we are going to learn lessons from past experience they need to include not only what we did wrong, but also what we got right. But we absolutely cannot afford to allow whatever did go wrong to be used as a pretext for undermining the legitimacy and utility of the United Nations to the people of Iraq—and to ourselves.

Thank you.

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APPENDIX I—PROCEEDS FROM SALE OF IRAQI OIL AUTHORIZED BY THE SECURITY COUNCIL

(FROM INCEPTION TO DECEMBER 31, 2003)

- Proceeds from the sale of oil as authorized by Security Council Resolutions 986 (1995) and subsequent resolutions amounted to *\$64.2 billion*.
- In accordance with Security Council decisions,
  - *\$42.7 billion* was allocated to the humanitarian activities,
  - *\$18 billion* was allocated to the Compensation Commission,
  - *\$0.5 billion* to the United Nations Special Commission (UNSCOM) and its successor, the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC),
  - *\$0.6 billion* for repayment to Member states who advanced funds for humanitarian purchases pending the start of oil sales.
  - *\$1.1 billion* for the operational and administrative expenses associated with the implementation of resolution 986
  - *\$1.3 billion* for transportation costs of oil.
- The total available for humanitarian activities amounted to \$47.9 billion, as follows:
 

— Allocated from oil sales	42.7
— Interest earned	2.9
— Gain on currency exchange	2.3
- A total of *\$39.7 billion* has been spent. This amount includes *\$7.7 billion* set aside for contracts to be delivered after 31 December.
  - *\$8.1 billion* has been transferred to the Development Fund for Iraq.



- An unencumbered balance of *about \$400 million* remains. Once the UN has completed an assessment of the liabilities left against the account, the balance will be transferred to the Development Fund for Iraq.

Source: United Nations (April 23, 2004).

Chairman HYDE. Ms. Rosett.

**STATEMENT OF CLAUDIA ROSETT, SENIOR FELLOW, THE  
FOUNDATION FOR THE DEFENSE OF DEMOCRACIES**

Ms. ROSETT. Mr. Chairman, distinguished Members of the Committee, thank you very much for the chance to testify here this morning.

I would like to make the basic point that this actually had a great deal to do both with U.S. tax dollars and, I think, with national security, and it is not simply an historical problem. And I start with a word about the allegations, which have clearly been distressing to the United Nations, especially to the Secretary-General, who has challenged his critics to produce evidence.

One of the difficulties of this entire discussion, investigation, one I believe you yourselves will run into, is simply getting information from the United Nations. And it is disingenuous in the extreme for those in the Secretariat who actually have that information and do not release it—for the United Nations as an institution that controls vital records and does not release them, to then challenge critics to produce evidence.

Now, I want to go on to say, there is evidence. But the difficulty that one runs into is, you pick up truly important threats in this tale, and you run, you follow them to the locked closets of the United Nations. Buried in the material that they kept secret, those 30,000-some contracts over the years, are things that I think have great bearing on morality, on national security, on all the issues that this program was supposed to address, and some of great concern to us now.

The evidence, I think some of the witnesses here have already reviewed, but what you basically need to know is there was the estimated 10 billion in graft, in smuggling. I believe that to be a highly conservative figure. I also would suggest that smuggling was very much the responsibility of the U.N.

Iraq was under sanctions. The fact that a policy decision is made does not then excuse criminal doings. I believe they should still be called attention to. And the basic problem there is that the U.N. was not configured to take responsibility for enforcing its resolutions. That might suggest a deep need either for restructuring the United Nations in some way, or a very important need not to allow them to assume responsibility for something as important as controlling a hostile, aggressive, and extremely wealthy tyrant like Saddam Hussein.

And this is where I would like to say, two of the things that have received great focus here are only part of the picture. The abuses were not limited just to waste, theft, fraud, graft, the now infamous Mercedes-Benzes and sports stadiums and so on. Part of the problem was that Oil-for-Food—and I have a piece in *The Wall Street Journal* this morning that will lay out for you some of the further detail.

But it became, basically, because of the secrecy and because Saddam was allowed to choose his buyers and suppliers, a global network for Saddam Hussein's regime of dirty money, of secret deals, of the ability to send huge amounts of funds, dwarfing, say, the funds we believe were available to Osama bin Laden anywhere he wanted to, not only under cover, but with the approving seal of the United Nations.

And the *Al Mada* list, which has received so much attention, the alleged bribes, those are allegations that are yet to be proven. To make that the chief focus here, it is important, but it is dwarfed again by the mother ship here, which was the \$111 billion worth of business that flowed through the secret accounts to which only—really, those who had the most direct access were the U.N. Secretariat which kept the records, which finally—which controlled the escrow accounts in BNP Paribas, and which also had the presence on the ground, was the interlocutor with Saddam's regime, hired the inspections firm. That was not done by the Sanctions Committee, that was the Secretariat. That was Mr. Annan, whose son worked for the better part of 3 years for the company that got the contract during that same period, and was not disclosed by the U.N.

And the problem that you run into, if you start looking, investigating this, is that it is difficult for anyone outside the U.N. because the lists were kept so secret. You have to rely on leaked lists. Some have leaked, and I can tell you at this point that if you look at some of the companies that were authorized by the U.N. for Saddam to do business, I count up at least 65 registered in Switzerland under terms of the U.N. deal. These were supposed to be end-users buying at fair market price, the point being to minimize graft opportunities and maximize the funding for the Iraqi people.

Switzerland, 65 firms. What was anyone thinking? Someone needs to go and look at exactly how much money then flowed and where it went. Forty-five in Cyprus, several in Panama, four in Liechtenstein, one of which is tied to a firm that is on the U.N.'s own designated terror watch list at this point with connections to Bank Al Taqua, a terrorist and al Qaeda financing bank in the Bahamas.

And then finally we get to—and I would like to give you one specific example and try to wrap this up quickly. Seventy-five firms were authorized—this is approved by the U.N.—on the list kept by the U.N. to buy oil from Saddam that were based in the United Arab Emirates, a placed soaked in oil. They don't need to import oil, they export. So what were these doing there?

Well, Treasury recently designated one, and this will give you an idea of just how dirty this could get, and I do believe dangerous since there were ties running through some of these places to al Qaeda, to terrorist groups.

There has been no systematic investigation of these contracts with an eye to that. None. In fact, it is not even obvious where the U.N. at this point has placed all the documents or to whom it has sent them. The case I point to was designated on April 15th by Treasury as a front for Saddam's own regime, a company called Al Wasel and Babel, which set up business in Dubai, the United Arab Emirates, in 1999 advertising on its Web site that it was there spe-

cifically to cater to the needs of the Oil-for-Food Program. It turned out to have been a front set up by senior officials of Saddam's own regime to sell relief goods to Saddam's own regime.

From another list we can see, and I don't have the full information. It is confidential, okay; I only have a piece of it that is leaked. From the year 2000 and 2001, Al Wasel and Babel had—Saddam ordered up from them \$190 million worth of goods.

Chairman HYDE. Could the gentlelady summarize in 1 minute?

Ms. ROSETT. Absolutely.

Basically, you had the chance on kickbacks coming and going for enormous amounts of funds to flow to places like this. There was, on the evidence, no supervision whatsoever. And I do believe it was incumbent upon the Secretary-General of the United Nations, who was present at the beginning, supervised the whole program, and hired the men who ran it to have stood up at some point and said, "This is getting way out of control, this is dangerous, this is dirty." And my recommendation to you would be, this is far too big and complex a system, a scam, a scandal and, I think, still a threat to the nation.

There are parts of Saddam's regime still out there that are aware of what happened, that people who took bribes or made kickbacks or were involved in some way in the graft are also, please remember, liable to blackmail by anyone who knows what they did. That would be leverage that may still be out there and must be taken into account.

My recommendation would be that you need a full congressional investigation into this. You are, in fact, the only body that has real leverage to do anything here. You control with 22 percent of the budget; our tax money that you control or you appropriate goes to fund this. It is terribly important.

And I thank you very, very much for your attention this morning.

Chairman HYDE. Thank you.

[The prepared statement of Ms. Rosett follows:]

PREPARED STATEMENT OF CLAUDIA ROSETT, SENIOR FELLOW, THE FOUNDATION FOR THE DEFENSE OF DEMOCRACIES

Mr. Chairman, distinguished members of the committee, I thank you for the opportunity to testify here today.

The title of this hearing is "Alleged Abuses & Oil-for-Food Program." I would like to start with a word about these allegations, because the United Nations over the seven years of Oil-for-Food, and well into this year beyond, did so much to deflect and deny them. When horrendous exposes were surfacing almost by the week, earlier this year, Secretary-General Kofi Annan stuck rather longer than was remotely appropriate to the carefully hedged line that he had seen no evidence of wrongdoing. He challenged his critics to produce the evidence; he seemed unable to locate any himself, though he has access to the full records of the Secretariat, and we do not. This was disingenuous on the extreme, and I continue to fear that despite the investigation soon to begin—in which Mr. Annan basically laid out the terms for investigating himself and his own institution—there will be no significant reform of one of the most basic problems with the UN.

The problem I am referring to is the practice of secrecy with regard to almost everything that—if disclosed—would help prevent the recurrence of scandal, wrongdoing and threats engendered by the UN to the democratic world, which I believe Oil-for-Food became. Whatever the arguments in favor of nuance and confidentiality in the UN's dealings, there is no good reason the UN should not be fully accountable to the general public for its budgets and book-keeping, funded to a significant extent by U.S. taxpayers. There is no reason the Secretariat should not disclose in full its financial arrangements in dealing with member states—especially those states sad-

dled with corrupt and tyrannical regimes. There is no reason why the basic boost to honesty provided by normal daylight should not be brought to the UN, and today would not be a moment too soon.

Which brings me back to the subject at hand: Oil-for-Food. Surely Mr. Annan and his colleagues in the Secretariat are aware that they sit on top of the very information needed to more precisely document what anyone has to recognize at this point as a huge relief program—the biggest every undertaken by the UN—gone horribly and dangerously crooked. This is especially clear in light of the General Accounting Office estimates of at least \$10.1 billion in graft and smuggling during the seven years of Oil-for-Food (and anywhere from \$10–\$40 billion in illicit funds stashed away by Saddam's regime). We can add to that the Defense Contract Management Agency's review last year of 759 sample Oil-for-Food contracts estimated to be overpriced to the tune of \$656 million, implying a graft overlay that varied among Saddam's clientele, but in some cases according to the DCMA reached as high as 40% above market price. We have had various statements by Treasury; we have had press reports of Oil-for-Food wrong-doing going back for years. And with a huge collection of anecdotal evidence still piling up, it is obvious that Oil-for-Food was deeply corrupt. It is reasonable that Mr. Annan should request of his critics precise details, specific names and dates and instances. But in following those threads, one slams into—over and over—the locked closets of the UN.

The arguments made to me over and over by various officials in the UN Secretariat about the UN practice of confidentiality are absurd, and self-serving, at public expense. There were many aspects of Oil-for-Food for which the UN was quite willing to break with precedent. The UN had never before tried to supervise the entire foreign commerce of a major oil-producing nation run by a murderous and conniving tyrant, but decided to do so. The UN has never before funded the Secretariat by way of hefty commissions on oil revenues of a member state, but the Secretariat was willing to vary routine to absorb that change. Transparency might be an alteration of UN custom, but it is in no way too much to ask—or to demand.

To this I would add that it is vital to understand that the abuses under Oil-for-Food were not limited solely to such egregious matters as waste, theft, fraud, graft, the short-changing of the Iraqi people, the building of palaces, import of Mercedes-Benz luxury cars and the influence-peddling among members of the UN itself, including three veto-wielding members of the Security Council—China, France and Russia.

Oil-for-Food became, in the end, something worse than the sum of all that. Through this program, the United Nations allowed Saddam Hussein not only to perpetuate his totalitarian rule of lies, violence and mass graves; Oil-for-Food also allowed Saddam to set up a global network of dirty deals and filthy finance. Through Oil-for-Food, as designed and run by the UN, Saddam was basically able to funnel money as he chose, to just about anyone, anywhere, who was willing to become his business partner. Whether that included UN staff remains to be seen. But that it included a worldwide network of Saddam's cronies and handpicked clientele can hardly be in doubt. That it may have also included terrorist networks is a strong probability it would seem ill-advised to ignore, though the UN for years certainly ignored it, and no one in a position of official responsibility seems to have yet taken that danger on board.

Much attention has been focused on the list based on documents from the Iraq Oil Ministry and published January 25, 2004, in the Iraqi newspaper Al Mada, naming some 270 individuals and entities alleged to have received illicit oil vouchers worth millions from Saddam. That list is intriguing, naming as it does such entities as the Russian State, a major Chinese trading company, and such individuals as a former French Ambassador to the UN, a prominent businessman in South Africa, the President of Indonesia, and including the last name of the executive director of Oil-for-Food, Benon Sevan. But the Al Mada list remains to be fully investigated, and to make it the chief focus is to miss the main point.

It was the official Oil-for-Food program itself that was the basic problem. The \$111 billion worth of increasingly unfettered business that Oil-for-Food allowed to Saddam absolutely dwarfs the Al Mada list. In seeing what was wrong here, it is crucial to grasp a few things, for which we do have some documentation. One is that Saddam was allowed to pick his own clientele, and the UN almost never said no. The other is that many of these contracts had a thick layer of graft built in, which let Saddam cheat the intended beneficiaries—the Iraqi people—in order to enrich himself and his business partners. In other words, the UN-approved contracts served as corridors through which Saddam's filched funds could flow—and they flowed by the billions. It is high time the UN shared with the world community its information about where, exactly, this money went. On a secret UN list of oil buyers authorized to deal with Saddam under Oil-for-Food, one finds (the list has leaked)

at least 65 companies registered in Switzerland, 45 in Cyprus, seven in Panama and four in Liechtenstein. Add to that at least 75 firms registered in the oil-soaked United Arab Emirates. Does anyone seriously believe that the UN, in compiling this list, believed that Saddam was dealing, as prescribed by Oil-for-Food, with end users?

In looking at this program, and some of the links, I have increasingly begun to wonder, in fact, whether Saddam, given his proclivities, and in tandem with his other projects, might have been sending funding to Al Qaeda or other terrorist groups via oil-for-food.

Certainly there was ample opportunity. To see how it might have worked, let's take the example of Al Wasel and Babel General Trading LLC, set up in Dubai, in 1999. Al Wasel and Babel was designated earlier this month by Treasury as a front company set up by senior officials of Saddam's own regime, to sell goods to Saddam's own regime, via Oil-for-Food (while also, according to Treasury, trying to procure for Saddam an illicit, sophisticated surface-to-air missile system).

Where was the UN in all this?

There is plenty of blame to go around, but it was Mr. Annan's Secretariat that had the hands-on management of the program and daily contact with the Iraqi regime. It was the Secretariat that had a massive presence on the ground in Iraq, direct exchanges with Saddam (via Benon Sevan's visits, as well as Kofi's 1998 trip, on which he met with Saddam in one of the palaces built under sanctions—did he not notice?) It was Mr. Annan's Secretariat that in 1998 replaced Lloyd's Register with Cotecna Inspections SA, without disclosing that Mr. Annan's own son, had very recently been employed by Cotecna for the better part of three years—first on staff and then as a consultant.

It was Kofi Annan who while excusing himself from public comment on the abuses under Oil-for-Food, went on record over and over criticizing the US and UK for placing too many contracts on hold. It was Mr. Annan's signature on the distribution plans approved for Saddam.

And it is Kofi Annan who has now set the terms of this investigation into what he refers to as the UN staff, though surely he himself should be one of those under scrutiny, along with the system heads. The issue is not simply whether people took bribes or violated procedure. It is whether there was gross dereliction of duty at the top, encouraged by a system of privilege and secrecy, configured to best serve those with things to hide.

It bears noting, as well, that when Saddam went influence-peddling, it is highly likely that he procured not only the willing cooperation of his clients, but the ability to then blackmail them. He had little to lose: he was already under sanctions, and he had already thoroughly gamed the system. The recipients had plenty to lose, they still do, and we can expect that there will be huge pressure to stall and obstruct any serious inquiry.

Oil-for-Food was far too big, too complex, and too crooked for any one congressional hearing, or even a series of hearings to get to the bottom of it. This scandal, for both size and menace, dwarfs BCCI. And if I can make one contribution today, it would be to strongly urge that the "independent" investigation of the UN, as framed by the Secretary-General of that same UN, be backed up by a full congressional investigation. American taxpayers fund some 22% of the UN's core budget, and have sacrificed greatly in the effort to start righting some of the immense wrongs done under Saddam. In these, the UN by way of Oil-for-Food became a collaborator. What went wrong at the UN must be understood, and fixed before the UN should again be entrusted with anything involving serious or important responsibilities—especially in matters with so much bearing on national security.

Chairman HYDE. Mr. Soussan.

**STATEMENT OF MICHAEL SOUSSAN, FORMER PROGRAM  
COORDINATOR, UNITED NATIONS OIL-FOR-FOOD PROGRAM**

Mr. SOUSSAN. Thank you, Mr. Chairman, distinguished Members of the Committee. I welcome and thank you for the opportunity to appear before you today to discuss issues of accountability and transparency in the Oil-for-Food Program.

First off, I want to touch on the allegations of corruption against individual U.N. staff. I think, as Dr. Ruggie said, that these are people who did risk their lives to help the Iraqi people, and I sincerely hope all of these allegations are baseless, and I think we

ought to consider the people involved absolutely innocent unless proven otherwise.

I do regret that it took a scandal of this proportion before the U.N. agreed to set up an independent investigation into this matter. But at this early stage, when all the facts are not known, I would also caution against focusing too much attention on individual allegations, because even if these are substantiated, they would not suffice to explain the system-wide failures that seem to have occurred.

The Oil-for-Food deal was first offered to Saddam Hussein in 1991, Security Council Resolutions 706 and 712. The Iraqi dictator refused to sign on to the deal for over 5 years. Far more Iraqi civilians died during that period than during the Persian Gulf War or during the subsequent years of the Oil-for-Food Program.

If Saddam Hussein could be trusted to put the needs of Iraq's population first, it would never have been necessary to impose U.N. oversight over the program. Yet, for reasons I have yet to fully understand, several U.N. leaders approached the implementation of the Oil-for-Food Program with more distrust toward the United Kingdom, which had initiated the program, and the United States than toward the regime of Saddam Hussein. In the hierarchy of hurdles we faced as we tried to make the program work, this, in my view, was problem number one.

It is very difficult to run an operation when senior leaders, including two Assistant Secretary-General staff, do not believe in the mission. These two people resigned in protest against Security Council policy. Nonetheless, thanks to the hard work of many dedicated U.N. employees, the program was implemented. Some aspects of its implementation were successful, others were not.

The onset of the Oil-for-Food Program provided enormous relief to the civilian population of Iraq. The program succeeded in cutting malnutrition rates in half, in improving Iraq's agricultural output, in providing the population with improved access to health care, safe drinking water, and electricity. It is difficult to imagine what Iraq would look like today if not for the Oil-for-Food Program. Certainly the cost of rebuilding the country would be much higher for U.S. taxpayers.

Nonetheless, if estimates by the General Accounting Office are correct and Saddam Hussein was indeed able to use the Oil-for-Food Program to extort \$4.4 billion in cash kickbacks from Iraq's trading partners, then the United Nations clearly failed to live up to an important aspect of its mission, which was to keep money from flowing into Saddam's bank account.

It may indeed be true that several members of the international community simply did not care that Saddam Hussein misused the humanitarian program. This was particularly evident in some of the proceedings of the Security Council Sanctions Committee. But we and the U.N. Secretariat had a mandate to oversee the humanitarian program and report to the Security Council about its adequacy, its equitability and effectiveness. That is what we were paid for. And it is undeniable that Saddam's kickbacks contributed to making the program less adequate, less equitable, and less effective. Therefore, I believe it fell squarely within our mandate to re-

port any information that would indicate possible wrongdoing by the Government of Iraq.

We should have spoken out when we came across indications that the Iraqi Government was demanding kickbacks as a cost of doing business. We should have spoken out when members of the Iraqi Government made intimidating threats against our staff. We should have spoken out when the Iraqi Government delayed or sabotaged our humanitarian program in Iraqi Kurdistan. We should have spoken out on a range of issues, but in most cases we did not.

Ironically, I believe that the United Nations became embroiled in this scandal precisely because it sought to avoid controversy at all costs. Compounding this lack of transparency was a prevailing sense of moral relativism promoted by those within the system who were unable to draw a distinction between the interests of the Iraqi people and the interest of the Iraqi state led by Saddam Hussein.

Before judging them, we must remember that the United Nations charter itself fails to draw such a distinction. In its current form, the U.N. Charter is legally blind to the distinction between two definitions of state sovereignty. We have the democratic definition, which holds that sovereignty stems from the consent of the people, and we have the totalitarian definition, which holds that the people and the state are one and the same thing regardless of the behavior of that state.

Chairman HYDE. Could the gentleman summarize in about 2 minutes?

Mr. SOUSSAN. Yes.

Chairman HYDE. Thank you.

Mr. SOUSSAN. Two definitions, and to the U.N. Charter today, as it currently stands, these definitions are equal.

Today, the U.N. faces questions from the media, including from a free Iraqi press, as to why it failed to hold the Iraqi Government accountable for misusing the humanitarian program. Then, as now, some people believe that it was not the U.N.'s job, that it was the job of the member-states to enforce the sanctions. The member-states, in turn, point out that the U.N. never informed them anything was wrong or rarely informed them anything was wrong.

The finger-pointing cannot go on forever. I believe that the independent investigation, now led by Paul Volcker, will reveal important lessons and can help the institution operate with a higher degree of coordination, accountability, and transparency. I also hope it will yield some clues as to what happened to the money that was siphoned off by Saddam Hussein and which may still be used in support of terror today.

For the Volcker panel to succeed, it will need the full cooperation of U.N. member-states. But finding out what happened is only half the job. The other half will be to agree on what to do about it. In this regard, it is unfortunate that the United Nations did not use its own initiative to undertake a lessons-learned exercise immediately after closing down the Oil-for-Food Program.

I still hope such an exercise can be launched with the support of legislative Committees such as this one and international academic institutions so as to complement the current investigations with reform-minded proposals.

At the end of the period that took a severe toll on the United Nations and at a time when the U.N. headquarters in New York are set to be physically revamped and brought up to standard, there is an historical opportunity to take stock of the United Nations' shortcomings, based in part on the experience of the Oil-for-Food Program, and initiate a real debate about the organization's future role and the principles that should guide its actions.

Mr. Chairman, thank you very much.

Chairman HYDE. Thank you very much.

[The prepared statement of Mr. Soussan follows:]

PREPARED STATEMENT OF MICHAEL SOUSSAN, FORMER PROGRAM COORDINATOR,  
UNITED NATIONS OIL-FOR-FOOD PROGRAM

Mr. Chairman, distinguished members of the Committee,

I welcome and thank you for the opportunity to appear before you today to discuss issues of accountability and transparency in the implementation of the United Nations Oil for Food Program.

I worked for the program between September 1997 and December 2000, at which point I submitted my resignation. In my resignation letter, I expressed the hope that the organization would find ways to reform itself. It is in the same spirit of reform that I testify here today.

I am aware that there have been allegations of corruption against individual U.N. employees working for the program. I sincerely hope these allegations are as baseless, and I consider the people involved absolutely innocent unless proven otherwise. I regret that it took a scandal of the proportion we have now seen before the U.N. agreed to set up an independent investigation into the matter. But at this early stage, when all the facts are not known, I would also caution against focusing too much attention on individual allegations, because even if they were substantiated, they would not suffice to explain the system-wide failures that seem to have occurred.

The United Nations Oil for Food Program was the largest, and probably the most controversial humanitarian operation in UN history. In essence, it was a compromise born of a dilemma. The dilemma was created when Saddam Hussein was allowed to remain in power in 1991, to preside over a country that remained under sanctions, and a population that no longer had access to sufficient food, medicines, safe drinking water or electricity. The compromise was to allow Iraq to sell oil and import humanitarian goods under U.N. supervision.

This deal was first offered to Saddam Hussein in 1991, in Security Council resolutions 706 (1991) and 712 (1991). But the Iraqi dictator refused it, banking that images of dying babies would eventually force the international community to lift the sanctions altogether. It was not until 1996, after his regime had been threatened by a serious coup attempt, that Saddam Hussein signed onto the deal.

For over five years prior to the start of the humanitarian program, Iraq's population was hostage to Saddam's continued policy of defiance towards the United Nations. Far more Iraqis died during that period than during the Persian Gulf War, or during subsequent years when the Oil for Food Program was implemented.

If Saddam Hussein could be trusted to put the needs of Iraq's population first, it would never have been necessary to impose U.N. oversight over Iraq's exports and imports. Yet for reasons I have yet to fully understand, several U.N. leaders approached the implementation of the Oil for Food Program with more distrust toward the United Kingdom (which had initiated the program) and the United States, than toward the regime of Saddam Hussein. In the hierarchy of hurdles we faced as we tried to make the program work, this, in my view, was problem number one.

Two of the program's humanitarian coordinators in Iraq—people with the rank of assistant secretary-general—as well as several heads of UN agencies in the field, resigned in protest against Security Council policy. After they had announced their intention to resign, many of them were allowed to remain in their posts for months while they continued to criticize the program—even going as far as to accuse the United Nations of overseeing genocide in Iraq; this, at a time when the Iraqi Government was refusing to import as much food as the Secretary-General had recommended in his supplementary report to the Security Council on February 1, 1998 (S/1998/90).

It is very difficult to run an operation when senior leaders do not believe in the mission. Nonetheless, thanks to the hard work of many dedicated U.N. employees,



the program was implemented. Some aspects of its implementation were successful. Others were not.

The onset of the Oil for Food Program provided enormous relief to the civilian population of Iraq (and, it must be said, to the collective conscience of the international community). The program succeeded in cutting malnutrition rates in half throughout the center and south of Iraq. We could have done much better if the Iraqi Government had accepted the recommendation of UNICEF to target vulnerable groups for extra nutrition, but the U.N. seldom aimed its advocacy campaigns at the Government of Iraq.

Of course, it must be said that a given population cannot live on food and medicines alone. The perception of those who visited Iraq after Operation Desert Storm was that the country had been bombed back to the pre-industrial age. Bridges, power plants, water and sanitation networks and telephone exchanges had all been targeted as part of the 30-day air war that preceded the ground offensive in 1991. Some of these facilities are still being repaired today, since they suffered from continued deterioration throughout the 1990s.

It was to stop the deterioration of Iraq's basic civilian infrastructure that the United Nations recommended that the humanitarian program be expanded in 1998. Following the recommendations of the Secretary-General, the U.N. Security Council voted unanimously to expand the program, first to allow Iraq to sell \$5.2 billion worth of oil every six months, then to lift the cap on oil sales altogether. It could be said that by the end of 2000, Iraq was allowed to import as many civilian goods as it could afford, as long as they did not have a military use. This allowed for a number of significant achievements across a range of sectors, which are listed as an annex to this statement, and must be taken into account in any overall evaluation of the program.

No matter how much relief the U.N. allowed for, the Iraqi Government, and unfortunately, many people in the humanitarian community, including in our own ranks, continued to criticize the United Nations for overseeing genocide in Iraq. We should never have allowed the regime of Saddam Hussein to win this propaganda war. Especially given the fact that Iraq was now using a far greater proportion of its oil revenues on the civilian sector than it had prior to 1991, when so much of its resources was used to buy tanks, airplanes, and other military equipment.

The United Kingdom and the United States understood the need for more infrastructure rehabilitation in Iraq, but they repeatedly urged the UN to build up its observation capacity, and tighten its system of controls to deal with the increasing influx of goods, and therefore the higher potential for misuse. If the estimates of the General Accounting Office are correct, and Saddam Hussein was indeed able to extort \$4.4 billion in kickbacks from Iraq's trading partners, then the United Nations clearly failed to live up to an important aspect of its mission, which was to keep money from flowing into Saddam's bank accounts.

It may indeed be true that many members of the international community did not care that Saddam misused the humanitarian program. This made the Security Council Committee established pursuant to resolution 661 (1990) (also known as the Sanctions Committee) significantly less effective at curbing Iraqi wrongdoing. But nonetheless, we had a mandate, and in line with that mandate, I believe now as I did then that we should have spoken out every time we came across evidence of wrongdoing by the Government of Iraq.

We should have spoken out when we came across indications that the Iraqi Government was demanding kickbacks as the cost of doing business. We should have spoken out when members of the Iraqi Government made intimidating threats against our staff. We should have spoken out when the Iraqi Government delayed or sabotaged our humanitarian program in Iraqi Kurdistan. We should have spoken out when the Iraqi Government forbade us to visit certain areas, such as the marshlands of southern Iraq. We should have spoken out when the Government fed us bold-faced lies on a range of critical humanitarian issues. We should have spoken out about the ethnic cleansing of Kurds from the region of Mosul and Kirkuk, since it caused entire families to lose their food rations. We should have spoken out when the Iraqi Government sought to import goods that appeared clearly aimed for the leadership, and not the people. We should have spoken out on a range of issues, but we did not.

Today, the U.N. faces questions from the media, including from a free Iraqi press, as to why it failed to hold the Iraqi Government accountable for misusing the humanitarian program. Then as now, some people at the United Nations think that it was not our job to do so—that it was the job of the Member States to enforce the sanctions. The Member States, in turn, point out that the U.N. never informed them that anything was wrong. The finger pointing cannot go on forever.

Some observers believe that it is in the nature of the U.N. as an institution that the buck often stops nowhere. I do not believe it has to be this way. In fact I believe that the U.N. suffers enormously from the low-expectations of states. For the U.N. to reform itself, it must be held to a higher standard by members of the international community. Our job was to oversee the humanitarian program and report to the Security Council about its adequacy, equitability and effectiveness. Saddam's kickbacks contributed to making the program less adequate, less equitable and less effective. Therefore, I believe that it fell squarely within our mandate to report any information that would indicate possible wrongdoing by the Government of Iraq. This was not only my opinion. It was generally also the opinion of my colleagues in the Division of Program Management. Unfortunately, many of the recommendations put forward by the Division did not prevail.

I believe that the independent investigation now led by Paul Volcker will reveal important lessons that can help the institution operate with a higher level of coordination, accountability and transparency. I also hope it will yield some clues as to what happened to the money that was siphoned off by Saddam Hussein, and which may still be used in support of terrorism today. For Mr. Volcker's panel to succeed, it will need to full cooperation of U.N. member states. But finding out what happened is only half the job. The other half will be to agree on what to do about it. In this regard, it is unfortunate that the United Nations did not use its own initiative to undertake a "lessons-learned" exercise immediately after closing down the Oil for Food Program. I still hope such an exercise can be launched, with the support of legislative committees such as this one, as well as international academic institutions, so as to complement the current investigations with reform-minded proposals.

Ironically, I believe the United Nations became embroiled in this scandal precisely because it sought to avoid controversy at all costs. Compounding this lack of transparency was a prevailing sense of moral relativism, promoted by those, within the U.N. system, who were unable to draw any distinction between the interest of the Iraqi people, and the interest of the Iraqi state led by Saddam Hussein.

Before judging them, we must remember that the United Nations Charter itself fails to draw such a distinction. In its current form, the UN Charter is legally blind to the distinction between two definitions of state sovereignty that are squarely at odds. The democratic definition holds that sovereignty stems from the consent of the people. The totalitarian definition holds that the people and the state are one and the same, regardless of the behavior of the state.

In 1991, the international coalition played by the rules of the U.N. Charter and made no distinction between the sovereignty of the Iraqi people and the sovereignty of Saddam Hussein. The results of this approach are now clear to us. Far more Iraqis perished after the war, from a combination of repression and deprivation, than during the war itself. Further deaths were prevented by the imposition of the no-fly zones over the Kurdish north and the predominantly Shiite south. These zones were never endorsed by the U.N. Security Council, however, and therefore they were subsequently criticized as illegal and illegitimate. At that point it occurred to me that if saving innocent lives was illegal then perhaps there was something wrong with the law itself.

What further confirmed me in this opinion was the fact that my colleagues and I found ourselves in a very awkward position in Iraqi Kurdistan, where our mission was to implement the humanitarian program "on behalf of the Government of Iraq." After visiting the small Kurdish village of Mamand, which the Iraqi army had destroyed seven times over, and which the villagers were now rebuilding for the eighth time with the help of the United Nations, it dawned on me how hypocritical our mandate was. If we were truly working in Iraqi Kurdistan "on behalf of the Government of Iraq," we would have been in the business of gassing and collectivizing the Kurds, rather than helping them to rebuild their shattered villages.

Such was the contradiction that lay at the heart of our mandate, and which, in my view, also lays at the heart of the United Nations mission in Iraq between the wars. For that reason, the line between helping the people of Iraq and helping the Government of Iraq was constantly blurred, and thus it is not surprising that a free people would today blame the United Nations for making the wrong call on a number of occasions. As we seek to learn the lessons from this experience, however, we should always remember that it was the regime of Saddam Hussein that bears primary responsibility for most of the wrongdoing that occurred. And to the extent the United Nations lost its moral compass on some occasions, it may have had a lot to do with the stark divisions that existed among the members of the Security Council. In the run up to Operation Iraqi Freedom, these divisions reached a climax, and plunged the United Nations into a profound existential crisis that now forces a choice: the U.N. can either stand on the side of freedom and human rights, or it

can stand for the absolute sovereignty of brutal dictators. But it cannot stand for both, as it tried to do throughout this crisis, bending over backwards to please all sides and ending up pleasing none.

Currently, the U.N. Charter does not contain a single reference to democracy. And yet we know that only democracies, or countries aspiring thereto, are in a position to uphold respect for the principles of the Universal Declaration of Human Rights. Article 108 of the UN Charter allows for a process of amendment through a vote of two thirds in the General Assembly and the concurrence of the Security Council's permanent members. Five amendments were actually enacted in the past. They were mainly procedural, but they demonstrate that amending the Charter is not impossible.

There is no doubt that it will take a long and arduous international debate before the U.N. Charter can be amended. And success is far from guaranteed. But the Charter itself foresaw the need for extraordinary debates. In Article 109, it specifically provides for the possibility of calling an international conference to review the Charter.

At the end of a period that took a severe toll on the United Nations, and at a time when the United Nations' headquarters in New York are set to be physically revamped and brought up to standard with current safety and security regulations, there is a historical opportunity to take stock of the United Nations shortcomings, based in part on the experience of the U.N. Oil for Food Program, and initiate a real debate about the organization's future role and the principles that should guide its actions.

Mr. Chairman, thank you again for the opportunity to share my observations with the Committee. I look forward to answering any questions you may have.

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ANNEX

ACHIEVEMENTS OF THE UN OIL FOR FOOD PROGRAM  
(SOURCE: UNITED NATIONS)

FOOD SECTOR

*Center and South*

Under resolution 986 (1995) all Iraqi residents were entitled to receive the monthly Oil-for-Food basket and it was estimated that 60 per cent of the population were totally dependent on it. The nutritional value of the food basket almost doubled between 1996 and 2002 from 1200 to 2200 kcal/person/day. The supply of food commodities generally kept pace with national demand and contributed significantly towards price stability in the markets. A downward trend in the price of the food basket is reflected in the chart below.

The Government of Iraq procured food and basic medical supplies in bulk and was responsible for their distribution in the 15 central and southern governorates, and to UN warehouses in the northern cities of Kirkuk and Mosul. The World Food Program (WFP) was responsible for food distribution on behalf of the Government of Iraq in the three northern governorates through a chain of some 11,000 food agents (corner stores). Government distribution of food, by the Ministry of Trade, in the centre and south was through some 44,358 food agents (corner stores).

Improvements to infrastructure in the food sector included the installation of cleaning, handling and fumigation equipment in grain silos to reduce storage and handling losses. The maintenance and repair of mills and the installation of generators improved the reliability of flour milling operations. This in turn improved production capacity and the quality of flour available to the national food basket from more than 140 mills.

*The three northern governorates*

The size of the food basket increased during successive phases of the Oil-for-Food Program and by December 1998, it had met its targeted level of 2200 kcal/person/day. In May 2002, the Program achieved 91 per cent of the targeted 2,475 kcals. In January 2002, WFP embarked on a large-scale population verification exercise in the three northern governorates to further strengthen the equitability and accuracy of the distribution process.

A supplementary feeding project assisted the most vulnerable members of the population by targetting the specific needs of malnourished children, pregnant and lactating women, hospital in-patients, residents in social institutions and children in nurseries. These are groups that were not normally reached by the general food ration provided under Security Council resolution 986.

Other projects addressed household food security. Small ruminant livestock were provided to around 10,000 beneficiaries, mostly female-headed households. A bee-keeping project targetted another 150. These projects further empowered women through literacy and technical skills training as well as by providing them with a source of lasting income. The Program provided skills training for women in 10,200 female-headed households. A Women Skills Enhancement project benefitted 2,000 women.

#### *Health Sector*

Health care delivery services in Iraq improved significantly as a result of Oil-for-Food funding for the diagnosis and treatment of diseases between December 1996 and 20 March 2003. The country remained polio free for the previous 36 months following National Immunization Days that provided door-to-door vaccinations and reached 95 per cent of the 3.6 million targetted children under five years of age.

In the central and southern governorates, major medical surgeries increased by 40 per cent and laboratory investigations by 25 per cent between 1997 and early 2003. There was a reduction in the transmission of communicable diseases, such as cholera, malaria, measles, mumps, meningitis and tuberculosis. The Oil-for-Food Program also helped to improve health care delivery in several new or rehabilitated centres in the centre/south, including: the Saddam Centre for Neurological Sciences; the AIDS Research and Study Centre; the Acupuncture Therapy Centre; the Tuberculosis Control Institute and; the National Centre for Haematology Research.

In the three northern governorates, cholera was eradicated and the incidence of malaria was reduced to 1991 levels. The incidence of measles declined to levels ranging from 4–8 per cent and like the rest of the country, the north remained polio free for almost three years.

Between 2000 and 2001, deliveries of medicines and medical supplies to the northern governorates doubled. Among the supplies delivered were high-demand items including antibiotics, intravenous solutions and oral suspensions. As a result, the rationing of medicines such as antibiotics was substantially reduced.

#### *Mine Action*

Mine Action was linked with other sectors of the United Nations humanitarian program in the three northern governorates of Iraq. As of 20 March 2003, it had paved the way for eight UN agency activities including housing, resettlement and the construction of electrical infrastructure, throughout the north.

The Oil-for-Food Program funded the clearance of some 76,500 landmines since 1998, restoring mine-free areas to landowners for agricultural and other civilian uses. Mine safety instruction courses were provided to 240 communities, reaching 7,176 men, 8,353 women and 14,045 children. Medical consultations for mine victims ranged from treatment, to the fitting of orthoprosthetics and rehabilitation.

The United Nations Office for Project Services (UNOPS) launched the ninth phase of its mine action project for the northern governorates in 2002. Its emergency demining program had a team of expatriate deminers stationed in each governorate where they train local teams in the latest clearance techniques. As of August 2001, approximately 27,000 families in 165 communities had benefitted from UNOPS-implemented mine clearance activities. As a result of this work, more than 400 additional tons of crops were produced in 2001 on cleared land, 34,700 livestock were able to graze safely, 3,300 people had improved water supplies, and 400,000 people near Sulaymaniyah gained access to electricity.

*For further information concerning the UN Oil for Food Program in the areas of agriculture, infrastructure rehabilitation, education, transportation and electricity, please consult: [www.un.org/depts/oip](http://www.un.org/depts/oip)*

Chairman HYDE. Now, ladies and gentlemen, we have one more panel following this panel which consists of the General Accounting Office, that will be, as were these witnesses, a very important witness. The Chair would very much like to get to the second panel before we have to adjourn or recess, so I am going to plead with you to be brief and succinct in your questioning. We have about 2 hours' worth of questions here if everybody gets 5 minutes. So I would like to move this along as best we can.

We will have votes sometime soon, as well. So if someone wants to waive their questioning of this panel, the Chair would not be too distressed at all. But the Chair is also not so visionary as to expect

that is ever going to happen in this lifetime. However, do try to be brief. It is for the benefit of all of us and the witnesses.

With that attempt at mild intimidation, the Chair recognizes Mr. Lantos.

Mr. LANTOS. Thank you very much, Mr. Chairman. I plead to be unintimidated by your observation.

Chairman HYDE. I knew that.

Mr. LANTOS. It is a staggeringly complex issue that we are considering, and I would like to spend a moment to try to keep our eye on the ball.

The Saddam Hussein regime was a regime of mass murder. Saddam Hussein was responsible for the death of well over a million people, as the evidence now clearly indicates. And I think to be surprised that, in addition to being a mass murderer, he was also corrupt, would be naive in the extreme. So I don't think there is any dispute as to the venality and corruption and baseness and vileness of the Saddam Hussein regime.

What I find disturbing in some of the testimony, Mr. Chairman, is either a naivete or a pretension at expecting a tidy world in this incredibly complex, evil, vicious mess. I believe the attempt to malign a man of utmost integrity, the Secretary-General of the United Nations, is absolutely outrageous. I find the title of an article by one of our witnesses, "What Did Kofi Annan Know and When Did He Know It," reckless, irresponsible, and repugnant.

Kofi Annan—and I have had plenty of disagreements with Kofi Annan—deserves our utmost respect as an international civil servant of the highest integrity. And this innuendo, this suggestion that somehow Kofi Annan has been corrupt in the Oil-for-Food Program is absolutely sickening, and I personally reject it with all the emphasis at my command.

I do find Professor Ruggie's testimony enormously persuasive; and since he didn't have a chance to read all of it, I would like to use some of my time, Mr. Chairman, to read a portion of a paragraph of his testimony, which, to me, is very much on point:

"The Security Council had oversight for the Oil-for-Food Program, a committee of the whole called the 661 Committee, after the number of the resolution that authorized the sanctions in the first place. It approved roughly 36,000 contracts over the life span of the program. Every member had the right to hold up contracts if they detected irregularities, and the United States and Britain were by far the most vigilant among them. Yet, as best as I can determine, of those 36,000 contracts, not one, not a single solitary one was ever held up by any member on the grounds of pricing. Several thousands were held up because of dual-use technology concerns."

What does this suggest about United States and British motives as permanent members of that committee? Stupidity? Complicity? Or competing priorities? I strongly suspect it was the last.

Support for the sanctions was eroding fast. Saddam's allocation of contracts significantly favored companies in some of the countries that were also represented on the committee. So it seems reasonable to infer that the United States and Britain held their noses and overlooked pricing irregularities in order to keep the sanctions

regime in place and to put all their efforts into preventing dangerous technologies from getting into Saddam's hands.

Besides, we need to bear in mind today that the magnitude of the skimming problem was not known to anyone at the time; it has become clear only as files have opened up in Baghdad.

Mr. Chairman, it seems to me that this supercilious, holier-than-thou notion that we are dealing with a neat organizational structure, and somebody, presumably Kofi Annan, was asleep at the switch is just outrageous.

We will find enormous corruption in this program; I would bet my last dollar on this. We will find corruption involving large numbers of countries, corporations, and individuals; there is not the slightest doubt in my mind of that. But I think at this stage, at a time when we are moving toward placing enormous responsibilities, following the handover on June 30th, upon the United Nations and the Secretary-General, to imply dishonesty on his part is so contrary to our national interests that it simply boggles the mind.

Thank you, Mr. Chairman.

Chairman HYDE. The Chair would say, in brief response, that I agree that there should be no personal charges until there are testimonies in support of them where conclusions can be drawn which—that may never exist. This is a search for truth, not an assertion of a point of view.

Mr. LANTOS. I fully agree with you, Mr. Chairman.

Chairman HYDE. We have two votes pending, and then I would ask the Committee to forgo their lunch and come on back. Pain builds character, and so holding off on lunch will help us finish the questioning with this panel and get to the next one.

So we will adjourn or recess until—for ½ hour and then come right back.

[Recess.]

Chairman HYDE. The Committee will come to order.

Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman.

Dr. Ruggie, in terms of the United Nations, is—the term is used frequently in prepared statements, et cetera. But the United Nations itself—and I think you pointed out in your testimony, there is the Secretariat and there is the Security Council and then, obviously, the General Assembly. And you raised the point, I thought it was a very valid one, that in terms of overpricing, the members of the Sanctions Committee which, my understanding, consists of the permanent members of the Security Council, never raised an issue.

I guess my question is, where were we? And whose responsibility? And I know the program obviously spanned two Administrations, both the Clinton and the Bush Administrations. Whose responsibility would it be on the part of the U.S. Representative to the United Nations to raise those issues?

I mean, you indicated that it became widely known, and yet there was never an issue raised. To whom should we be looking to inform us, not through you, but as to whether in fact your testimony is accurate that it was a policy decision?

I would like to see some representatives of the current Administration and the Clinton Administration to come forward and describe to us their knowledge, rather than read about it or hear about it second-, third- or fourth-hand.

Chairman HYDE. Would the gentleman yield?

Mr. DELAHUNT. Of course.

Chairman HYDE. I have two dispatches, one March 2nd, 2000, and one February 2000, that indicate that we were aware and we did complain. And I will give them both to you for your perusal.

But my own guess is, as Dr. Ruggie said, we were focusing on Saddam Hussein and trying to keep him bottled up. And we felt these other things, however expensive, were distractions. I guess. And that judgment was made by somebody high in the policy ranks of both Administrations, Mr. Clinton's and Mr. Bush's.

But those two articles indicate we knew of it and we did complain. And I thank you for yielding.

Mr. DELAHUNT. My instinct tells me that the Chair is correct, and most likely, these reports—one is from the French press and the other is from a publication out of Australia—are accurate. But I would hope at some point in the future that we would call to this particular Committee for direct questions those representatives of both Administrations, because here we are now, faced with allegations, assertions. The credibility of individuals is being attacked. I would like to hear from them directly myself.

If you have anything to add, Dr. Ruggie.

Mr. RUGGIE. Thank you for that question, Congressman. My statement wasn't intended as an exercise in finger-pointing. I am sure you understand that.

Mr. DELAHUNT. I understand.

Mr. RUGGIE. I would say a number of things.

First, if you put yourselves back in time, the magnitude of the scamming couldn't have been known fully at the time. It only has become fully known as we have gained access to documents in Baghdad. So certainly there were suspicions about the overall problem. And you are right that the U.S. and the U.K., in fact, once did in the 661 Committee raise questions of a general nature about overpricing, not about any specific contract.

However, I think the GAO may be a good witness on the question of how did the various branches of the U.S. Government fit into this. But I would like to say that the precise dimensions of the problem couldn't have been known fully at the time.

With regard to individual reviews of contracts, I believe it was Mr. Lantos who said earlier, and I believe he is correct, that the U.S. Government, through the Mission and then reaching into various branches of the government, had about 60 people, 60 government technical experts, review every single contract my understanding is.

Mr. DELAHUNT. Well, what were they doing?

Mr. RUGGIE. They were looking for dual-use, potential dual-use. If they stumbled across an individual pricing issue, they might have mentioned it. But I am not aware of that. And from the best that I have been able to determine, as I say, no contract was ever held up on pricing issues.

Mr. DELAHUNT. Let me express a concern I have now, because I have confidence in Paul Volcker, and I think it is absolutely essential that there be a thorough and transparent investigation.

But the program now, I understand, is managed by the CPA and the oil revenues go into the Development Fund for Iraq. And now one picks up the paper, on occasion sees a note, similar accusations and assertions about mismanagement, fraud, and corruption.

Mr. RUGGIE. You mean currently?

Mr. DELAHUNT. Currently. And would you agree that there seems to be some reluctance on the part of the CPA to allow a serious audit on the Development Fund for Iraq?

Mr. RUGGIE. Congressman, I am not qualified to answer that question. I haven't looked at the role of the CPA in this connection. I would like, if I may take 30 seconds—

Mr. DELAHUNT. Sure.

Mr. RUGGIE [continuing]. To clarify one point that was raised earlier.

I believe it was by Ms. Rosett who expressed concern about where the U.N. records were, and she expressed some doubt about where they were going. To the best of my knowledge, they are all in the U.N. archives. Those archives are in two facilities, one in Manhattan and one on Long Island. And Paul Volcker has access to every single document that was ever produced in connection with this program, including to internal management audits which are generally, like in the U.S. Government, not made public.

Mr. DELAHUNT. Well, again, I would hope—and I direct this to the Chair—that we request some testimony or at least a panel to deal with where we are now in terms of the CPA, its management of the DFI.

It is my understanding that it was—earlier, I think, Mr. Ackerman made reference to Mr. Chalabi, who is a convicted felon, is now the finance minister, if you will, for the CPA—who is in charge of administering that program. You know, let us not find ourselves 2, 3 or 4 years from now having a similar panel when I think our oversight responsibility should be exercised now. And I am not making any allegations or any assertions. I am just saying it is what I read in the paper. And I think much of what I heard today are people's opinions.

But thank you very much, and I yield back.

Chairman HYDE. I would just like to tell Mr. Delahunt that we are going to have follow-up hearings, and we will certainly invite witnesses from the Administration.

Mr. Flake.

Mr. FLAKE. Thank you, Mr. Chairman.

Ms. Pletka, can you describe what the U.N. actually did with regard to allegations of price malfeasance in the 661 Committee? Isn't it true that the U.S. and U.K. were consistently outvoted on issues when they brought them up?

Ms. PLETKA. It is very important to understand. Thank you for giving me the opportunity to explain.

It is important to understand that the 661 Committee only addressed certain contracts. Lots and lots of contracts actually only went through the office of the Iraq program, oil—I am sorry. Food, medicine, basic humanitarian, noncontroversial goods went largely



through the office of the Iraq program and were given after the contract was completed to the 661 Committee. So they weren't reviewing every single contract.

But throughout the course of the Oil-for-Food Program, beginning in 1996, there were concerns about not only the question of dual-use going through, but also about overpricing and about all sorts of other financial manipulation by Saddam Hussein. There was no question—very few people were naive. They were well aware that Saddam Hussein was going to try to manipulate the program. But, in fact, in the reviews that I am aware of and that I actually asked about in my capacity as a staffer who had oversight over this in the Senate, we asked specifically about questions of overpricing and were told by the State Department and the CIA, throughout the Clinton and Bush Administrations, that this was something that was brought up on a consistent basis.

The problem was that you had to do a cost-benefit analysis. Were we going to be objecting to perfectly acceptable commodities going into Iraq that happened to be overpriced, or were we going to be objecting to things that Saddam Hussein could have been using for a weapons program?

And you had to always make those compromises because the committee operated on this kind of consensus basis.

Mr. FLAKE. So, just to clarify, you were told that the U.S. and the U.K. had raised these issues on price malfeasance consistently?

Ms. PLETKA. I don't know whether they raised them consistently, but I know that it was an object of review every time a contract came through. Whenever it was possible to check whether something was appropriately priced, that check was done. But then there was a judgment made as to whether we would object to it, because we couldn't object to everything.

Mr. FLAKE. All right.

Ms. Rosett, you referenced a locked closet at the U.N. Can you describe that locked closet? It has been said in this hearing that all information will be available to Paul Volcker, he just has to ask for it. Is that your understanding?

Ms. ROSETT. The information that Paul Volcker needs to be sort of immediately concerned about getting would probably most directly be the BNP Paribas records, the internal audits of the BNP Paribas. Also—and on this one I offer you what I am able to know from the outside—in a number of conversations with the U.N. Office of the Treasurer I have received various accounts of the numbers of banks that were actually involved in this program.

I hear from Claude Hankes-Drielsma, who is now looking at the KPMG review, that there was a DeutscheBank account involved, but it never did much. The U.N. comptroller recently told me there were actually seven or eight banks. Someone needs to find out how many banks were actually officially involved in the program and look at those records.

But beyond that, the information that, had it been made public at the time, would have alerted everyone in this room that there were major problems were things as simple as the lists of the contractors, where these companies were based, the strange names. And what I alluded to earlier in my testimony on—there are two big lists, the contractors and the authorized oil buyers. And when

you start seeing in what were supposed to be end-users and what were supposed to be people paying market price even before the press reports and so on on the oil pricing problems; when you start seeing things like dozens of companies based in Switzerland, which are certainly not the end-users—well, perhaps some were. But he needs to look at the individual companies; you need to look at the registries.

Mr. FLAKE. Before my time is up. Will he have subpoena power then to get the documents that he requests, or does he have to rely on the good graces of the bureaucracy to get them?

Ms. ROSETT. He will not have subpoena power. He will have to rely on the grace of the various people he approaches. And he expects considerable resistance. The Russians, who were huge players in this program, have already said they consider this an unimportant and historical matter since the program ended 5 months ago.

Mr. FLAKE. In your view, and actually I am thinking of drafting legislation, or have gone some distance to draft legislation, to tie funding to the disclosure of information that is needed. Is something like that going to be needed to get the information out?

Ms. ROSETT. Absolutely. The confidentiality that is built into the U.N. custom and system, I think at this point is dangerous. It is obsolete. You simply—the more transparent they become, the better chance you have of having a credible institution there. The same kind of standards that are applied to your own offices should apply to the U.N.

Mr. FLAKE. Thank you.

Chairman HYDE. Mr. Berman.

Mr. BERMAN. Just a couple of comments about my perspective about this and then a couple of questions.

A decision is made, as Dr. Ruggie pointed out, in 1991 to let this terrible regime stay in power. That was George Bush, father, Dick Cheney, Brent Scowcroft, Jim Baker; and they decided to let them stay in power.

Now our policy becomes, how do you contain them? And we have inspections and we have sanctions, and building up all this time are efforts by other governments on the Security Council and in the Arab world to undercut the sanctions and weaken the inspection process constantly going on. Our major effort in containment is to stop technology and materials that will contribute to the resumption of a weapons of mass destruction program. So that is why Dr. Ruggie says that the 661 Committee, their first issue is to try to stop problematic technology from getting in the hands of Saddam.

There are a thousand other ways he is doing it. There is smuggling going on, there are all kinds of other streams of revenue where he is able, we think, to do this. But we are still trying to hold on to some sanctions against our allies in the coalition in 1991, who are now trying to undermine all of these kinds of things.

Meanwhile, a calculated effort is trying to say that our policies are killing all kinds of children and people in Iraq by people who know, even after the Oil-for-Food Program is under way—with a stream of revenue designed to stop that consequence of our sanctions from happening, know the outrageous rip-offs. And those are coming out long before we attacked Iraq last year. We knew. Arab diplomats are talking about the streets of Cairo with people

screaming about how America is killing these children. Even as their governments know, their government-sponsored media are passing on these stories without ever mentioning the rip-offs of Saddam and apparently the businesses that he was working with in all of this.

And then many people, honorable, decent people, became victims of that propaganda and started spouting that line and trying to, in a sense, undermine the sanctions. You have got this whole movement for smart sanctions and no sanctions and everything else as a result of us trying to deal with what it was being made to look like was our cause of a humanitarian disaster.

The thing that concerns us, I guess some of us here—and I guess I address this to Ms. Pletka and Ms. Rosett—is the response. There is an aspect of your testimony which sounds like the agenda here is to discredit the U.N. bureaucrats—and heaven knows, over the past years, there are reasons to discredit the U.N. bureaucracies, and at least one of you has been involved in efforts to try and reform that bureaucracy and, I thought, made some serious achievements. It is 22 percent of our taxpayer dollars going in, not 29 percent. And other changes, oversight inspector generals, different kinds of reforms.

But, in other words, somehow the U.N. was to blame rather than both the complicated priorities and the agendas of the people who really control what the U.N. agenda is.

So my questions are: Did Kofi Annan decide that the Oil-for-Food Program would have Saddam Hussein getting to decide who the vendors were and what would be paid rather than either a bureaucracy or the U.N.? Was that Kofi Annan's decision, or was that a decision made by the Security Council of the U.N. and, therefore, not a U.N.; and, inherently, all that flowed from that, all the corruption and all the evil that flowed from that came from that decision, not from just malevolent U.N. bureaucrats?

Not to say that there won't turn out to be some serious ones, but—

And then, secondly, I would like to get a precise sense of why isn't Paul Volcker and what I am told is a distinguished group of three with an ability to create a staff and investigators—

Chairman HYDE. The gentleman's time has expired.

Mr. BERMAN. Let me just finish this sentence.

And why aren't they the best people in a way? What are the institutional or other limitations on their ability to tell this full story, chips fall where they may, heads roll where they have to, indictments follow where they should as a result of this investigation? And why shouldn't we at least now give our support to the Security-Council-resolution-backed committee that he chairs?

So, a couple of comments for your reaction and the questions. Thank you, Ms. Pletka and Ms. Rosett, either one of them.

Ms. PLETKA. May I just start on the issue of the decision not to get Saddam in 1991, and say, of course there are many of us who agree entirely. I think there is bipartisan agreement that it would have been nice to have gotten Saddam Hussein in 1991; but looking at the way that President Bush has been excoriated in the international community and, indeed, in Washington as well for the decision to go into Iraq unilaterally, we have to recognize, look-

ing back, that in 1991 there was absolutely no mandate from the United Nations or the so-called international community to actually go and get Saddam. Perhaps we only postponed by 12 years the kind of difficulty we were going to have for unilateralism. But make no mistake, we would have been accused of that in 1991.

I wish we would have gotten him, too. It would have avoided a lot of problems.

Did Kofi Annan decide that Saddam should benefit from the manipulation of U.N. Security Council Resolution 986? No. Absolutely not. That was the responsibility of the Security Council. But it is important to understand the environment in which people operated. It was impossible to get Saddam Hussein to comply with the earlier resolution which would have put the power in the Secretary-General's hands. The entire international environment, as you yourself alluded to, was pressure on us, pressure on the United States, pressure on Great Britain rather than pressure on anybody else or on Saddam. So we got what we could.

Now, Kofi Annan added to that environment by consistently criticizing the United States and Great Britain for doing due diligence on the contracts, consistently criticizing us for not going forward with contracts, criticizing us for the overflights, criticizing us on a whole variety of areas. And so I think he added significantly to that environment, and for that he does bear responsibility.

In addition, the Secretariat bore significant bureaucratic responsibility for administering the program. And there, you are right, the chips should fall where they may. But the Secretariat did have responsibility, and he is the boss, and the buck stops there.

On the question of Volcker, I would really rather defer to Claudia who has more expertise in that area.

Ms. ROSETT. Thank you very much.

On the question of U.N. bureaucrats, this really has nothing to do with the notion that they are evil, not evil. Many of the sources for this story are unhappy people who, in fact, are in some way closely connected with the United Nations and very unhappy about some of the ways in which it conducts itself. And the issue here is that very bad things happen.

The amount of corruption and graft is immense. It goes past some bounds, I think, at which you can say it was realistic to expect corruption. 10 billion is large, you know, a fraction of that. And the U.N. makes it—operates under rules that make it very hard to say this person precisely is responsible.

The point I have tried to make with the Secretary-General, is that I began looking into this because I was curious about how the relief program worked. I never expected particularly to uncover a scam. As I began to learn about it, I was covering other things. At the time, each revelation was more appalling than the next. And the large problem here boils down to, if the U.N. is unable to contain something like this, if the Secretary-General will not call attention to problems that start to approach this scale, then it is not a good idea to entrust the U.N. with any mission as important as containing a Saddam or rebuilding an Iraq or basically—

Mr. BERMAN. Volcker. What about Volcker?

Ms. ROSETT. I think Volcker is a man, as far as I know, of great integrity. The problem is this: The investigation is outlined by the

Secretary-General, and one might note that this is, in itself, structurally a conflict of interest. He outlined the terms under which he will be—

Mr. BERMAN. I thought the Security Council outlined.

Mr. BURTON. Mr. Chairman, regular order, please. The gentleman has had his time.

Ms. ROSETT. No. He proposed and the Security Council approved. So, again, you can bounce it back and forth. You run into the same problem. Who is accountable? This is a problem with the United Nations; with the way it is arranged it leads to this kind of difficulty.

With Volcker, the problem he will have is, he can get what people are willing to volunteer. There are people I would expect involved in this who have great concerns about their futures, their welfare. Enormous amounts of money are at stake, and they will not want to be forthcoming.

If you took a bribe from Saddam Hussein and Paul Volcker comes to you for details, you probably aren't going to produce everything you have in your power to produce. I would expect when he goes to the Russian Mission for information, which has consistent—or the French, he will run into serious difficulty getting the kind of thing that you yourself would consider satisfactory standards of evidence to investigate.

Chairman HYDE. Mr. Burton of Indiana.

Mr. BURTON. Thank you, Mr. Chairman.

You know, the French and the Russians and the Syrians and the PLO all were beneficiaries of these oil contracts. I just found out that Mark Rich, who was one of the 10 most wanted criminals by the FBI and the world and was pardoned by the last Administration, was also one of the people that was involved in these contracts.

The corruption, it appears to me, is legion. And what Mr. Flake was alluded to a while ago and what these gentleladies are talking about is, we really need to get to the bottom of it. We need to get to the bottom of it.

And Mr. Volcker is an honorable man. I told my colleague from California that. I think he is an honorable man. But if he can't get access to the documents that are relevant to a investigation that is thorough, then we are never going to get to the bottom of this.

Mr. BERMAN. Then he should quit. He shouldn't be a party to that.

Mr. BURTON. I reclaim my time.

But let me just say that Mr. Volcker—that is something that you could take up with him. But the fact of the matter is, this is a monumental issue and it has to be resolved. If we are going to trust the United Nations, if we are going to ask the United Nations to be a participant in bringing about stability in Iraq and helping us set up a government that is going to work over there, then, by golly, we ought to be able to trust them. And the fact of the matter is, from what I have seen so far and from what I have heard today, you can't trust them.

And the French and the Russians that don't want us to get to the bottom of this thing, they are on the Security Council; and it is going to be very, very difficult.

Now, we give 22 percent of the money to the United Nations. Mr. Flake alluded to this a while ago. And I think we ought to use the power of the purse to make sure we get all of the documents that are relevant to this investigation.

Chairman HYDE. Would the gentleman yield?

Mr. BURTON. I would be happy to yield to the Chairman.

Chairman HYDE. I think it is important to bear in mind as we pile on the U.N., that the United States knew of some of this malfeasance, but for policy reasons decided to emphasize security and the confinement, the isolation, of Saddam Hussein rather than kickbacks and price manipulations on these civilian goods that were being sold, or the siphoning off of oil and the rest.

In other words, I cannot say that we are not complicit. And as we, justifiably, with a righteous anger, try to clean out the stable, we ought to remember there are a couple of rooms down the hall that need cleaning out, too.

Mr. BURTON. Mr. Chairman.

Chairman HYDE. And so it is people who abuse an institution, and we ought to find out who those people are and isolate them.

Mr. BURTON. Mr. Chairman, I agree with you wholeheartedly. Wherever the chips fall, then, by golly, we ought to get to the bottom of it. And people that committed or were complicitous in this process, they ought to be held accountable.

If they have diplomatic passports and they are working at the United Nations, and we find out that they were involved in this kind of a scandal, they ought to be deported. We ought to pull their diplomatic passports and get them out of here, or bring them to trial and dispense with their diplomatic immunity. And if the United States was involved, then I would like to know about that as well.

The bottom line is, if we are going to ask the United Nations to be a participant in this process and to be a participant in stabilizing the Middle East and, in particular, Iraq, then, by golly, we have got to have confidence that they can do it. And when Kofi Annan won't give us the documents we need, when France and Germany who fought us all through this whole process, along with Russia, don't want us to get to the bottom, when we find out that money was going to the PLO and possibly to Osama bin Laden and the Taliban, then, by golly, we need to get all the facts.

And I don't believe Mr. Volcker, as good a man as he is—and I have confidence in him—I don't believe he is going to be able to get those documents because I believe there is such a scandal over there that they don't want us to get those documents. And that is why I said, along with Mr. Flake, we ought to use the power of the purse and say, look, if you want us to be a participant in the United Nations, then, by golly, we have got to know that that place is going to work over there and be honorable, as honorable as possible. And if you are not going to do that, then, by golly, we ought to pull the purse.

Mr. BERMAN. Mr. Chairman, could I jump in, please?

Chairman HYDE. Mr. Burton?

Mr. BURTON. Well, I have the time, and I would just like to say to Mr. Ruggie, were you responsible at all? Were you responsible for the Oil-for-Food Program?

Mr. RUGGIE. No, sir, I wasn't.

Mr. BURTON. Well, then what do you have to say about it?

Mr. RUGGIE. I am on a panel with a number of other people.

Mr. BURTON. I know, but—

Mr. ACKERMAN. Point of order, Mr. Chairman. I don't think that our invited witnesses, invited by the Chair and this Committee, should be intimidated in such a fashion. They were invited here. And maybe Mr. Burton should ask that question of the Chairman, why he was invited here.

Mr. BURTON. I have—

Mr. ACKERMAN. He didn't invite himself here. I resent your attitude.

Mr. BURTON. I have the time, Mr. Ackerman.

I will ask Mr. Ruggie again. Did you have anything to do with the Oil-for-Food Program?

Chairman HYDE. Mr. Ruggie is here as an invited witness. We invited him because he has specialized knowledge. He is able to provide an overview. In addition, he was selected by the Democratic Members of the panel, and they have a right to select whomever they want.

Mr. BURTON. I understand, Mr. Chairman. And I have got a right as the person who has the time to say to Mr. Ruggie, were you involved in the Oil-for-Food Program? And he said no.

Chairman HYDE. Well, can we put that to bed now?

Mr. BURTON. Okay. But he wants to make a comment about it, and I wonder what his expertise is.

Mr. RUGGIE. May I?

Chairman HYDE. I would say, yes, after the dialogue we have heard.

Mr. RUGGIE. I am here at your invitation, and I thank you for the invitation.

Chairman HYDE. Yes, you are.

Mr. RUGGIE. I was an Assistant Secretary-General in Kofi Annan's office. I was his Senior Adviser for Strategic Planning. My job was to provide him with advice on a variety of overall political issues, institutional reforms, relations with the United States, and matters of that sort.

I didn't run the Oil-for-Food Program, I didn't work in the office of the Oil-for-Food Program. I worked in Kofi Annan's office.

A number of statements have been made here about how the Secretary-General's office works and how the Secretary-General works, which makes me glad that I did come here, Congressman Burton, because they are incorrect. They are fundamentally incorrect.

Let me say, if I may, to—Congressman Flake raised the issue before about the Secretariat not giving all the contracts to the 661 Committee members. The United States and the United Kingdom asked to see and received every single contract on that committee. Not one did they not see.

Secondly, with regard to the Volcker panel, I would like to ask what the alternative would be to a Volcker panel. We are doing an investigation that includes people from dozens of different countries, including Russia and France. Does the United States Congress want to take on the issue of trying to get Russia to submit documentation to a congressional Committee? Or are you prepared

to give the Security Council, through its resolution and authorization of the Volcker Commission, a shot at getting out all the facts?

Thirdly, Kofi Annan is on record. He has stated that Paul Volcker and his committee, which includes Justice Richard Goldstone from South Africa, who chaired the Reconciliation Commission in South Africa, was the first prosecutor of the International Criminal Tribunal for the former Yugoslavia, and a third person, a Swiss law professor who is an expert on money laundering—they have access to every piece of paper that the United Nations has in its possession relative to the Oil-for-Food Program, including internal management audits which are never intended for public consumption, but they too will be made available to the Volcker Commission.

So my question is, what is the alternative to allowing this commission to go forward and do its work, supporting it as best we can? We don't have reach over French diplomats or over Russian diplomats as the United States Congress. At least the Secretary-General now has the commitment of those countries on the Security Council to cooperate fully.

Mr. BURTON. Right.

Chairman HYDE. The gentleman from New York, Mr. Ackerman.

Mr. ACKERMAN. Thank you, Mr. Chairman.

The gentleman from Indiana is a Member of the House for whom I have the greatest of respect and regard, so it must be a personal inadequacy of mine that I don't know what the heck he is talking about.

I learned for the first time that Mark Rich is the number one person on the FBI's most wanted list.

Mr. BURTON. He was in the top 10.

Mr. ACKERMAN. Well, that is not number one, is it?

Mr. BURTON. That is what I said, he was one of the top 10.

Mr. ACKERMAN. You said he was number one.

Mr. BURTON. I think if you check the remarks, the recording—

Mr. ACKERMAN. Well, let us not quibble over that.

Mr. BURTON. Well, let's get your facts straight.

Mr. ACKERMAN. You get your facts straight.

Name one document that Kofi Annan has refused to submit. Not one document. You come here and make all sorts of reckless charges against witnesses and Members and everybody else, and I am beginning to resent it.

Mr. BURTON. Would the gentleman yield?

Mr. ACKERMAN. No.

Mr. BURTON. Well, you are the one who is telling me what I said.

Mr. ACKERMAN. I said I won't yield.

Chairman HYDE. The gentleman hasn't yielded.

Mr. ACKERMAN. The gentleman has the right to his time, he doesn't have to mine. He doesn't have a right to his own facts either. He certainly has a right to his opinion.

I would like to know, those of you who have studied this—and by the way, I didn't have anything to do with the Oil-for-Peace plan or the Oil-for-Food plan, either. So I don't know what any of us are doing up here, if that is the criterion for it.

Chairman HYDE. We are trying to learn.

Mr. ACKERMAN. I was asking a rhetorical question.



Chairman HYDE. If we would stop lecturing and listen, I think it would be a real progress.

Mr. ACKERMAN. Well, I think that is a lesson we ought might learn then, Mr. Chairman.

It was said, I think by Ms. Pletka, that Kofi Annan should be held responsible, he is the boss, the buck stops there, in regard to the corruption that took place. I am not sure whether you or any of the other witnesses testifying today are holding Kofi Annan responsible, or the U.N. in general, or is it just individuals?

But my question is, the overpricing and single-source bidding, et cetera, et cetera, with regard to Halliburton, which deals with U.S. taxpayer dollars, certainly bears looking into.

Would you hold the President of the United States, being the boss, to that same standard that you are holding Kofi Annan to, being the boss, Ms. Pletka? So if we ever get around to investigating the abuse of U.S. taxpayer dollars, how would we approach that? The same standard? Different standard?

Ms. PLETKA. I believe everybody should be held to a standard of responsibility for the people who work for them.

Mr. ACKERMAN. So you would say that members of our Administration, if they did not stop whatever corruption that certain U.S. corporations have admitted to, that that responsibility lies with the President of the United States? Is that what you are saying?

Ms. PLETKA. I have a strong suspicion that you might be a lawyer and that I am not.

Mr. ACKERMAN. I am a schoolmarm from New York City.

Ms. PLETKA. Well, you have far more practice in this sort of interrogation than I do.

But let me say that if the President had the level of knowledge that I believe is exigent inside the United Nations about the kind of corruption that exists, then, yes, he should be held responsible. And I think that is the expectation of our democracy and our taxpayers.

Mr. ACKERMAN. Could you tell us from your knowledge, then what knowledge Kofi Annan had, personal knowledge, if that is the standard?

Ms. PLETKA. No. I think that there is an investigation that is going on, and that if that investigation finds that—if, in fact, there was knowledge of it, he should be held responsible.

In addition, I would say—

Mr. ACKERMAN. Whether he knew—

Ms. PLETKA. Sir, I would like to answer your question, but just let me get the last bit of the sentence out.

There was an enormous amount of knowledge that was available about corruption inside the program from the very get-go, and it is covered in ample articles in the American press. So the fact that the Secretary-General has claimed that no one knew anything about this is, I think, a strange credulity.

Now, whether or not he was responsible is something that this commission can decide for itself.

Mr. ACKERMAN. If the same kind of overpricing, and overcharging with U.S. taxpayer dollars in this case, is proven with regard to some U.S. contractors, and U.S. officials looked the other way or were too busy with the larger problems, then you would say

the President of the United States should be held to the same standard?

Ms. PLETKA. I would say that if the President of the United States was aware over a period of years that there was systemic corruption going on that his personnel were involved with and he did nothing about it despite the fact that it was brought to his attention on a repeated basis, then, yes, he should be held responsible.

Chairman HYDE. The gentleman's time, unfortunately, has expired.

Mr. Green of Wisconsin.

Mr. GREEN. Thank you, Mr. Chairman. Mr. Chairman, a couple of thoughts to begin with.

I harken back to what you said and the Ranking Member said at the beginning of this hearing today, and that is that we are talking about, today, allegations; and we sometimes have to be careful that we don't jump ahead and forget that these are allegations.

And so I come into this with an open mind. I consider this the beginning of an examination that I hope will carry on for some time.

We have had other Members talk about how it is important for us to keep our eye on the ball here, and then go on to talk about domestic politics as we are meeting as a Committee on International Relations. I think we should keep our eye on the ball. I think we do need to focus on the matter that is before us.

I believe that this hearing and I believe that the subject matter of the hearing are terribly important. If the allegations are true only in part, then we are left undeniably with the fact that a well-intended program, a program that was set up for all the right reasons, became something very tragic, became a mechanism that not only worked for the benefit of Saddam Hussein, more than his own people, the Iraqi people; but in my way of thinking—even worse, perhaps—a mechanism for Saddam Hussein to thwart economic and political efforts to bring him into compliance with international sanctions, international resolutions, and the world community. And if that is true, then this program unfortunately condemned the very diplomatic efforts that we all hoped would bear fruit and bring Iraq into compliance with something short of military action.

And if any of that is true, it is a great failure, and it is indeed something that is worth not only our attention, but the world's attention.

In terms of questions, Ms. Rosett, a question for you. Everyone has been talking about evidence and documents that we have and we don't have. What sort of documents and what sort of evidence do we not have that we should be looking for?

Ms. ROSETT. Thank you very much. There are levels here of who has what. And there is one I think I would like to address that I think has been very important, because there was a tremendous fund of knowledge available that U.N. policy completely bypassed in all this.

If the information on the contracts and the oil buyers had been made public from the beginning, there are an enormous number—not just the press, not just the media, but there are an enormous number of people worldwide who make a point of knowing how

these things work. The competitors of the contractors in honest parts of the business would have looked at the rice prices out of Thailand and said, That is 44 percent over, which was the DCMA finding. They would have looked at the infant formula and the milk overpricing—how cynical can you get—and said, This can be done cheaper, and they don't have to be buying it from places like Saudi Arabia and Yemen and Syria and Sudan.

And so, at the simplest level, the public—even now you would get great help if those were released to the public.

I say that not just because I am a member of the press, but because there are people who would look and immediately know much better than, say, someone sitting in Washington what was going on with those 75 firms in the United Arab Emirates. That is one level.

This should just be public knowledge. It would bring to bear expertise you cannot get as a Committee or a small group of people; bring the marketplace into it.

Second, on the level of what you may have access to, there are bank records here that will tell you somewhere the transactions that were made, whether everything was in fact done properly; it has been a source of some mystery, from what I have been able to report, exactly who has had what.

As far as I have been told, the Iraqi Governing Council in Baghdad never received any bank statements after the fall of Saddam. They were all with the United Nations. This was confirmed to me by the U.N. Treasurer's Office in March. In other words, almost a year went by in which the U.N. did not disclose to anybody the statements or records of the bank that handled the escrow accounts of the program.

So the bank records, I think, are just vital. And someone needs to find out simply where, in fact, they are, who has got them, where they have been. They have been in a black hole as far as I can tell for most of the past year. That is a sign that any of you should be alert to.

Then there is simply the question of where exactly are the contracts. If they are in two facilities—I have also heard accounts from various quarters of files being corrupted, of things being lost, of things having disappeared, of things being incomplete. Again, where does the buck stop?

Someone ought to just make up a list of what is actually where exactly. It will be very important. They have been, as far as I can tell, scattered in many directions, in many forms.

So that is the very messy answer.

Chairman HYDE. Mr. McCotter from Michigan.

Mr. MCCOTTER. Thank you, Mr. Chairman.

First, I would just like to say that this is a complex issue in many ways. We have to deal with issues of not only what is perceived as malfeasance, but potential misfeasance and the difference between the two.

But I would just like to say, I am from Wayne County, Michigan. I am a Republican from Wayne County, Michigan. And perhaps the Chairman, with his knowledge of Cook County, will understand this: That, in many ways, what we are seeing is a machine, a political machine that is now being accused of having done something

wrong. And the tactics that the machine uses to defend itself are quite similar. There will be confusion, distraction, an internal investigation which is controlled by the machine, the results of which may or may not be adequate for public consumption. And it is all to defend the institution.

The reality is that the deeper debate that is going on is affecting what we are dealing with in this present instance, and that is how Americans view the role of the United Nations and what level of participation, based on that decision, America will continue to provide within the United Nations.

The United Nations in many ways has simply a thin veneer of international idealism which this present instance endangers by revealing the dank undercurrents of real politic that occurs every day.

So I would just caution everybody to keep your powder dry and see what happens, because the outcome of this investigation has to be fair, it has to be full, so that the American people can make their decision.

In many ways, it is also interesting to note, what cannot be overlooked is—I would hope that what comes out of this is an understanding of how—should misfeasance or malfeasance in the Oil-for-Food Program have occurred, what were the ramifications on subsequent actions by Saddam Hussein?

If the Oil-for-Food Program wound up undermining the very sanctions that were put in place to alter or to end the behavior of Saddam's regime, what role did that have when Saddam was faced with further U.N. resolutions? What role did it play in terms of the individual member-nation states and their dealings with Saddam and their dealings with the adoption of the enforcement of future United Nations resolutions?

It seems to me that these are the issues at stake, and I would just hope that we can conduct this in an objective and fair way. We may not be off to the best start.

And one of the things I would like to add is that I do not yet subscribe to the notion that the United States is complicitous in this. The way I view this is like a beat cop. The United States is a police officer, let us say, and you see someone running an Oil-for-Food scam and then on the other side of the street you see someone trying to acquire weapons of mass destruction or dual-use technology.

The police officer uses his best discretion and tries to stop the weapons of mass destruction. That does not mean the United States is complicitous with the criminal running the Oil-for-Food Program scam across the street.

So I would just like to put that on the record.

I would like to thank you all for being here. I have so many questions of my own to ask myself. I have none for you.

Chairman HYDE. Thank you very much.

Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you very much, Mr. Chairman, for holding this important hearing.

I wanted to ask our panelists, in their opinion, if the United Nations met its obligation under the Oil-for-Food Program; and if not, why not? Because, as all of us know, Mr. Chairman, the welfare

of the Iraqi people, after having suffered under the yoke of Saddam Hussein's regime for decades, was entrusted to the United Nations, the institution that was supposed to provide quality food and medicine to them as an exception to the international sanctions that were placed upon the Iraqi regime in retaliation for the regime's aggression. And as the evidence now appears to indicate, it seems, that that trust was broken. The U.N., it seems from the evidence that is now available, allowed Saddam and his allies, his cronies, the ability to pick the products they wanted, their suppliers, and their price. And according to the information that the Committee has reviewed, the United Nations seems to have cared very little about the quality of the products or even their cost as long as those who supported the Iraqi regime got the contracts. They appear to have forced suppliers to give them kickbacks, pocketed the money for themselves, they cheated the Iraqi people, the very same people that they were supposed to represent.

And Saddam's criminal behavior was cynically overlooked by the U.N. Secretariat, the bureaucracy that runs the institution. They were in place to make the decisions to stop this kind of arrangement, but callously they chose not to. And according to the information gathered thus far, the U.N. allowed the people of the Kurdish regions in the north of Iraq to be deprived of the quality medical equipment and denied the ability to grow the very food that could have helped feed their own people.

So the behavior of the U.N. in this, the largest humanitarian operation in its history, is disappointing. And I wanted to know your opinion about whether the United Nations, in fact, met its obligations under the program; and, if not, why not, if anyone cares to answer.

Thank you.

Mr. RUGGIE. Could I give that a shot?

Actually, you should address the Kurdish issue, because everything that I know about the facts on the ground suggests that, if anything, the Kurdish area was disproportionately benefited by the Oil-for-Food Program, in relative terms.

In absolute terms, it may have fallen short, Congresswoman. I am not claiming that that may not have happened. But in relative terms, it certainly was an area—

Ms. ROS-LEHTINEN. They got cheated less.

Mr. RUGGIE. That was better off.

One reason for that was that the rest of the country, the U.N. Oil-for-Food Program had to work through the Iraqi governmental agencies, whereas in the northern governorates it could deal directly with the local authorities and the people.

I would just put that on the record, if I may.

Ms. ROS-LEHTINEN. Thank you.

Mr. ZIAD. I think, by any criteria, if you judge the performance of the U.N. in the Iraqi Kurdistan, it fell short. The simple fact is that they had nearly \$8 billion to spend for the purposes, and they managed to spend less than 50 percent on those programs, in addition to the quality of the performance of the various projects.

Another example: They gave the right of procurement to Saddam Hussein's regime, which was a big mistake on the part of the U.N. Iraqi Oil-for-Food Program.

In addition, I gave the example of the hospital in Sulaimani, which never got built. By the way, it is going to be tendered again, I gather, in about 2 weeks' time, so—and the main reason, another reason, was the quality of personnel chosen by the U.N. to implement the programs in our region. They discriminated against employing Kurdish personnel in their international stop. Throughout that period, they never employed one single Kurdish expert. Of course, they wouldn't allow United States or British personnel to be employed in our region.

I just want to make that clarification. Thank you.

Chairman HYDE. The gentleman from Indiana, Mr. Pence.

Mr. PENCE. Thank you, Mr. Chairman. Thank you for holding this truly globally significant hearing about a topic that I know my constituents in Indiana are grateful to see your leadership and the participation of the Committee.

I wanted to ask two specific questions of testimony. I would ask unanimous consent, Mr. Chairman, if an editorial by one of our witnesses, Claudia Rosett, that appears in *The Wall Street Journal* today might be added to the record of this hearing.

Chairman HYDE. Without objection.

[The information referred to follows:]

THE WALL STREET JOURNAL

COMMENTARY

*Oil-for-Terror*

By CLAUDIA ROSETT  
April 28, 2004

It's looking more and more as if one of the best reasons to get rid of Saddam Hussein was that it was probably the only way to get rid of Oil-for-Food. The problem wasn't simply that this huge United Nations relief program for Iraq became a gala of graft, theft, fraud, palace-building and global influence-peddling—though all that was quite bad enough. The picture now emerging is that under U.N. management the Oil-for-Food program, which ran from 1996–2003, served as a cover not only for Saddam's regime to cheat the Iraqi people, but to set up a vast and intricate global network of illicit finance.

And though much debate has focused on the list published this past January in the Iraqi newspaper Al Mada—cataloguing some 270 individuals and entities worldwide alleged to have received illicit oil vouchers worth millions from Saddam—the Al Mada list may be the least of it (apart from the last name of the executive director of the Oil-for-Food program himself, Benon Sevan). Dwarfing the Al Mada list for size, scope and menace was the U.N.-piloted mothership, the entire \$111 billion U.N. Oil-for-Food program. Supplied by Iraq's oil wells, the sums involved in Oil-for-Food's transactions were so enormous that even the routine rounding errors of a few hundred million here or there easily rivaled, for example, the \$300 million or so in family money believed to have given Osama bin Laden his terrorist start.

In a world beset right now by terrorist threats—which depend on terrorist financing—it's time to acknowledge that the U.N.'s Oil-for-Food program was worse than simply a case of grand larceny. Given Saddam's proclivities for deceit and violence, Oil-for-Food was also a menace to security. By letting Saddam pick his own business partners and draw up his own shopping lists, by keeping the details of his contracts and accounts secret, and by then failing abjectly to supervise the process, the U.N.—through a program meant to aid the people of Iraq—enabled Saddam to line his pockets while bankrolling his pals world-wide. In return, precisely, for what? That is a question former Federal Reserve Chairman Paul Volcker might want to keep in mind as he heads up the official investigation, finally agreed to by U.N. Secretary-General Kofi Annan, into Oil-for-Food.

In tallying various leaked lists, disturbing leads and appalling exposes to date, what becomes ever more clear is that Oil-for-Food quickly became a global maze of middlemen, shell companies, fronts and shadowy connections, all blessed by the U.N. From this labyrinth, via kickbacks on underpriced oil and overpriced goods,

Saddam extracted, by conservative estimates of the General Accounting Office, at least \$4.4 billion in graft, plus an additional \$5.7 billion on oil smuggled out of Iraq. Meanwhile, Mr. Annan's Secretariat shrugged and rang up its \$1.4 billion in Iraqi oil commissions for supervising the program. Worse, the GAO notes that anywhere from \$10 billion to as much as \$40 billion may have been socked away in secret by Saddam's regime. The assumption so far has been that most of the illicit money flowed back to Saddam in the form of fancy goods and illicit arms.

But no one really knows right now just how much of those billions went where—or what portion of that kickback cash Saddam might have forwarded to whatever he deemed a worthy cause. A look at one of the secret U.N. lists of clients authorized by the U.N. to buy from Saddam is not reassuring. It includes more than 1,000 companies, scattered from Liberia to South Africa to oil-rich Russia. And though the U.N. was supposed to ensure that oil was sold to end-users at market price—thus minimizing the graft potential for Saddam and maximizing the funds for relief—there is an extraordinary confetti of clients in locations known less for their oil consumption than for their shell companies and financial secrecy.

Why on earth, for instance, did the U.N. authorize Saddam to sell oil to at least 65 companies in the financial lockbox of Switzerland. What was the logic behind approving as oil buyers at least 45 firms in Cyprus, seven in Panama and four in Liechtenstein? At the other extreme, would Mr. Annan care to explain why the U.N. authorized Saddam to sell oil to at least 70 companies in the petroleum-soaked United Arab Emirates?

In Oil-for-Food, "Every contract tells a story," says John Fawcett, a financial investigator with the New York law firm of Kreindler & Kreindler LLP, which has sued the financial sponsors of Sept. 11 on behalf of the victims and their families. In an interview, Mr. Fawcett and his colleague, Christine Negroni, run down the lists of Oil-for-Food authorized oil buyers and relief suppliers, pointing out likely terrorist connections. One authorized oil buyer, they note, was a remnant of the defunct global criminal bank, BCCI. Another was close to the Taliban while Osama bin Laden was on the rise in Afghanistan; a third was linked to a bank in the Bahamas involved in al Qaeda's financial network; a fourth had a close connection to one of Saddam's would-be nuclear-bomb makers.

U.N. secrecy—in deference to the privacy of Saddam and his former clientele—makes it extremely difficult to confirm the many whiffs of sleazy and sinister dealings in these lists. But for an example of how dirty Oil-for-Food could get, take the case of one of Saddam's U.N.-authorized relief suppliers, a company called Al Wasel & Babel General Trading LLC, set up in Dubai, in 1999. This same Al Wasel & Babel was designated by Treasury earlier this month as a front company set up by senior officials of Saddam's regime to serve as a foreign seller of goods to Saddam's regime, through Oil-for-Food (while trying to procure for Iraq a surface-to-air-missile system).

And although full information is hard to come by, partial lists leaked from the U.N. show that in 2000-2001 alone, Saddam's regime ordered up from Al Wasel and Babel more than \$190 million in construction materials, trucks, cars and so on. Over Mr. Annan's and Mr. Sevan's protests, the U.S. and U.K. blocked some \$45 million worth of those contracts; that still left the Saddam front company of Al Wasel & Babel with about \$145 million of Oil-for-Food business for that two year period alone.

Basically, Oil-for-Food was Saddam—just slightly harder to spot, swaddled as he was in that blue U.N. flag.

*Ms. Rosett, an OpinionJournal.com columnist, is a fellow with the Foundation for the Defense of Democracies and the Hudson Institute. A related article by the author appears in the May issue of Commentary.*

URL for this article:

<http://online.wsj.com/article/0,,SB108310951312995487,00.html>

Mr. PENCE. Thank you, Mr. Chairman.

And it is about that, Ms. Rosett, that I wanted to speak. You make some fairly extraordinary assertions on the pages of *The Wall Street Journal* today, mostly having to do with whether or not—well, I don't want to characterize your piece. People can read it.

But you raise the issue of whether or not as we talk about kind of grand larceny on a global scale, on the global graft that was going on here, some estimates in excess of \$4 billion in kickbacks

and payoffs, it would be easy to stop there. It would be easy to say, well, this was just people running away with the store.

But it seems to me that—and I heard your statement, and I haven't read your entire statement yet. But it seems to me—I would be anxious to have you speak to this suggestion—in your piece that all U.N. Oil-for-Food money may have ended up in accounts tied to the Taliban during the period of time that al Qaeda was being harbored and trained there; that it ended up in banks in the Bahamas involved in al Qaeda's financial network; my question to you is, to what extent do you personally believe—and I know we are about, ultimately, trying to say what the evidence is—but to what extent do you personally believe that Saddam Hussein used the Oil-for-Food Program and the contracting ability and voucher program and the rest to finance terrorism?

Ms. ROSETT. Thank you for, I think, a really important question.

Let me try to substantiate what I say as far as I can.

We do not know that money from this program ended up in a bank in the Bahamas, the bank in question being Bank Al Taqua, which is on the U.N.-designated terror list of entities affiliated with al Qaeda. But it did have a connection to a firm that was authorized out of Liechtenstein to buy oil from Saddam Hussein.

And, again, when you look at this, I think you all appreciate, as people who know something of the world, that when you see a firm in Liechtenstein buying oil from Saddam Hussein, there is enough there to ask the question, is this for home heating? And when you start to look through the lists, there are examples—I mean.

Mr. PENCE. If I may interrupt to amplify your point. The sale of the oil to the United Arab Emirates, which I think you aptly described today as an “oil-soaked country”—

Ms. ROSETT. Yes.

Mr. PENCE [continuing]. And also a place where I think we have established, over time, since 9/11, a great deal of terrorist activity and interactions have taken place is deeply suspicious to this Congressman, and it seems to me an example of that to which you point in *The Wall Street Journal* today.

Ms. ROSETT. Precisely. It is that when you look through—I have a leaked list. This is the kind of thing I was saying the U.N. should make confidential. I began sitting down and going through, with the help of someone I suggest you call as a witness, a lawyer who works for a firm in New York—I can give you more details—he is a financial investigator who has looked into financial sponsors of September 11th.

This is the law firm Kreindler & Kreindler, and they filed a suit against the financial sponsors. And in the course of that, one of their investigators also wrote, I think, the best detailed report I have seen on sources of revenue for Saddam Hussein—it is public from the Coalition for International Justice, and it is heavily documented.

Mr. PENCE. But it is your sense that—excuse me, for interrupting, but they limit my time. It is your sense that that is an issue in this investigation of this global scam?

Ms. ROSETT. Let me make it very clear.

My sense is that this was huge and it was dangerous. What we can establish is that Saddam Hussein had, absolutely, the ability



to send money through Oil-for-Food contracts to anyone he chose once he got it into a company like that; that if you put together—and I just need to give you the crucial components—the graft-kick-back element where we don't know that it was all going back to Iraq once it was onto a company where Saddam Hussein had already done a dirty deal; and, again, the blackmail component, the cooperative component, it could be sent on.

And the opportunities I began outlining, I began just looking at things that are strange, and you will see the—it goes on and on and on. When you start—that is what—and there is no official investigation. This was Saddam's little black book.

Ms. ROS-LEHTINEN [presiding]. Thank you so much.

Thank you, Mr. Pence.

Mr. BURTON. Would the Chairman yield for just a moment, please? If it is possible, I would like to have that put into the record. Could we have—

Ms. ROS-LEHTINEN. The little black book?

Mr. BURTON. The information she is—

Ms. ROS-LEHTINEN. I will take it under advisement with the Chairman and let him decide.

Mr. BURTON. I think it is extremely important.

Ms. ROS-LEHTINEN. I will make sure that the Chairman notes that. Thank you, Mr. Burton.

Mr. DELAHUNT. No objection from this side of the aisle.

Ms. ROS-LEHTINEN. Thank you.

Ms. ROSETT. I will provide it. I think it is important this should go public.

[The information referred to follows:]

Companies Authorized to Communicate with Overseers  
S/AC.25/1996/HUM986/Comm.

updated 3/6/97

Country	Company Name
1	Belgium 1. Petrofina
2	Germany 1. Intermar Energie-Handel Holdinggesellschaft mbH 2. Mabanafit GmbH 3. Marimpex Mineralol-Handelsgesellschaft mbH 4. Veba Oil Int. GmbH 5. Dea Mineralol AG 6. Deutsch Shell AG 7. Esso AG 8. Conoco Mineralol GmbH 9. Select Energy Trading GmbH 10. Independent Oil Dealers 11. Stinnes Interoil AG
3	Malaysia 1. Tradeyear SDN BHD 2. Petronas Trading Corporation (PETCO) 3. Malaysian International Trading Corporation SDN. BHD (MITCO) 4. Rumpum Legenda SDN. BHD 5. Antah Sri Radin Sdn. Bhd 6. Camro Sdn. Bhd.
4 add 1,2	Russia 1. Mashinoimport 2. Zarubezhneft 3. International Economic Cooperation Ltd. 4. Nafta-Moscow Ltd. 5. Lukoil Oil Company Ltd. 6. Rosneft Oil Company Ltd. 7. Rosnefteimpex Ltd. 8. Alpha-Eco 9. Tatneft
5	UAE 1. Fal Oil, Ltd. 2. Illegible
6	Austria 1. OMV Aktiengesellschaft
7	South Africa 1. Engen Petroleum International Ltd. 2. Shell South Africa Ltd. 3. SFF Association

8	Switzerland	<ol style="list-style-type: none"> <li>1. Addax BV Geneva Branch</li> <li>2. Newgen AG (ex Claredon AG)</li> <li>3. Hermitage Resources AG</li> <li>4. Glencore International AG</li> <li>5. Phibro GmbH</li> <li>6. Tempo Trade SA</li> <li>7. Turavent Oil AG</li> <li>8. Bayoil SA London Branch</li> <li>9. Petrogaz Distribution SA</li> <li>10. Swoil Corporation Lugano Branch</li> <li>11. VTT Vulcan Petroleum SA</li> <li>12. Agip (Suisse) S.A.</li> </ol>
9	Italy	<ol style="list-style-type: none"> <li>1. Agip Petroli</li> <li>2. API Anonima Petroli Italiana</li> <li>3. Erg Petroli</li> <li>4. Esso Italiana SpA</li> <li>5. Oil Energy SpA</li> </ol>
10	Philippines	<ol style="list-style-type: none"> <li>1. Philippine International Trading Corporation (PITC)</li> </ol>
11	Spain	<ol style="list-style-type: none"> <li>1. Sirecox</li> <li>2. Repsol Petroleo</li> <li>3. Cenavisa</li> <li>4. Glencore Espana SA</li> </ol>
12	Brazil	<ol style="list-style-type: none"> <li>1. Petrobras</li> </ol>
13	Belgium	<ol style="list-style-type: none"> <li>1. Esso Belgium</li> </ol>
14	Poland	<ol style="list-style-type: none"> <li>1. Petrochemia Plock SA</li> <li>2. Rafineria Gdanska SA</li> </ol>

15	U.K.	<ol style="list-style-type: none"> <li>1. Turavent Oil Ag</li> <li>2. Philbro Energy</li> <li>3. Allied Commercial Comms</li> <li>4. BB Energy</li> <li>5. Continental Oil &amp; Gas Resources</li> <li>6. Plaza (107) Ltd.</li> <li>7. Philbro GmbH</li> <li>8. BP Oil International</li> <li>9. Energy Compass</li> <li>10. Shell ITSC</li> <li>11. ABC Worldwide Trading</li> <li>12. IBB Ltd.</li> <li>13. Tramp Oil &amp; Marine</li> <li>14. G A Kasir &amp; Sons Ltd.</li> <li>15. Midgulf</li> <li>16. Mitsui &amp; Co (Energy Dept)</li> <li>17. Duplograph Ltd.</li> <li>18. Mr. Samir Al-Ani</li> <li>19. Mr. Abdullah</li> <li>20. Otrap International</li> <li>21. Amoco Supply &amp; trading</li> <li>22. Mitsubishi Corp (UK) Plc</li> <li>23. Mr. Marcus Papadopoulos</li> <li>24. Mr. Alo Mosawi</li> <li>25. Industrial Control Services Ltd.</li> <li>26. Enterprise Oil</li> <li>27. Coroles International Ltd.</li> <li>28. Esso UK Plc</li> <li>29. Taurus Petroleum Ltd.</li> <li>30. United Projects Co. Ltd</li> <li>31. Worldwide</li> <li>32. Aatock Oil Services (UK) Ltd.</li> <li>33. Riva International Ltd.</li> <li>34. Conoco (UK) Ltd.</li> <li>35. Taurus Petroleum Services</li> <li>36. Dena Ltd.</li> <li>37. Attock Oil International</li> <li>38. Sama Impex Ltd.</li> <li>39. Chevron International Oil Co. Ltd.</li> <li>40. Energy International Ltd.</li> <li>41. Delta Holding Group</li> <li>42. Itochu Petroleum Co (UK) Ltd.</li> <li>43. Tomen Plc</li> <li>44. Branch Oil Trading Ltd</li> <li>45. Alba Holdings</li> <li>46. Richmond Trading &amp; Investment Co</li> <li>47. Sinochem Int Ltd</li> <li>48. Taurus Petroleum Limited</li> </ol>
16	Bulgaria	<ol style="list-style-type: none"> <li>1. Chimimport AD</li> </ol>

17	Japan	<ol style="list-style-type: none"> <li>1. Cosmo Oil Company Ltd</li> <li>2. Fuji Oil Co., Ltd.</li> <li>3. General Sekiyu K.K.</li> <li>4. Idemitsu Kosan Company Ltd.</li> <li>5. Japan Energy Corporation</li> <li>6. Kashima Oil Co., Ltd.</li> <li>7. Koa Oil Co., Ltd.</li> <li>8. Kyokuto Petroleum Industries, Ltd.</li> <li>9. Kyusyu Oil Co., Ltd.</li> <li>10. Mitsubishi Oil Co., Ltd.</li> <li>11. Nippon Oil Co., Ltd.</li> <li>12. Nippon Petroleum Refining Co., Ltd (Nippon Oil Group)</li> <li>13. Nihonkai Oil Co., Ltd. (Nippon Oil Group)</li> <li>14. Nippon Oil (U.K.) Plc</li> <li>15. Nippon Oil (Asia) Pte., Ltd.</li> <li>16. Seibu Oil Company Ltd.</li> <li>17. Showa Shell Sekiyu K.K.</li> <li>18. Itochu Corporation</li> <li>19. Itochu Petroleum Co., )Hong Kong) Ltd.</li> <li>20. Kanematsu Corporation</li> <li>21. International Petroleum Ltd. (Hong Kong)</li> <li>22. Marubeni Corporation</li> <li>23. Marubeni Petroleum Company Ltd.</li> <li>24. Mitsubishi Corporation</li> <li>25. Petro Diamond Company Ltd.</li> <li>26. Mitsubishi Corporation (U.K.) Plc</li> <li>27. Mitsubishi International Corporation</li> <li>28. Mitsui &amp; Co., Ltd.</li> <li>29. Mitsui Oil (Asia) Kong Kong Ltd.</li> <li>30. Nissho Iwai Corporation</li> <li>31. Nissho Iwai American Corporation</li> <li>32. Nissho Iwai Europe Plc</li> <li>33. Nissho Iwai Petroleum Co. (Singapore) Pte Ltd.</li> <li>34. Pacific Petroleum &amp; Trading Co., Ltd.</li> <li>35. Sumitomo Corporation</li> <li>36. Tomen Corporation</li> <li>37. Tomen Petroleum (Singapore) Pte. Ltd.</li> <li>38. Tomen (U.K.) Plc</li> <li>39. Tonen Corporation</li> </ol>
18	Portugal	<ol style="list-style-type: none"> <li>1. Petroleos de Portugal</li> </ol>
19	Bahamas	<ol style="list-style-type: none"> <li>1. Swoil Corporation Ltd.</li> </ol>
20	Turkey	<ol style="list-style-type: none"> <li>1. Mr. Abdulkadir Basar</li> <li>2. Mr. Yavuz Erkut</li> <li>3. Mr. Fikret Yeletaysi</li> <li>4. Mr. Hasan Tan</li> </ol>

21	Rep of Korea	<ol style="list-style-type: none"> <li>1. Yukong Ltd.</li> <li>2. Lg-Caltex Oil Corporation</li> <li>3. Hanwha Energy Co., Ltd.</li> <li>4. Hyundai Oil Refinery Co., Ltd.</li> <li>5. LG International Corp.</li> <li>6. Samsung Corporation</li> </ol>
22	Netherlands	<ol style="list-style-type: none"> <li>1. Shell Nederland Reffinaderij BV</li> <li>2. Shell Nederland BV</li> <li>3. Agip Trading BV</li> <li>4. Larmag Energy BV</li> <li>5. Trafigura Beheer BV</li> </ol>
23	China	<ol style="list-style-type: none"> <li>1. China National Chemicals Import/Export Corporation</li> </ol>
24	France	<ol style="list-style-type: none"> <li>1. Mobil Oil Francaise</li> <li>2. BP France</li> <li>3. Fina France</li> <li>4. Agip Francaise S.A.</li> <li>5. Shell Oil Company</li> <li>6. Total International Limited</li> <li>7. Esso</li> <li>8. Socap International</li> <li>9. Elf Trading S.A.</li> <li>10. Societe Logaffinstrat</li> </ol>
25	Indonesia	<ol style="list-style-type: none"> <li>1. PT Tipati Pratama</li> </ol>
26	Finland	<ol style="list-style-type: none"> <li>1. Fortum Oil and Gas Oy</li> </ol>
27	South Africa	<ol style="list-style-type: none"> <li>1. BP Southern Africa (Pty) Limited</li> </ol>
28	Bulgaria	<ol style="list-style-type: none"> <li>1. Nephthohim Ltd.</li> </ol>
29	Colombia	<ol style="list-style-type: none"> <li>1. Empresa Colombiana de Petroleos ECOPETROL</li> </ol>
30	Germany	<ol style="list-style-type: none"> <li>1. Cobisa International Petrol Marketing</li> </ol>
31	Hungary	<ol style="list-style-type: none"> <li>1. Mol Co. Ltd.</li> </ol>
32	Uruguay	<ol style="list-style-type: none"> <li>1. Administracion Nacional de Combustibles, Alcohol y Portland (ANCAP)</li> </ol>
33	South Africa	<ol style="list-style-type: none"> <li>1. Total South Africa (Pty) Limited</li> </ol>
34	Ireland	<ol style="list-style-type: none"> <li>1. Irish National Petroleum Corporation Ltd.</li> </ol>
35	Namibia	<ol style="list-style-type: none"> <li>1. BP Namibia (Pty) Ltd</li> <li>2. Caltex Oil (Namibia) (Pty) Ltd</li> <li>3. Engen Namibia (Pty) Ltd</li> <li>4. Shell Ltd</li> <li>5. TREK - Namibia Petroleum (PTY) Ltd</li> <li>6. Total Namibia (Pty) Ltd</li> </ol>
36	India	<ol style="list-style-type: none"> <li>1. Indian Oil Corporation Ltd.</li> </ol>
37	Mauritius	<ol style="list-style-type: none"> <li>1. State Trading Corporation</li> </ol>
38	Thailand	<ol style="list-style-type: none"> <li>1. The Bangchak Petroleum Public Company Limited</li> <li>2. Thai Oil Company Limited</li> <li>3. Rayong Refinery Company Limited</li> <li>4. Star Petroleum Refining Company Limited</li> </ol>
39/add1	U.S.	<ol style="list-style-type: none"> <li>1. The Coastal Corporation (Coastal Petroleum N.V.)</li> <li>2. Mobil Export Corporation</li> <li>3. Texaco Limited</li> </ol>

40/add1	Romania	1. Societatae Nationala de Petrol si Gaze "Petrogaz SA" 2. Petrolexportimport S.A.
1	United States	1. Chevron U.S.A.
2	Malaysia	1. KKK Kontrekbina SDN. BHD. 2. Al-Wand SDN. BHD
3	Rep of Korea	1. Hyundai Engineering & Construction Co. Ltd.
4	U.K.	1. Vitol Energy (Bermuda) Ltd
5	Morocco	1. Societe Marocaine de Raffinage (SAMIR)
6	Malaysia	1. Pacific Inter-Link Sdn. Bhd.
7	U.K.	1. Levant Petroleum Limited
8	Cyprus	1. Cyprus Petroleum Refinery Ltd
9	Panama	1. Petroserve Limited, S.A.
10	Switzerland	1. Vitol S.A.
11	Malaysia	1. Raza Sendirian Berhad 2. Primabumi Sdn. Bhd.
12	U.K.	1. Zarah Fashions Co. Ltd.
13	Cyprus	1. Moil-Coal Trading Co. Limited
14	Malaysia	1. Enrico Sdn. Bhd.
15	Germany	1. Ascon Oil GmbH
16	Switzerland	1. Shell Switzerland
17	Germany	1. Cremer Oil GmbH Hamburg
18	Greece	1. D.E.P. (Public Petroleum Corporation)
19	Italy	1. NRG Oils
20	U.K.	1. Fortune Oil Company Ltd
21	Hungary	1. Grand Imperial Co. Ltd
22	Italy	1. Costieri Genovesi Petroliferi
23	UAE	1. Crescent International Petroleum Ltd
24	U.K.	1. Griffin Marketing Ltd
25	Greece	1. Moto Oil (Hellas) 2. Avin Oil Anstalt
26	Russia	1. Onako Ltd
27	Switzerland	1. Masefield AG
28	Algeria	1. Sonatrach Petroleum Corporation
29	Germany	1. Ascon Trading
30	Italy	1. Apioil Limited
31	Switz	1. OMV Supply and Trading AG
32	U.K.	1. APIOL Ltd.
33	U.S.	1. Phoenix International L.L.C.
34	U.K.	1. Swanshire International Ltd
35	Italy	1. Italiana Energia e Servizi SPA
36	Greece	1. Petrola Hallas, A.E.B.E.
37	Switzerland	1. CPT Chemical Products Trading AG
38	Spain	1. Compania Espanola de Petroleos
39	Russia	1. Sibneft
40	Switzerland	1. Wintershall Oil AG
41	U.K.	1. Saracen Power PLC
42	Indonesia	1. PT International Petroleum Sales, Inc

43	U.K.	1. Gulf Oil Limited
44	Canada	1. Ranger Oil Limited
45	Romania	1. Arcas Group
1	Russia	1. Zangas
2	Canada	1. TransCanada Petroleum Ltd.
3		1.
4	Bulgaria	1. Rosbulneft AD
5/add1	Turkey	1. Delta Petroleum Products Trading Co., 2. Fal Oil Company Ltd
6		1.
7	Switzerland	1. Central Energy AG
8	Russia	1. Tyrmenskaya Neftyananya Compania
9	Austria	1. Apollo Oil Rohstoffhandels GmbH
10	Slovak Rep	1. Petrimex Supply Ltd
11	Bahamas	1. Bayoil Supply and Trading Limited
12	Cyprus	1. Nafta Petroleum Company Limited
13	Russia	1. Surgutneftgas
14	Czech	1. Chemapol a.s.
15	Netherlands	1. The Oil Consulting Group
16	Austria	1. Fa. Gulf ErdolhandlungsgesmbH
17	Ukraine	1. MontElect Co.
18	Spain	1. Juan Antonio Minarro Aguilar
19	U.K.	1. Wyatt Energy (BVI) Ltd
20		1.
21	Singapore	<del>1. Indoil Trading Pte Ltd - Ceased Operations</del>
22	U.K.	1. Afro-Eastern Limited
23	Singapore	1. Kuo Oil (Singapore) Private Limited 2. Hin Leong Trading (Private) Limited 3. Veba Oil Suply & Trading Pte. Ltd.
24	Spain	1. Lubna Trading, S.A.
25	Russia	1. Yukos
26	France	1. Addax France Sarl Bard
27	Austria	1. Fa. General Petroleum Services GesmbH.
28	Canada	1. Petro Lina Oil Canada, Inc.
29	Netherlands	1. TrameX Holding N.V.
30		1.
31	Canada	1. Oilexco Incorporated
32	Morocco	1. Petrade
33		1.
34	France	1. Glencore France S.A.
35	Italy	1. IPLOM
36	U.K.	1. Hess Energy Trading Co. Ltd
37		1.
38	VietNam	1. Petro VietNam Trading Company PETECHIM)
39	Spain	1. Petroleos Del Norte, S.A. (Petronor)
40	Panama	1. African Middle East Petroleum Co. Ltd., Inc.
41	Indonesia	1. PT Satriautama Nasantara



42	U.K.	1. Lukoil Petroleum Limited
43	U.K.	1. Mar Petrochemicals Limited
44	Yugoslavia	1. Beopetrol
45	Switzerland	1. Hariko Limited 2. Sintez SA
46	Syria	1. Awad Ammora & Co. 2. Nouri for Trading Co.
47	Singapore	<del>1. Indoil International Pte Ltd</del> Ceased Operations
48	Italy	1. Saras S.p.A. Raffinerie Sarde 2. Arcola Petroliera S.p.A.
49	Yemen	1. ZSA Services Ltd.
50	Malaysia	1. CNCCC Holdings SDN. BHD
51	Malaysia	1. Mico Pharmaceutical (KL) SDN BHD
52	Hungary	1. Grandfarm Agricultural and Commercial Joint-Stock Company
53	Canada	1. Arcan International Supply Canada Limited
54	Switzerland	1. Euromin SA
55	UAE	1. Great Wall Trade Centre (L.L. Co.)
56	Slovak Republic	1. Slovnaft Supply & Trading Ltd.
57	Panama	1. Kelt Oil & Energy S.A.
58	Malaysia	1. Delcom Services SDN BHD
59	Denmark	1. Agri-Tech
60	France	1. Unitrade International SA
61	Italy	1. Petraco S.p.A.
62	Yemen	1. Aden Refinery Company
63	China	1. Capital Century Co., Ltd.
64	Lebanon	1. B.B. Energy (M.E.) S.A.L.
65	Italy	1. Industria Petroliera Siciliana
66	Switzerland	1. Sideco SA
67	Spain	1. Amposta Oil, S.L.
68	Russian Federation	1. Slavneft
69	Ireland	1. Bula Resources (Holdings) plc.
70	Panama	1. Devon Petroleum Limited S.A.
71	UK	1. SteelCorp. Ltd
72	Canada	1. Petro Bass Canada Inc.
73	South Africa	1. Moco Services South Africa (Pty) Ltd
74	Switz	1. Genmar Resources
75		
76	Russia	1. Gazprom 2. Transneft
77	Greece	1. Hellenic Petroleum S.A.
78	<del>France</del>	<del>1. IBEX</del>
79	Russia	1. ASTES
80		

81	Jordan	1. Petro Lina Oil Limited
82	Japan	1. Tokyo Beoki Development Ltd
83	UAE	1. Loyoil L.L.C.
84	Germany	1. Rosnefta-Gazprom AG
85	Cyprus	1. Arcmed Energy Limited
86	Switz	1. Behles Petroleum SA
87	Malaysia	1. Gabungan Bistari Sdn Bhd
88	Panama	1. Dalston Associated SA
89	France	1. Aredio Petroleum S.A.R.L.
90	UAE	1. EnerCanada Middle East Ltd
91	Netherlands	1. Excelsior Energy B.V.
92	Bulgaria	1. Vassilevi Bros. Ltd
93	Gambia	1. Gamoco Ltd
94	Ireland	1. Irish National Petroleum Corporation
95	Canada	1. Roslyn Resources Inc. (Omni Petroleum)
96	UAE	1. Al Habtoor Trading Enterprises
97	Italy	1. Damoil S.r.l.
98	UK	1. Omni Petroleum Limited
99	Tunisia	1. Entreprise Tunisienne d'Activites Petrolieres
100	Belarus	1. Belmetalenergo LTD
101	Thailand	1. Petroleum Authority of Thailand
102	Singapore	1. Concorde Energy Ptr. Ltd
103	Sudan	1. Samsu Trading Company Ltd
104	Indonesia	1. PT Dexter Trading Ltd
105	Namibia	1. Kalahari Oil Company (Pty) Ltd.
106	Kenya	1. Asmos Limited
107	Yemen	1. YemOil Co. Ltd.
108	Ukraine	1. Vavilon
109	Ukraine	1. Hyperborey
110	Switzerland	1. Novarco AG
111	Gabon	1. Company Petrolin Trading Limited (BVI)
112	Spain	1. Gonzalez Corral Hnos S.A.
113	Indonesia	1. PT Bumi Teknindo Damparjaya
114	Namibia	1. Millenium Trading Company (Pty)
115	Cyprus	1. Gulfstream Trading Limited
116	France	1. Samfet
117	Egypt	1. Income Petroleum & Industrial Services (INCOME)
118	Italy	1. Italtech SRL
119	Liechtenstein	1. GALP International Trading Establishment
120	UK	1. South Petroleum Limited
121	UK	1. Triton Oil Limited
122	France	1. Samasu S.A.R.L.
123	France	1. Tanker Oil & Gas
124	Switzerland	1. Lukoil SA
125	Switzerland	1. Venturis Energy GmbH
126	Italy	1. Quantum Oil
127	Latvia	1. Skonto Nafta Ltd

128	China	1. Purich International Limited
129	Switzerland	1. Swissoil Trading SA
130	Lebanon	1. Planet Petroleum
131	Cyprus	1. Dasmtrade Limited
132	UK	1. CATO Trading Limited
133	Austria	1. JURIMEX Kommerz Transit GesmbH
134	Argentina	1. Petroil Petroleros y Derivados S.A.
135	Thailand	1. Chaiyaporn Rice Co., Ltd.
136	Russia	1. Zarubezhneftegaz
137	Cyprus	1. Al Salam Oil Overseas Limited
138	UK	1. Century Market Associate Limited
139	China	1. Zhuhai Zhengrog Co. 2. China National United Oil Corp 3. China Petro-Chemical International Co
140	Malaysia	1. Petmal Oil
141	China	1. Camelot Oil Company Limited
142	Russia	1. VSNK (East Siberian Gas and Oil Company
143	Singapore	1. Singapore Petroleum Company Ltd
144	Namibia	1. Namibia Atlantic Shipping Corporation
145	UAE	1. Interat General Trading (L.L.C.)
146	Singapore	1. Nicor Petroleum Company Limited
147	Lichtenstein	1. Tradetechno Limited
148	Belarus	1. Lada-OMC Holding SA
149	Spain	1. Dominion Spain, S.L.
150	Austria	1. Jurimex Kommerz Transit Oil GesmbH
151	Switz	1. Indagro S.A.
152	Switz	1. Zerich GmbH
153	UK	1. Petrobras International Finance Company
154	Indonesia	1. PT Himber Graha Utama
155	Indonesia	1. PT Pancacitra Multi Jaya
156	Indonesia	1. PT Ningrat Banda Lubrika
157	Indonesia	1. Petrocom Ltd.
158	Indonesia	1. PT Concord Perdana Indonesia
159	Austria	1. Interarc Petroi Energy Handelsgesellschaft mbH
160	Ukraine	1. Vazhmashimpex
161	Ukraine	1. Concern Styrol
162	Switz	1. EPI Services SA
163	Switz	1. LIA Oil (Suisse) S.A.
164	Switz	1. IPCO Trading S.A.
165	Yemen	1. Al Wadi Trade & Investment Co. Ltd
166	Indonesia	1. PT Bakrie Interinvestindo
167	Indonesia	1. P.T. Istana Karang Laut
168	Iran	1. Naftiram InterTrade Co (NICO) Limited
169	Hungary	1. Euromark Trading Ltd.
170	India	1. <del>M/S. Reliance Petroleum Ltd.</del> M/S Reliance Industries Limited
171	Cyprus	1. Likart Trading Limited
172	Cyprus	1. KTG Kentford Globe Limited

173	Romania	1. 3R Trading Impex SRL
174	Romania	1. Midway Oil
175	UK	1. Mount Overseas Limited
176	UK	1. Maurice E. Taylor (Merchants) Ltd
177	Malaysia	1. Nusantara Khas Sdn. Bhd.
178	Tunisia	1. Carthago International Trading (CITRA)
179	Malaysia	1. Mastek Sdn. Bhd.
180	Singapore	1. Perta Oil Services Ptr. Ltd
181	Singapore	1. Sunlabel Ptr Ltd
182	Ireland	1. Afro-Eastern Ltd.
183	UK	1. Amros Trading Group SA
184	France	1. International Petroleum Company
185	Armenia	1. Vedi Alco
186	Russia	1. Zarnestservice
187	Russia	1. Zao "VTO" Rosneftegazexport"
188	Russia	1. JCS Orel-Oil
189	UK	1. Perenco PLC
190	Austria	1. INVEST Petrol HandelsgmbH
191	Romania	1. Rompetrol S.A.
192	Spain	1. Tulanhery, S.L.
193	Singapore	1. Daxin petroleum Company Pte Ltd
194	Yemen	1. Rayman
195	France	1. Societe Financiere de Participations et D'operations Petrolieres
196	Switz	1. Mero Energ GmbH
197	Spain	1. Vilma Oil Consulting
198	UAE	1. Vergo Engineering Est
199	UAE	1. Jewan Oil
200	Russia	1. Joint Stock Petroleum Company BASHINEFT
201	UK	1. Econovise International Ltd
202	Ukraine	1. Ruduga
203	Spain	1. Expansion Exterior SA
204	Netherlands	1. Petroplus Refining BV
205	Bulgaria	1. BAK 54 Ltd
206	Tunisia	1. Medex Services
207	Armenia	1. Zakhneftegazstroy-Prometey Joint-Stock Company
208	Oman	1. Oman Refinery Company
209	Ukraine	1. Federalniy Torgoviy Dim-OIL
210	Tunisia	1. Carthago Oil Company
211	UK	1. Atlantic Oil & Gas Management Company
212	Seychelles	1. Collerton Oil & Gas Limited
213	Romania	1. Interagro S.A.
214	Romania	1. Interagro S.A.
215	France	1. Agri Marketing
216	Tunisia	1. Tunisian International Petroleum Company
217	Switzerland	1. Konor GmbH
218	Switzerland	1. A.G.I. (Geneva) Inc.
219	Austria	1. Consult Trade Kurt Samec

220	Indonesia	1. P.T. Java Atlantic Oil
221	Spain	1. Nefteguim Servis S.L.
222	Malaysia	1. KLK Kontrek Bina Snd Bhd
223	Cyprus	1. Mix Oil Limited
224	Sweden	1. Promex Oil AB
225	UK	1. M A S Alkhoulal
226	Venezuela	1. PDVSA Trading S.A
227	Thailand	1. P.B. Pongboon Intertrade Co. Ltd.
228	Cyprus	1. CSCE Oil Energy Limited
229	Spain	1. Tajo Oil & Trading Company
230	Canada	1. Escondido Resources International Ltd
231	Kazakhstan	1. Kazakhoil
232	Vietnam	1. Vinapco
233	Switzerland	1. Marc Rich & Co Investment AG
234	Philippines	1. Masaligan, Inc.
235	Sweden	1. Jan Falk Engineering
236	Nigeria	1. Hyson Nigeria Ltd. (NNPC)
237	Namibia	1. African petroleum (PTY) Ltd.
238	Switz	1. Baytur Trading S.A
239	Panama	1. INCOMED Trading Corporation
240	UK	1. Euro Asian Development Corporation Ltd
241	UK	1. Fosdyke SA
242	Liechtenscin	1. Oil Minerals Company Limited
243	Spain	1. Digesa Spanish trading
244		
245	South Africa	Metalcor (Pty) Ltd
246	Spain	Helma Baumashinen SL
247	Namibia	Oasis Import & Export (Proprietary) Limited
248	Singapore	Lukoil Asia Pacific Pte Ltd
249	Cyprus	Kilaga Trading Ltd
250	UAE	Al Shamsi Trading Centre
251	UAE	Al Zaman Trading & Oilfield Services Establishment
252	UAE	Camtech Manufacturing L.L.C.
253	Malaysia	Uni-Pure Energy Sdn. Bhd
254	Switzerland	Bonaligna Handels AG
255	Malaysia	Quantum Holdings (L) Ltd
256	Germany	Ternes International
257	Malaysia	Emir Enterprises SDN. BHD
258	Denmark	Erik Emborg
259	UK	Farkha Investments Limited
260	UAE	Coast Oil Derivatives Est.
261	UK	Nataim Limited
262	Spain	Quiberto, S.L
263	Romania	SPET S.A
264	Italy	Gaetano D'Alesio
265	Spain	Terbamil, S.L. & Cape Vermey A. Invest
266	Canada	Ranger Oil (Middle East) Ltd.

267	UAE	Silver Seas Shipping (LLC)
268	UK	Marbel Resources Ltd.
269	Switzerland	Delta Services S.A
270	Switzerland	AOT Trading AG
271	Philippines	UNIOIL Group of Companies/OILINK International Corporation
272	UAE	Bin Ham Oil Group
273	Pakistan	A & A Services
274	Pakistan	B.C. International (Pvt.) Ltd.
275	Cyprus	MAOCO Trading Ltd.
276	Cyprus	Strevel Enterprises Ltd
277	UK	Black Gold Ltd.
278	UK	Commoil Ltd
279	UK	Angelo Energy Refining Corp
280	Indonesia	PT Swadaya Serana Berlian
281	Indonesia	PT Gemilang Energindo Sentosa
282	Indonesia	PT Acacia Nusantara
283	Indonesia	Golden Spike Energy Indonesia Ltd.
284	Ireland	Terrier Energy
285	VietNam	Petroleum Technical Services Company (PTSC)
286	Italy	Eurofoods SRL
287	Indonesia	PT Sri Mukti Gas Corporation
288	Armenia	Sokol Group Ltd.
289	UK	Farkha Investments Ltd.
290	Spain	Petrotrade International SL
291	UAE	Hamed Establishment General Trading & Companies Representation
292	Yemen	Mukiriani Sana'a
293	UAE	Al Hold International Trading FZCO
294	Qatar	Gulf Petroleum Limited
295	Pakistan	Oil & Gas Services Group Ltd
296	Indonesia	Petrobuild Indonesia
297	UAE	Benzol, est.
298	South Africa	Renaissance Commodity Holdings (Pty) Ltd
299	UAE	Trans Fulf Petroleum
300	Malaysia	World Progress Oil Inc.
301	uAE	Emeer Oil LLC
302	Indonesia	Ramada Agung Internasional
303	Indonesia	PT Surya Kiran Utama
304	Belarus	Center for Joint Projects at the Executive Committee of the Belarus-Russia Union
305	Cyprus	Morfo Holdings (Cyprus) Ltd
306	Turkey	Besler Nakliyat Petrol Urunleri Sanayi ve Ticaret AS
307	Austria	Petrochem Handlungsgesellschaft mbh
308		
309		
310	Jordan	Middle East Advanced Semiconductor, Inc
311	Qatar	Faisal Al Sulaiti

312	Switzerland	Buston AG
313	Indonesia	PT Unitrada Komutama
314	Indonesia	PT Medco Duta
315	Switzerland	Zyrya Management Services (Suisse) Sarl
316	UK	Farco Group, Ltd
317	Canada	Canadian Natural Resources Limited
318	Ukraine	Joint Stock Company Concern Regions of Ukraine
319	Indonesia	P.T. Citra Tubindo Tbk
320	Cyprus	Lerox Limited
321		
322	Liechtenstein	Fenar Petroleum Limited
323	Switzerland	JOPAG AG
324	Germany	Albana Import-Export GmbH & Co. Handels- KG
325	Turkey	Tillo Dis Ticaret ve Mumessillik A.S
326	Italy	West Petrol Srl
327	UK	Intercontinental Oil
328	Indonesia	P.T. Unichem Candi Industry
329	UAE	Siva Fuel Bunkering
330	Sweden	NAFTOIL AB
331		
332	Yemen	Al-Aiz Company for Investment, LTD
333	Ukraine	JSC Corporation Agrotekh
334	Switzerland	SPOL Management S.A
335	Yemen	Alcaon
336	UK	J&S Trading Company Limited
337	UK	Oil Trading Corporation
338	Tunisia	Pireco
339	Estonia	AMA Oil OU
340	Ukraine	JVC Trade House TATNAFTA - Ukraine
341	Australia	Universal Associates Australia Pty Ltd
342	Ukraine	State Joint Stock Company Ikresursy
343	Italy	I.V.I. Srl
344	Ukraine	National Joint Stock Company Naftogaz of Ukraine
345	Bulgaria	Vladimpes Bood
346	Italy	ENEL F.T.L. SpA
347	Ukraine	Corporation Energoimpeks-Ukraine
348	UK	Energy Development Solutions
349	Syria	ASSAF & TABIKH
350	Lithuania	JSC Strategines pletros grupe
351	Canada	Hydro-Fil Inc.
352	Ukraine	Commercial Home Council of Deal Cooperation
353	Cyprus	Soboh Petroleum Cyprus Ltd
354	Turkey	Oz-Un Elektrolitik Bakir Mamulleri San Tic A.S.
355	UAE	Capital Mettalic Equipments Est.
356	Indonesia	P.T. Utama Bressindo Persada
357	Ukraine	Energy Resources People's Company - Ukraine
358	Switzerland	Trade House Tatneft S.A.

359	UK	Celedonian Technology Holding Ltd
360	Canada	R&D Biomass Group Ltd
361	Cyprus	Pentonville Developers Ltd
362	Portugal	ESOIL Limited
363	Australia	Ranimax Pty Ltd
364	Malta	East Petrol Trading and Consulting Limited
365	Malta	West Petrol Trading & Consulting limited
366	Bulgaria	Zlatimex
367	Australia	Maxco Pty Ltd
368	Romania	Hash Ro Shipping Oil SRL
368	Denmark	DanItal
369	Sweden	KB Stengruen 1096
370	Estonia	AS Intopex
371	Indonesia	P.T. Kwartu Daya Pratama
373	Germany	Alriwo GmbH Handelsunternehmung für Industrieerzeugnisse
373	Turkey	Petrolen Petrol Muhendislik,
374	Bosnia	Unic Komerc d.d.
375	Italy	DanItal Italia Srl
376	Italy	Maxcom Petroli
377	Germany	Kari Petrol Oelhandels GmbH
378	UAE	International Oilfield General Services
379	Canada	Asia Pacific Petroleum (Division of WTI Enterprises Inc.)
380	Switzerland	Rogal S.A.
381	Cyprus	NKT Overseas Petroleum Ltd.
382	Armenia	Shtap Ognutsun Ltd.
383	South Africa	Montega Trading (PTY) Ltd
384	Canada	Elkford Oil Limited
385	Bulgaria	Monso Ltd. Co
386	Romania	Bulf Drilling & Oil Services SRL
387	Bulgaria	Irakbul Ltd.
388	UK	Arco Marine Ltd
389	UK	Westminster Oil and Gas Ltd
390	UAE	Araphil Shipping & Cargo Agencies
391	South Africa	United Technical Engineering Systems (Arfica) Pty.Ltd
392	South Africa	Imex Oils (PTY) Ltd
393	Ukraine	Energoinport Ltd
394	Yemen	STCO
395	Malaysia	Jawala Corporation SDN.BHD.
396	Belarus	Belpharm
397	Singapore	Nicor Speciality Oil Pte Ltd
398	Jordan	Al-Nejoud International Trading
399	Jordan	Grand Resources for International Trade Co.
400	Liechtenstein	Alcon Petroleum Limited
401	Qatar	Qatar Oil trading Company
402	Hungary	Finvestment Fejlesztio Kereskedelmi Es Szolgaltato Korlatoli Felelossegu Tarsasag



403	Turkey	SGD Insaat Taahhut Madecilik Turizm Gida Ithalat Ihracas Sanayi ve Ticaret Anonim Sirketi
404	Ireland	Petrel Resources Plc
405	South Africa	XDSL Trading 134 (Pty) Ltd
406	South Africa	LexOil
407	Nigeria	Kampac Oil Ltd
408	Turkey	TUTA Petrolculuk Anonim Sirketi
409	Jordan	Middle East Petroleum Co
410	Egypt	Middle East Oil Refinery
411	Syria	Al-Jaraki Intl. Trading Co
412	Switzerland	Lakia Sarl
413	Switzerland	Medea Consulting SA
414	UAE	Gulf Energy Ltd
415	Bulgaria	Commercial
416	UAE	Emiroil est.
417	Austria	Nai Mining Beteiligungs Gmbh
418	UAE	Team Engineering Enterprises Ltd.
419	UAE	Team Marine Enterprises LLC
420	Bulgaria	Cobico Ltd
421	Ukraine	Ives Co. Ltd
422	UAE	Petroline Fze.
423	Malaysia	Global Matrix Oil Inc.
424	Lebanon	The Syrian & Lebanese Oil Company
425	Lebanon	Allied Business Agency International
426	Armenia	Arm cable Open JSC
427	Armenia	Armrugazprom Closed JSC
428	Canada	Dilmon Oil Inc.
429	Qatar	MBH Trading
430	Qatar	National Oil Well Maintenance Co
431	Turkey	Aklar Petrol, Seyahat Insaat Sanayii Dis Tic. Ltd. Sti
432	Turkey	Petropad Ic Ve Dis Ticaret Ltd. Sti
433	Lebanon	Fadi Oil International S.A.L. (Offshore)
434	Cyprus	Deb Industries Ltd.
435	IAE	Unifuel L.L.C.
436	Switzerland	IPLOM International SA
437	UAE	Gulf Interstate Oil Company L.L.C.
438	Egypt	E.A. Bashandy Establishment
439	South Africa	Omni Oil South Africa (PTY) Ltd
440	South Africa	Kigna Investment Holding (PTY) LTD
441	UK	Interoil Service Limited
442	Turkey	Dilvin Construction, Tourism, Petroleum Export, Import, Industry and Commerce Limited Company
443	Turkey	Multesem Construction Foodstuff Industry and Foreign Trade Ltd. Co
444	Turkey	Semir Construction Petroleum Products electronics, Transportation Imports Exports Industry and Foreign Trade Company
445	Bulgaria	Vladimir Distillers Company Ltd

446	Bulgaria	Financial Consults and Accountant Service Fax Ltd
447	Bulgaria	Dilema 59 Ltd
448	UAE	Bkairat General Trading Co L.L.C
449	Italy	Italian Oil Society
450	Lebanon	Lebanese Arabian Petroleum co s.a.r.l.
451	Bulgaria	Gemini 31 Ltd
452	Spain	Dogmoch Group, S.L.
453	Spain	Machinery General 2000 S.L.
454	UAE	Al Mowakaba General Trading
455	Malaysia	Malaysia General EGCOM. Company SDN. BHD
456	Canada	Groupe Reverentia
457	Switzerland	HIU GmbH
458	Cyprus	Marbelarch Trading Ltd.
459	Cyprus	trevor Trading Ltd
460	U.S.	A/R Oil Control Systems, Inc
461	U.S.	Optimarket, Inc.
462	Malaysia	Trans-Global Tradelinks (M) Sdn. BHD.
463	Malaysia	Atlantic Offshore Supplies SDN. BHD
464	UAE	Alwasel & Babel General Trading LLC
465	Italy	Hitraq Group Srl
466	Jordan	Al-Rasheed International Cooperation
467	Lebanon	Fame Oil Corporation SA
468	UK	Eastern Oil Services Limited
469	Oman	Advanced Trading & Projects Company LLC
470	Cyprus	Mednafta Trading Company LTD
471	Jordan	Ma'in Establishment for Export & Import
472	Jordan	Hani Jah Hasan & Partner Company
473	Switzerland	Conseil Alain Aboudaram SA
474	Ukraine	Start Krok Limited
475	Yugoslavia	Iraqi International Group General Trade Co
476	Ukraine	Shelton - Nafta
477	UAE	Al Manhal Petroleum
478	Yugoslavia	Gromig
479	UK	Anglo Saxon Oil Corporation (UK) Ltd
480	Switzerland	Transcredit and Oil Trade S.A.
481	UAE	IBA United Company
482	Switzerland	Petrair S.A.
483	Armenia	Araratcement State Closed JSC
484	Venezuela	Venezuelan Trading Co. CA
485	Oman	Shanfari Group of Companies
486	Switzerland	Petrotex S.A.
487	Canada	Ukraine Enterprise Corporation
488	Lebanon	Planet Petroleum
489	Lebanon	Alaily Oil Co., ALCOM
490	Malta	J.F. Group Limited
491	Malta	Powerplan Limited
492	Singapore	Bakri Trading Co. (Asia) Pte. Ltd

493	Yemen	National Trading Company Ltd
494	Yemen	Widyan Trading Company Ltd
495	Mauritania	Magreb Oil and Mining Ltd
496	Jordan	Atlas Industries Ltd
497	Jordan	Jordan Grain Co. Ltd
498	Jordan	International Carriers for General Trade Co.
499	Switzerland	Alux GmbH
500	UAE	Gulf International marine Services Co. Ltd GIMCO
501	Denmark	Magnum industrial Technologies
502	Oman	Global Trading & Contracting L.L.C.
503	UAE	Al Safeenah Shipping, Forwarding & Land Transport & Trading Co
504	Turkey	Is Dogan Petrol Yatirimlari A.S.
505	Turkey	MCM Petroleum Products & Foreign Trade Co. Ltd
506	Philippines	Eastern Petroleum Corporation
507	Jordan	Mediterranean Engineering Company
508	Jordan	Arab German Trade Co. Ltd
509	Lebanon	Jabal Petroleum s.a.l.
510	Syria	Altoun Trading Co.
511	Malaysia	Syarikat Steelcon Sdn Bhd
512	Australia	Peter Faris Limited
513	Cyprus	Pitkin Limited
514	UAE	Al Masaood Oil Industry Supplies & Services Co
515	UAE	Millenium for Crude Petroleum Trading Co. L.L.C.C.
516	Turkey	Kilinc Petrol Turizm Isleri Ithalat Ihracat Sanayi ve Ticaret Limited Sirketi
517	Turkey	Diljin Petrolculuk Insaat Turizm Ithalat Ihracat Sanayi ve Ticaret Limited Sirketi
518	UAE	Neibal Group International
519	Ukraine	Scientific Production Enterprise "MAGMA+"
520	Canada	Western International Holdings Limited
521	UAE	Al Dhabi Oil & Energy Technology Ltd. L.L.C
522	Denmark	International Technology Trade APS
523	Lebanon	Overseas Petroleum Trading
524	Italy	Finasi Engineering SRL
525	Bulgaria	IG Consulting Ltd
526	Switzerland	Stellar Oil Ltd.
526	Lebanon	Mobile Age
527	Turkey	Kenanogullari Uluslararası Nak. Tekstil Ins. Pet. ve Tarim Urunleri Ith/ Ihr. Ltd. Sti
528	Turkey	Sin-Er Madencilik Ithalat Ihracat Sanayi ve Ticaret Limited Sirketi
529	Turkey	Fay=Ta Petrolculuk Ithalat Ihracat Sanayi ve Ticaret Limited Sirketi
530	Turkey	Ciftci Madencilik Insaat Dis Ticaret ve Sanayi Limited Sirketi
531	Armenia	Hytex Joint Venture Co. Ltd
532	Armenia	Grand Tobacco Co. Ltd
533	Armenia	Grand Sun Co. Ltd
534	Armenia	Grand Candy Co. Ltd

535	UAE	First Emirates Group for Technology and Trading
536	UK	Indian Resources (BVI) Limited
537	Bahamas	Sargeant Trading
538	Ecuador	Totisa Del Ecuador CA
539	Lebanon	HMV Engineering Co
540	Lebanon	Biovet sarl
541	Jordan	High technologies Group Ltd. Co
542	Jordan	Gulf Tankers General Trading
543	Jordan	Ruba Specialistics Establishment
544	Italy	Aziendabroker SRL
545	Armenia	Masis Tobacco Co. Ltd
546	Turkey	Gok-Er Petrolculuk Insaat Turizm Ithalat Ithracat Sanayi ve Dis Ticaret Limited Sirketi
547	Turkey	Berfin Petrol Ticaret ve Sanayi Limited Sirketi
548	China	China Wanbao Engineering Corporation
549	UAE	High Oil Trading
550	Spain	Explocontrol Trading Spain SL
551	Singapore	Viewstar Petroleum Pte Ltd
552	Tunisia	Setcar
553	Switzerland	Stilbon SA
554	Cyprus	Finstone Enterprises Ltd
555	Sudan	Elnefeidi Commercial Enterprises
556	Turkey	Baturlar Ithalat Ithracat Ic Ve Dis Ticaret limited Sirketi
557	Turkey	Zirgintas Gida Insaat Nesriyat ve Turizm Anonim Sirketi
558	Yugoslavia	Intersig d.i.i.
559	Malta	Montese Supplies Ltd.
560	Nigeria	ZAZ Energy Limited
561	Kyrgyz	Joint Stock Company KyrgyzOilGas
562	Cyprus	Ringrose Enterprises Ltd
563	Morocco	Atlas Energy (Morocco) inc.
564	UAE	Ajman Crude Oil trading Company
565	VietNam	The Oil Services Company of Vung tau (OSC)
566	South Africa	African Legend Energy
567	Cyprus	Grosmini Trading Limited
568	Canada	Gadji Commerce International Inc.
569	Indonesia	P.T. Natuna Oil Indonesia
570	South Africa	Global Aero Trading Ltd
571	Turkey	Ortagdogu Insaat ve telekomunikasyon Ticaret ve Sanayi Anonim Sirketi
572	Turkey	Kuzeybati Havacilik Petrol Turizm Nakliye Ithalat Ithracat Ticaret ve Sanayi Anonim Sirketi
573	UAE	Junairah Oil
574	UAE	Desert House Co. L.L.C.
575	Cyprus	Ganium Co. Ltd
576	Canada	Hemisphere International Inc.
577	Oman	The Hamdan Trading Group
578	UAE	Advance Projects Development

579	UAE	Sea Sand Trading
580	UAE	Dhabi Trading
581	UAE	Global marketing Products FZC
582	Syria	Nahas Intertrade
583	Panama	Nodarina Properties, Inc.
584	Switzerland	Alexoil S.A.
585	Turkey	Mahmutoglu Insaat Taahhut Ithalat Ihracat Sanayi ve ticaret Limited Sirketi
586	Turkey	Slaamis Finans Yatirim Pazarlama Ltd. Sti.
587	Turkey	Marpet tasimacilik Turizm Insaat petrol Sigorta Aracilik Snanyi ve Ticaret Ltd, Sti
588	Syria	Ghassan Shallah Co.
589	UAE	Technomantaine
590	Australia	Kenmore Business Services Pty Limited
591	Canada	Crude Solutions Inc.
592	Syria	Riamar Shipping Co Ltd
593	Italy	Olympic Energy Italy SRL
594	Italy	I.P.S. Srl
595	Ukraine	Holding Company AvtoKraZ
596	Armenia	Energatsantsshin Ojs Co
597	Ukraine	Zaporzhye Regional Foreign Economic Association
598	Cyprus	Langeniir High Tec Limited
599	Cyprus	Padski High Tec Limited
600	Cyprus	Publicus Enterprises Limited
601	Lebanon	Global Trade & Investment SAL (offshore)
602	Lebanon	Damerji Petroleum Company
603	Croatia	Ina Industrija Nafte d.d. Zagrep
604	Bulgaria	Litex Plc
605	Lebanon	Cosmos Energy Sal (Offshore)
606	Cyprus	Brotrav Limited
607	Malaysia	Alliance Global Energy (Labuan) Limited
609	Estonia	Nhbu-Terminal OU
608	Jordan	Kalaji Brothers Trading Company
610	Ireland	Gulf petroleum International Limited
611	Spain	Taurus Petroleum Espana, S.A.
612	Bahamas	Caravelle Fuels Limited
613	Bahamas	Updown Middlestream International Oil Traders Ltd
614	Bahamas	Richmond Resources Ltd
615	Turkey	Suleyman Ucar Ucarlar Imalat Ithalat Ihracat Taahhut Tic
616	Poland	Petrafi Trade Sp.z.o.o
617	U.A.E	Tameem Shipping, L.L.C.
618	UAE	Liwa Petroleum Marketing Est.
619	Sudan	Abbarci Petroleum Co. Ltd.
620	Sudan	Betah International Co.
621	Egypt	Arab Trade Development Company
622	Lebanon	Halal Sal
623	South Africa	Leokoane Oil Industry (Pty) Ltd.

624	Russia	Ural Invest Oil Corporation (UOIL) Ltd.
625	Russia	OJSC Kalmyk Oil and Gas Company
626	Russia	State Enterprise Foreign Economic Association "Tyazhpromexport"
627	Russia	North-West and industrial company (Nord-West Group)
628	Jordan	Jaloui Investment and Trade Co.
629	Austria	Tecon Engineering GmbH
630	Armenia	Lamag Ltd. Corporation
631	Italy	Valente S.P.A.
632	Sudan	Ansam for Oil Projects Co. Ltd
633	Oman	Technical Trading Company L.L.C.
634	Cyprus	Primacosa Enterprises Limited
635	Qarat	Arabian International Petroleum Corporation
636	Turkey	Map Oil Ic ve Dis Ticaret Turizm Danismanlik Temsilcilik Limited Sirketi
637	Turkey	Seta Insaat Petrol ve Petrol Urunleri Nakiyat Ilac Sanayi ve Ticaret As
638	Syria	Uniconsulr Middle Easr (UME)
639	Sweden	Redeemer Enterprise
638	Lebanon	Gasoil Trading Co (Offshore) S.A.L.
640	Cyprus	Cospi Trading Limited
641	Cyprus	Lunerig Traders & Consultants Limited
642	Qatar	Noor Oil and Industrial Technology Ltd.
643	Malta	Petroleum Products Overseas Ltd.
644	Algeria	Enitra (Energy Investment & Trading LTD)
645	Algeria	c2EM (Compagnie d'Energie et d'Etudes Maritimes)
646	Cyprus	Selaba Trading Limited
647	China	Chase Star Limited
648	Syria	SES International Corp
649	Ukraine	Industrial Fuel & Energy Company
650	Venezuela	Latin Trading Oil. C.A.
651	Panama	Pilson Investment Inc.
652	Russia	Joint-Stock company open type "Ukhta-Neft
653	Qatar	Gulf Union and Golden Group Trading & Contracting Co.
654	Germany	Itf Kraftstoff GmbH
655	Syria	T.Akhras Group
656	Syria	Saba & Husari & Company
657	South Africa	Invvume Management (Pty) Ltd
658	Cyprus	Qari Corporation Limited
659	Turkey	Ozba Petrol-Kimya Sanayi ve Ticaret A.S.
660	Syria	Jeedco Oil International
661	Russia	CJSC Interstate Oil Company "SoyuzNefteGaz
662	Russia	Emercom Agency
663	UAE	Profile Marketing LLC
664	Syria	Syrian MAK for Oil
665	Cyprus	Bow Resources Limited
666	Liberia	West Africa Enterprise, Inc.
667	Seychelles	DKD Holding Ltd. Co.

668	Armenia	Pharmatech Joint Stock Company
669	UK	Coperfields Oil & Gas Limited
670	Italy	Tec.Av.Srl
671	UK	Petrotak Limited
672	UAE	Crude Line Petroleum
673	Licchtenstein	Napex Aktiengesellschaft
674	VietNam	Nghe An Petro Trading and Services Co
675	South Africa	RynGold Pty Ltd
676	Ukraine	Engineering company Ecomat & Oil Gas Joint Stock Company
677	Syria	Anwar Akkad Sons Co.
678	UAE	Al Safwa International Trading L.L.C.
679	Turkey	Bahadır Kimya Gıda Tarım PetrolUrunleri Turizm Seyahat Otomotiv, Tekstil Urunleri Mobilya Nakliye Konfeksiyon Elektrikli ve Elektriksiz Ev Aletleri Insaat Temizlik ithalat ihracat Sanayi Ticaret Limited Sirketi
680	Spain	Quiberco Oil and By-Products S.L.
681	Lebanon	The Arab Company for the Mediterranean and the Golf (NAFTCO"
682	Ukraine	Trade House Roden
683	Yugoslavia	Evana eksport-import
684	UK	Rutland Oil Limited
685	UK	Midland Petroleum Limited
686	Switzerland	Energo Handels AG
687	Jordan	Eagle International Industrial Supplies
688	Cyprus	Singway Limited
689	Syria	Mohamad Saleh Al Mallah
690	Malaysia	Noble Paradigm Sdn. Bhd.
691	UK	Zar Oil Limited
692	Estonia	Saurix Petroleum AS
693	Cyprus	<del>Navimare Shipping and Finance Limited</del> REMOVED
694	Switzerland	Uniconstruct AG
695	Germany	RAS International Trading & Commercial Agency GmbH
696	UAE	Al Waker F.S. CO. L.L.C.
697	Russia	Russian Engineering Company Ltd
698	Syria	Union Commercial Company
699	UAE	Cihan Foodstuff Trading Co
700	Jordan	Far East International Petroleum Co.
701	Jordan	Al Suradi Trade Establishment
702	Jordan	Trust for Agencies
703	Russia	CJSC Trans Nafta
704	Syria	Technical Commercial Company
705	Switzerland	Gatoil
706	Germany	INAB Industrie-Anlagenbau GmbH
707	Oman	Al-Nahda Al-Omaniah
708	Jordan	Al-Qemmah Letejaret Al-Ma'ddat Al-Petroleya Co. Ltd
709	Jordan	Al-Manafa International trade Establishment
710	Bulgaria	Machinoexport PLC.
711	Canada	Monteva Holdings Inc.

712	Ireland	Intercontinental Petroleum Teoranta
713	Switzerland	PLC DS SA
714	Cyprus	Betoil (Cyprus) Limited
715	Russia	Oil Company Siberia Limited
716	Lebanon	Nourco S.A.R.L.
717	Oman	Global Mineral Trading L.L.C.
718	Armenia	Southfield Ltd.
719	South Africa	Redak Trading Company (Pty) Ltd.
720		
721		
722	UAE	Global Millenium Oil Products (FZC)
723	South Africa	i-Mbasa Oil (Pty) Ltd
724	Jordan	Ibn Sina International Trading
725	Cyprus	Linefine Trading Limited
726	Canada	Canadian Imperial Venture Corp
727	Myanmar	The Myanma Timber Enterprise
728	Lebanon	Tripoli Company for the Distribution of oils and oil products in Lebanon S.A.R.L.
729	Switzerland	STC Swiss Trading Corporation SA
730	Switzerland	Petroswiss Ltd.
731	Switzerland	Capital Finance & Commerce AG
732	VietNam	Petro Vietnam Drilling Mud Company (DMC)
733	Cyprus	ATF Trading Limited
734	Cyprus	D.A.T. Oil Limited
735	Thailand	PTT Public Co. Ltd.
736	Armenia	Transoil Joint Stock Company
737	Cyprus	Continental Oil Limited
738	Ukraine	Ukrainian-Russian trade and energy company "UKRRUSTEC"
739	Switzerland	SAGA Contrast Financial Services SA
740	Turkey	Yeni Habur Ins. Nak. Tur. San. ve Dis Tic. Let. Sti
741	Turkey	Ram Dis Ticaret A.S.
742	Cyprus	Al Salam Refining & Marketing Limited
743	UK	Maximum Market Access (UK) Limited
744	UAE	GAZTEC
745	UAE	EJAC
746	UAE	AIDCO
747	UAE	Bin Omeir Holding Group
748	Italy	Zenit SRL
749	Italy	Porto Salvo SRL
750	Italy	Saroil SRL
751	Italy	Aree Servizio Serramendola SRL
752	Ukraine	State Company "State depot of material and technical support"
754	Spain	Nidiw Crud-Oil S.L.
755	VietNam	Vietnam Northern Food Corporation (VINAFOOD 1)
756	Malaysia	Gardenia Far-East Sdn.Bhd
757	Canada	Crimcare, Inc.
758	Qatar	Qatar Petroleum Company



759	Jordan	Jina National Import & Export Co.
760	Jordan	Mayyada Establishment for International Trade
761	Jordan	Antemina International L.I.C.
762	Armenia	Noyak-Nem Ltd.
763	UAE	North Emirates Petroleum Enterprises, L.L.C.
764	Syria	Al Jallad Trading Establishment
767	Qatar	Crescent Technical Services
768	Sweden	Thess & Co Trading AB
769	UK	Seagas International Limited
770	Qatar	Q-Tec Group Limited
771	Malawi	Petrolink
772	UAE	Atlas Company for Petroleum Derivatives Ltd.
773	Tunisia	Omega International de Commerce
774	Ukraine	Ukrainian Oil Group International Ltd
775	Ukraine	Al Vaha Ltd
776	Jordan	El-Shafak International Corporation Ltd.
777	Oman	Al Mutamizah Trading & Contracts
778	Sudan	Oil Plus Company Ltd.
779	Switzerland	BC Invest SA
780	Spain	Corporacion Tecnologica de Hidrocarburos, S.L.
781	Australia	Hatchinistu I/O Ltd
782	Turkey	Baher Dis Ticaret Ltd. Sti./International Co. Ltd
783	Turkey	Cihan Int. Trade Dis Tic. Ltd.
784	UAE	Baniyas Petroleum Trading LLC
786	Australia	<del>Callen Bay Nominees Pty Ltd</del> - REMOVED
787	Syria	Ahmad Ajam Trade
788	Syria	Hamsho Trading Establishment
789	Syria	Omer Al Tajer Trade
790	Syria	Soukar Trade, Industry, Investment
791	Russia	Impex Oil LLC
792	Russia	Timet R. Ltd
793	Bahrain	Ali Almussalam Oil Trading Est. W.L.L.
794	UAE	Red Sea Petroleum Consultants
795	Canada	Top Canada for Export and Import Enterprises Ltd.
796	Canada	Blue Pacific Petroleum Company
797	Australia	Amber Bay Pty Ltd.
798	Qatar	Al Jazeera Oil Field Company Ltd
799	Syria	The International Company for Oil
800	Syria	Nowair for Trading
801	Syria	Roukby for Trading
802	Bahrain	Enki International
803	Belgium	Eres N.V.
804	Sudan	Petroleum Products Co. Ltd
805	Saudi Arabia	Asees Technology Resources Ltd.
806	UAE	Gulfree Global Development FZCO
807	Syria	Asco Oil Services Company
808	Sweden	Jibeco 1984 AB UNAT Powersource AB

809	Syria	Mazen Al-Tajer Company
810	Syria	Mohamed Soukkar Company
811	Germany	Deutsche BP AG
812	Jordan	Manabi'e International Trading Establishment
813	Jordan	Alfa Beta Management & Investment
814	UAE	Sea Rocks Shipping IIC
815	Russia	JSC FTC Neftegazexport
816	Turkey	Turkish Petroleum International Company Limited Office
817	Switzerland	Deltoil S.A.
818	Italy	Elettrotania SRL
819	Italy	Chematek SPA
820	Sudan	Jeena International Co.
821	Ukraine	Anabella Ltd
822	Ukraine	SAM Marketing Inc. LTd
823	Ukraine	Turbonafta Ltd.
824	UAE	UAQ Crude Oil Trading Est.
826	Syria	Mhd. Mammoud Sbei Industry and Trade
827	Syria	Abd Allah Altnji – General Trade
828	UAE	S.S.K. Petroleum Products (FZC)
829		Qimeksim Co. Ltd
830Q	Tunisia	Mayodor Trading International
831	Philippines	Grupo Filipino Producers, Inc.
832	Nigeria	Messrs Najib Group of Companies
833	Nigeria	AIG Group of Companies
834	China	Beijing Huaken South Petroleum Products Co. Ltd.
835	Canada	Oleum Energy Corporation
836	Bahrain	Peninsula Trading & Marketing Co. W.L.L.
837	Syria	Karzo Company
838	Ukraine	Transenergo Ltd.
839	Armenia	Edessa Co. Ltd
840	Spain	Repsol YPF Trading Y Transport, S.A.
841	Panama	Sarandon Inc.
842	Switzerland	Nadar Oil S.A.
843		
844		
845	Oman	Omani Euro Food Industries
846	Austria	N. Savic Handels GmbH
847	Ukraine	Espress-Traiding Ltd.
848	Portugal	Mediterranean Oil Supply and Trading Lda.
849	Jordan	Arab Traders, Inc.
850	UK	Bluestone Resources, Inc.
851	Ukraine	Zodiac
852	Iran	Petro Khazar Co.
853	UAE	Arabian Business Group
854	Syria	Al-Shamyah for Trading & Industry
855	Lebanon	Levan Overseas Developments SAL (Offshore)
856	Germany	Bauer Arab Oil GmbH

857	Syria	Ghalaini for Trading & Industrial Co.
858	UAE	Lucksh International Petroleum
859	UAE	Umm Al Quwain Petroleum Company L.L.C.
860	UAE	Saeed Al-Shamsi International Petroleum Est
861	Bahrain	National Enterprises
862	Italy	Nivan SRL
863	Bahrain	Watamu Trading Company E.C.
864	Cyprus	Irrus Trade Ltd.
865	France	Franco Petrochimique
866	France	KSM Trade
867	Jordan	Alfa Investment & Internatoinal Trading Co.
868	Syria	Omran for Trading & Industry
869	Switzerland	Spol Dexe Petroleum S.A.
870	Ukraine	Ukrainsky Mazut
871	UK	Prax Oil Limited
872	Belarus	Belneftekhim
873	Canada	Frontier Engineering and Consulting Ltd.
874	Canada	Rally Energy Corp.

Ms. ROS-LEHTINEN. Thank you.

The gentleman from Iowa, Mr. Leach.

Mr. LEACH. Thank you, Madam Chair.

Perspective is always difficult to apply to any issue, particularly to this one; and it strikes me what you have here is an issue of a story of corruption and a story about judgment and how they interrelate.

On the corruption side, probably the bitterest breach of trust imaginable in the world is corruption. And when you have corruption, it is worthy of review what we did about it. And by "we," I don't mean explicitly an official of the United Nations, the whole United Nations, but the whole world community. And it strikes me that we as a country, and many countries, more or less knowingly winked. And that is, in the guise of what Mr. Ruggie said, we had competing interests, and we viewed this interest as lesser than other interests.

I think it is awfully important that we be prepared to conclude, fairly forthrightly, that that was a profound error of the United States, the United Kingdom, of the United Nations.

The question, because it is often used a bit derogatorily—and it was raised today and objected to by—what do people know, when do they know it, and then the obvious follow-on question about what to do about it—is a very serious question, and it implies institutionally and for the community of nations.

Now, we all know corruption is endemic in many societies; we know the United Nations to some degree is a barometer of the world system. But whereas the United Nations has to be in place for political compromise to take place, it should not be a place where corruption is tolerated to any degree whatsoever. And so this becomes very important, because there are consequences to corruption, and we have learned about some of those consequences.

The distinguished Ranking Member said we shouldn't be surprised that a dictator who kills people is also corrupt, but there is a corruption that facilitates killing people. And so it is a matter of enormous international and national concern.

Now, some 15 years ago, I headed a commission on the effectiveness of the United Nations, and it was a commission that largely concluded that the United Nations could be looked at optimistically as a place where there could be some help moving toward world peace; but it also concluded that there was a great deal of incompetence and that there ought to be an Inspector General of the United Nations; and an Inspector General's office with a very long name, Office of Internal Oversight Services was subsequently created in the early 1990s.

I am told there are some 55 assessments of this Food-for-Peace program that developed, none of which have been made public, which may or may not be appropriate, but I assume they are made available to senior U.N. officials.

Were you aware of those reviews, Dr. Ruggie.

Mr. RUGGIE. Congressman Leach, I was aware of the fact that they were conducted. As is the case in governmental agencies domestically, the internal management audits typically are not forwarded to member-states, just as inspectors general reports in the U.S. typically aren't forwarded to the Congress.

Mr. LEACH. Were they read by anyone within the U.N. structure of decision-making?

Mr. RUGGIE. I would certainly hope so and would assume so. The Volcker panel will have access to every one of those.

Mr. LEACH. Well, my concern is that we lowered our tolerance for corruption in order to advance certain political agenda issues, and that that was the exact wrong circumstance for our country and for the U.N. system itself. And this is an embarrassment to the U.N.

If you don't have an institutional system that allows for accountability, you are going to lose a lot of respect. And I think it is the system, first of all, that we should raise the most questions about, including particularly the nation-state members and Security Council, which had particular responsibility for this. And, frankly, there was a reason for congressional review, and we clearly didn't do it, and so there is accountability here as well.

But I, for the life of me, think that this is a very serious issue that has to be raised first in the corruption arena and then, secondly, in the national security arena; and that one of the great questions is, can there be accountability? And then that relates to whose laws come under review and do officials of the U.N., do they have immunity for this sort of circumstance?

Do officials of nation-states have immunity? And will governments waive that immunity? But I hope that it is understood that this is an incredibly serious issue and cannot be swept under the rug because our government had a different priority at the wrong moment in time.

Mr. RUGGIE. Congressman, may I just add 30 seconds?

I agree completely with what you said, and I hope that my testimony is not misconstrued as suggesting that the United States Government, the United Kingdom Government necessarily did anything wrong in what they did. I don't think people at the time—

Mr. LEACH. I am sorry, I am going to retrieve my time because I have very little time.

I am saying the exact opposite of this. The United States Government did do wrong by having no sense of judgment of what mattered. Corruption mattered, and it matters to national security and it matters on a humanitarian basis. We have here a gentleman representing the Kurds, who said they got no money and no support and no value from this.

This is a humanitarian circumstance for which we are accountable, particularly because we are a member of the Security Council. And officials of the United Nations are accountable. And this Congress, for not reviewing to some degree some of the stories and applying an appropriate perspective, is accountable. We did do wrong.

Mr. RUGGIE. I am sorry. I misspoke, Congressman.

I believe if the United States, the United Kingdom, and senior U.N. officials had known what the magnitude of the problem was, certainly I don't think the United States Government or the U.K. Government or the U.N. might have made the same decisions in the same way.

Mr. LEACH. Well—

Mr. RUGGIE. It is easy in hindsight, now that we have a \$4 billion figure on the table, but no one at the time—

Mr. LEACH. If the time—

Mr. BEREUTER [presiding]. Without objection, the gentleman will have an additional minute.

Mr. LEACH. One of the unique features of United States law is that whether corruption is \$50 or \$500 or \$5 billion, you are accountable under the law. And the United States should never, ever be in a position of saying, if we knew it was—the corruption was only of that magnitude, we would be concerned. I think there is good knowledge that there was a lot of corruption, and whether the magnitude was smaller or larger, it should have been of towering concern.

And I am astonished with your perspective, Dr. Ruggie. I don't accept it.

Mr. BEREUTER. I thank the gentleman.

The Chair will recognize himself briefly for a comment and then a question directed to at least two of the panelists, and then we will conclude this first panel.

First of all, I apologize for having to be away from some of the hearing for the responses, but I did hear the testimony.

Mr. Soussan, you made a point about the conflicting definitions of what is a "state" in the United Nations. And I think that is not just an abstract issue. I think it is very important, and you brought up a good point. And the fact that there is no reference to democracy in the U.N. Charter is not insignificant. Increasingly, I think that the United Nations must come closer to being a community of democracies, or there has to be a new institution set up for that purpose.

About a year and a half ago I raised a question in a hearing here about the escrow account managed by the Bank of Paris, and I gave some direction to the GAO—and I hope to address this question to the next panelist from the GAO. But I would ask particularly the two ladies here who may have knowledge about this issue, have you any information or have you had an opportunity to examine, best of all worlds, the program's escrow account managed by the Bank of Paris? If not, have you requested access to it, or any other bank records that are kept by the OIP or other private banks associated with that process?

Would either of you gentleladies have a chance to comment on this or have anything to contribute?

Ms. PLETKA. I am going to defer mostly to Claudia. But regarding BNP, part of the problem is that it was always my understanding that it was the only bank authorized to take letters of credit for goods. And I gather—from hearsay, I have to confess—that, in fact, it wasn't the only one, that there were other banks involved as well, but that the only way that outsiders knew about that was because documents were found authorizing letters of credit in the basements of Iraqi Government buildings.

In addition, I again hear, but don't know whether there is any truth to the matter that the Bank de Zona Paribas took letters of credit for goods, took them in Euros and then translated them into dollars and charged a conversion rate before they would do the deal.

Now, if that is the case, that is absolutely scandalous. I don't know, and one of the reasons I don't know, and the reason that others don't know is because their internal audit documents are

not, in fact, necessarily at the U.N. I don't know whether they have been provided to the U.N. They need to be provided, and they need to be provided to everybody so they have clear access to them.

Mr. BEREUTER. I certainly think that is the case. And I don't know of course about the transaction fees and how much that was or the general management fees that were charged. But I would like to know. I think we deserve to know.

Ms. Rosett.

Ms. ROSETT. This is one of the murkiest aspects of the whole program. And you are asking a very good question. The BNP itself is entirely unforthcoming certainly as far as questions from outside.

From the U.N. itself, there have been accounts that are simply confusing and basically a refusal to release, the closest I have come in questions as simple as: What were the amounts of interest paid on accounts that had balances of some 12 billion; is—at one point, in great haste, a U.N. official began reading off to me in a somewhat haphazard manner over the phone last year several figures that he thought might be interest totals for various periods. That was it.

I have actually received different versions of the balances held in these accounts from the U.N. with the Treasurer proper, who actually deals with these accounts.

Now, the U.N. has sole power of signature over the Iraq Oil-for-Food Program accounts. At this point, the CPA still must ask the U.N. to release funds from the billions still held in these accounts. From the versions that—from what has been told to me, the CPA and the Iraqi officials in Baghdad have still not received any statement of what is in those accounts at this point.

So, again, I am just trying to outline for you the mystery here. And all this—when I spoke with Suzanne Bishopric at the United Nations, who handles these accounts, who is in the Treasurer's Office, what she told me last month, in March, is that there has been no sending of any records to anybody since the fall of Saddam Hussein; it was all in the U.N. office.

The further conflicting statements I have received, and in keeping with what Ms. Pletka told you, are that there are five or six banks—I have always wondered, it would seem to me an easy number to keep track of. These are banks in a program involving billions.

If you lost track of the number of banks in which you hold congressional accounts, I would also consider that a very bad thing. And I have been told by the U.N. comptroller's office that there were seven or eight.

As far as actually seeing into these accounts, going one further statement relative to the Kurds, who had the highest degree of autonomy under the program, I went looking 2 years ago—and have since then, periodically—for answers from the U.N. as to what was happening with the missing \$4 billion from the Kurdish account; and was told simply that no one had any right to see the bank records, including the beneficiaries, the intended beneficiaries of the program.

So the answer again is, this is an area of great murk; and it is very important because in those bank records are the payments, the interest statements, the transactions, where they went. It even

bears on the terror question. And someone should secure those documents soon.

Thank you.

Mr. BURTON. Mr. Chairman, may I have one quick follow-up?

Mr. BEREUTER. The gentleman is recognized.

Mr. BURTON. Could Ms. Rosett tell us who said we couldn't have access to those records?

Ms. ROSETT. This was a statement, I believe—and this is not something I would not wish to state as—this is not personal; I am simply telling you the official who did speak on the record. And as far as I am aware, she was simply doing her job as required by the United Nations. And I would look to her boss, the U.N., Kofi Annan, who actually runs the Secretariat for an explanation.

Suzanne Bishopric in the U.N. Treasurer's Office, who I have—I am happy to provide to you the whole series of quotes saying, no one outside the U.N. has any access, no one will see these numbers, not the Kurds—I am paraphrasing here—not the Kurds, not the press, not anybody.

It is important that these be seen, and the more public, I believe, the better.

Mr. BURTON. I think that is great. And I would like to talk to you after this and get a copy of some of that information.

Mr. BEREUTER. I thank the gentleman. I thank all of the panelists.

The gentleman from Massachusetts.

Mr. DELAHUNT. I thank the gentleman, and if the Chair would just indulge, I noted that Dr. Ruggie, I think, wanted to respond. And if we could just give him a minute to maybe educate and inform us as to Ms. Rosett's conclusion.

Mr. BEREUTER. Without objection, the gentleman from Massachusetts will be extended another minute, which he may pass to the witness.

Mr. RUGGIE. Thank you, sir.

The banks were subject to external audits, routine external audits. All of those audits were made available at the time to all of the member-states, which means the United States Mission has copies of all of those external audits. They are not a secret from the member-states.

There is a peculiar thing about secrecy and transparency. It is unfortunate that the U.N. works that way, and I wish it didn't. It is not secret when you share documentation routinely with 191 member-states, those aren't secret anymore, but they are, in a certain sense, nonpublic. I think it is important to differentiate between those two.

But the bank was regularly audited. The external audits were given to all member-states. I think all of the members of the 661 Committee—excuse me, including the United States and commission had them as soon as they were done.

Mr. DELAHUNT. I thank the gentleman.

Mr. BEREUTER. And "external" really means external, outside the United Nations?

Mr. RUGGIE. There is an external audit procedure that the United Nations regularly employs for all of its accounts.

Mr. BEREUTER. Mr. Burton.



Mr. BURTON. Could Ms. Rosett respond, please?

Mr. BEREUTER. Yes. Certainly.

Ms. ROSETT. Please do ask what the further details are here before us because as I have been told by the United Nations, there was the Office of Internal Oversight, which is in the Secretariat, reporting to the Secretariat. The external board of auditors, as it has been described to me, and as it is in U.N. documents, was a group consisting of three member States rotating, which is their GAOs basically. This was chaired last year by France. It was chaired the year before by the Philippines. It is not necessarily obvious that there was—that this was independent, that there was no political agenda involved. You should get more details before assuming that external was truly external and independent.

Mr. DELAHUNT. If the gentleman from Indiana would yield to me for just a moment.

Mr. BEREUTER. I would be happy to extend.

Mr. DELAHUNT. I think this colloquy is beneficial and enlightening, I think, for all of us. But I think the point, Ms. Rosett, that Dr. Ruggie was stating was that in terms of the external audit that the United States' mission, our representatives, representatives of the Executive Branch had access and presumably possesses that external audit. Are you disagreeing with Dr. Ruggie on that point?

Ms. ROSETT. Well, what I was saying—no I am not disagreeing with him, but what I was saying was what were they auditing, what exactly were those audits about. There are many things you could audit in this program, and the question wasn't simply did the arithmetic on what was handed out add up.

Mr. BEREUTER. Dr. Ruggie, are you aware of the fact that among the recommendations of the external findings was that the U.N. needed to diversify the banks involved in holding these assets?

Mr. RUGGIE. That is how more banks got into the picture.

Mr. BEREUTER. I want to thank all the panelists on behalf of the Chairman and the Committee for the contributions that you have made very significant. We appreciate your time and your effort and your interest in this extremely important issue. Thank you. We may come to you for additional information or clarification. This panel is dismissed with appreciation. And I would like to call our second panel, which consists of one person, I believe. And that is Mr. Joseph Christoff. Mr. Christoff serves as Director of the General Accounting Office's International Affairs and Trade team.

Prior to this position, he managed GAO reviews that focused on the operations and programs of the Departments of Energy, Interior and Transportation. After receiving his BA in Public Policy from Miami University of Ohio, Mr. Christoff earned his Masters Degree in Public Administration from American University. Welcome Mr. Christoff. And to the extent that you call in any assistance from other members of your staff, just please introduce them. We will now pause a few seconds until you have a chance to take the table. We would like to have a 5-minute summary of your statement. We have written information from the Agency to us.

But your full statement will be made a part of the record. Mr. Christoff, thank you for your patience and thank you for your role in helping us with this issue and extend that to the people that

have assisted you at the agency. And you may proceed with your statement as you wish.

**STATEMENT OF JOSEPH A. CHRISTOFF, DIRECTOR, INTERNATIONAL AFFAIRS AND TRADE, U.S. GENERAL ACCOUNTING OFFICE**

Mr. CHRISTOFF. Thank you for inviting GAO to this important hearing. Last year this Committee asked GAO to monitor reconstruction efforts in Iraq, and as part of that effort, we looked at the operations of the U.N. Oil-for-Food Program and its transfer to the Coalition Provisional Authority. And today, I would like to discuss the results of our findings and offer some suggestions on how the U.N., the CPA and the Iraqi governing council could target their forthcoming investigations. First, let me discuss the problems with the Oil-for-Food Program. Under U.N. sanctions, Iraq was allowed to sell oil to purchase food and other humanitarian goods from 1997 to 2000. The U.N. controlled over \$67 billion in Iraqi oil revenues and issued \$38 billion in letters of credit to purchase commodities. And the program appears to have helped the Iraqi people by almost doubling their food intake over the first 5 years of the program.

However, we estimate that the former Iraqi regime acquired about \$10 billion in illegal revenues during this period. This included \$5.7 billion in oil smuggled out of Iraq and \$4.4 billion in surcharges on oil sales and illicit commissions on imported commodities. Oil was smuggled through Syria by pipeline across the borders of Jordan and Turkey by truck and through the Persian Gulf by ship. The Iraqi government also levied surcharges against oil purchasers and commissions against suppliers of commodities. According to Security Council members, the surcharges were up to 50 cents per barrel of oil and the commissions were 5 to 10 percent of the commodities contract.

So how and why did these problems occur? The United Nations, the CPA and the Iraqi governing council have begun investigations into the Oil-for-Food Program to answer these important questions. These investigations offer an opportunity to determine the extent of the corruption, the adequacy of the internal controls and ways to improve the delivery of humanitarian assistance under economic sanctions. Let me offer some suggestions on the key areas these inquiries should target.

First, how did the structure of the Oil-for-Food Program enable the Iraqi government to obtain illicit surcharges and commissions? The Oil-for-Food Program gave the Iraqi government the authority to negotiate contracts directly with companies that purchased oil or supplied commodities. The MOU between the U.N. and the government recognized the sovereignty of Iraq in negotiating oil and commodity contracts. However, when the program was first proposed in 1991, the Secretary General included alternative procedures for contract negotiation. These alternatives would have allowed the U.N. or an independent agent to negotiate the contracts. Iraq's control over contract negotiations was an important factor in allowing the government to levy illegal surcharges and commissions.

Second, what role did U.N. member nations play in enforcing compliance with U.N. sanctions against Iraq? Security Council res-

olutions required all member States to enforce the sanctions imposed on Iraq. However, Jordan maintained trade protocols with Iraq that allowed it to purchase heavily discounted Iraqi oil in exchange for up to \$300 million in Jordanian goods. Syria received up to 200,000 barrels of Iraqi oil per day in violation of the sanctions. And oil smuggling also occurred through Turkey and Iran. What actions did the United States or the United Nations take to deter the smuggling of Iraqi oil?

In addition, member nations were also responsible for vetting the companies that sought approval to purchase oil or sell commodities. It is unclear what criteria member nations used to assess the qualifications of these companies.

The third question: Who assessed the reasonableness of the prices negotiated between the Iraqi government and the commodities suppliers? U.N. Sanctions Committee procedures stated that the Office of the Iraq Program was to examine each commodity contract for price and value. However, OIP officials stated that no U.N. resolution tasked them with assessing the price reasonableness of the contracts. The Sanctions Committee was responsible for approving commodity contracts. However, it primarily screened contracts for dual-use items rather than price. Furthermore, beginning in 2000, the U.N. adopted fast track approval procedures for food, health, agriculture, sanitation, housing and water treatment contracts. How did these fast-track procedures affect the U.N.'s ability to assess contract price and value? Much of the information to answer these questions is in the contracts Iraq negotiated with the companies that bought oil or sold commodities.

Subsequent investigations should review these contracts to document the full extent of illicit commissions and surcharges. The analysis should identify companies that consistently overpriced their contracts and the nations that condoned the overpricing. In addition, a comparison of the Oil-for-Food Program in the north and the south could provide insights on the relative effectiveness and transparency. The Iraqi government operated the program in southern and central Iraq while U.N. specialized agencies implemented the program in the three Kurdish regions in the north. Lessons learned from this comparison could be used to structure future humanitarian programs to ensure that funds are spent on intended beneficiaries.

Mr. Chairman, this concludes my comments on the U.N.'s Oil-for-Food Program, but I refer the Committee to my full statement, which also discusses problems with the U.N.'s transfer of the Oil-for-Food Program to the CPA. The statement also discusses the challenges the Iraqi government faces in addressing the legacy of corruption and in assuming responsibility for the food distribution system. Thank you.

[The prepared statement of Joseph Christoff follows:]

United States General Accounting Office

GAO

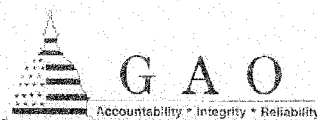
Testimony before the Committee on  
International Relations, House of  
Representatives

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UNITED NATIONS

Observations on the  
Management and Oversight  
of the Oil for Food Program

Statement of Joseph A. Christoff, Director  
International Affairs and Trade



GAO-04-730T

Wednesday, April 28, 2004



## Highlights

Highlights of GAO-04-790T, a Testimony before the House Committee on International Relations

### Why GAO Did This Study

The Oil for Food program was established by the United Nations and Iraq in 1990 to address concerns about the humanitarian situation after international sanctions were imposed in 1990. The program allowed the Iraq government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance. The program appears to have helped the Iraq people. From 1999 through 2002, the average daily food intake increased from 1,300 to 2,300 calories. From 1997 to 2002, Iraq sold more than \$67 billion of oil through the program and issued \$35 billion in letters of credit to purchase commodities. However, over the years numerous allegations have surfaced concerning potential fraud and program mismanagement.

GAO (1) reports on its estimates of the illegal revenue acquired by the former Iraqi regime in violation of U.N. sanctions; (2) provides observations on program administration; (3) describes the challenges facing the CPA and the Iraq government in administering remaining contracts; and (4) discusses potential issues for further investigation.

[www.gao.gov/ai/ai.html](http://www.gao.gov/ai/ai.html) or GAO-04-790T

To view the full product, including the scope and methodology, click on the link above. For more information, contact Joseph Christoff at (202) 512-2870 or [christoffj@gao.gov](mailto:christoffj@gao.gov).

## UNITED NATIONS

### Observations on the Management and Oversight of the Oil for Food Program

#### What GAO Found

GAO estimates that from 1997 to 2002, the former Iraqi regime acquired \$10.1 billion in illegal revenues, including \$5.7 billion in oil smuggled out of Iraq and \$4.4 billion through surcharges on oil sales and illicit commissions from suppliers exporting goods to Iraq through the Oil for Food program. This estimate includes oil revenue and contract amounts for 2002, updated letters of credit from prior years, and newer estimates of illicit commissions from commodity suppliers.

The U.N. Secretary General, through the Office of the Iraq Program (OIP) and the Security Council, through its Iraq sanctions committee, were both responsible for overseeing the Oil for Food Program. However, the Security Council allowed the Iraq government, as a sovereign entity, to negotiate contracts directly with purchasers of Iraqi oil and suppliers of commodities. This structure was an important factor in allowing Iraq to levy illegal surcharges and commissions. OIP was responsible for examining Iraqi contracts for price and value, but it is unclear how it performed this function. The sanctions committee was responsible for monitoring oil smuggling, screening contracts for items that could have military uses, and approving oil and commodity contracts. The sanctions committee took action to stop illegal oil surcharges, but it is unclear what actions it took on contract commissions. U.N. external audit reports contained no findings of program fraud. Summaries of internal audit reports pointed to some concerns regarding procurement, coordination, monitoring, and oversight and concluded that OIP had generally responded to audit recommendations.

OIP transferred responsibility for 3,050 Oil for Food contracts—with pending shipments valued at \$6.2 billion—to the CPA on November 22, 2003. Poor communication and coordination on contracting documents and inadequate staffing hampered efforts by the CPA's Oil for Food coordination center in Baghdad to ensure that commodities continued to be delivered. The execution of food contracts was also affected by evolving decisions about food distribution, inadequate coordination, and security issues. Challenges face the interim Iraqi government as it balances the need to reform a costly food subsidy program with the need to maintain food stability and protect the poorest populations. Also, inadequate oversight and alleged corruption in the program raise concerns about the Iraqi government's ability to manage the remaining Oil for Food commodities, continue the food distribution system, and absorb \$32 billion in expected donor funds for reconstruction. The CPA has taken steps to build internal controls and accountability measures in Iraq's ministries.

Several investigations of the Oil for Food program will soon be under way. These efforts may wish to consider several areas for further analysis to better determine the extent of corruption in the program, the adequacy of internal controls, and the lessons learned in implementing a large-scale humanitarian aid program within a sanctions framework.

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss GAO's review of the United Nations (U.N.) Oil for Food program.

In 1996, the United Nations and Iraq established the Oil for Food program to address growing concerns about the humanitarian situation after international sanctions were imposed in 1990. The program's intent was to allow the Iraqi government to use the proceeds of its oil sales to pay for food, medicine, and infrastructure maintenance, while at the same time preventing the regime from obtaining goods for military purposes. From 1997 through 2002, Iraq sold more than \$67 billion in oil through the program and issued \$38 billion in letters of credit to purchase commodities.<sup>1</sup>

Today, we will present our findings and observations on the operation of the Oil for Food program and its transfer to the Coalition Provisional Authority (CPA). Specifically, we will (1) report on our estimates of the illegal revenue acquired by the former Iraqi regime in violation of U.N. sanctions, (2) provide our observations on the administration of the program; (3) describe the challenges the CPA and Iraqi government face in administering remaining contracts, and (4) discuss potential issues for further investigation.

To address these objectives, we reviewed documents and statements from (1) the United Nations on its management and oversight responsibilities for the Oil for Food program; (2) the CPA, the Departments of Defense and State, and the United Nations and its World Food Program (WFP) on the transfer of the program to the CPA and its implementation; and (3) from the World Bank and Iraq's 2004 budget regarding the effect of food subsidies on the Iraqi economy. We met with U.N. officials immediately following the transfer of the program to the CPA in November 2003 and with numerous U.S. officials representing the CPA, the Departments of Defense and State, and the U.S. Agency for International Development to discuss the program's transfer and its ongoing management by the CPA. We also reviewed 12 external audits to determine the use of Oil for Food funds prior to the transfer to the CPA. We assessed the reliability of the data on the number of contracts reviewed for priority by the United Nations, the CPA, and Iraqi ministries, and those transferred to the CPA in

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<sup>1</sup>All references to Oil for Food estimates are in 2003 constant U.S. dollars.

November 2003 by corroborating OIP information with CPA data. We were unable to assess the reliability of the dollar amounts of contracts reviewed and pending shipment because we did not have access to information that would have allowed us to confirm the dollar amounts reviewed and transferred. We also did not have full access to the U.N. internal audits of the Oil for Food program, but we reviewed the summaries of 7 annual internal audits from 1996 to 2003.

We conducted our review from November 2003 through April 2004 in accordance with generally accepted government auditing standards.

## Summary

- From 1997 through 2002, we estimate that the former Iraqi regime acquired \$10.1 billion in illegal revenues—\$5.7 billion in oil smuggled out of Iraq and \$4.4 billion in surcharges on oil sales and illicit charges from suppliers exporting goods to Iraq through the Oil for Food program. This estimate is higher than our May 2002 estimate of \$5.6 billion because it includes (1) oil revenue and contract amounts for 2002, (2) updated letters of credit from prior years, and (3) newer estimates of illicit commissions from commodity suppliers.
- Both the U.N. Secretary General, through the Office of the Iraq Program (OIP) and the Security Council, through its Iraq sanctions committee, were responsible for overseeing the Oil for Food Program. However, the Security Council allowed the Iraqi government, as a sovereign entity, to negotiate contracts directly with purchasers of Iraqi oil and suppliers of commodities. This structure was an important factor in allowing Iraq to levy illegal surcharges and commissions. OIP was responsible for examining Iraqi contracts for price and value, but it is unclear how it performed this function. The sanctions committee was responsible for monitoring oil smuggling, screening contracts for items that could have military uses, and approving oil and commodity contracts. The sanctions committee took action to stop illegal surcharges on oil, but it is unclear what actions it took on the commissions on commodity contracts. U.N. external audit reports contained no findings of program fraud. Summaries of internal audit reports provided to GAO pointed to some operational concerns in procurement, coordination, monitoring, and oversight and concluded that OIP had been generally responsive to audit recommendations.
- OIP transferred responsibility for 3,059 Oil for Food contracts—with pending shipments valued at \$6.2 billion—to the CPA on November 22, 2003. Poor communication and coordination on contracting documents and inadequate staffing hampered efforts by the CPA's Oil for Food

coordination center in Baghdad to ensure that commodities continued to be delivered. The execution of food contracts has also been affected by evolving decisions about food distribution, inadequate coordination, and security issues. The CPA and the World Food Program (WFP) are training ministry staff on procurement and distribution functions to help them assume responsibility for remaining contracts and the food distribution system. Several challenges face the interim Iraqi government which is expected to assume sovereignty on July 1, 2004. The new government will have to balance the need to reform a costly food subsidy program with the need to maintain food stability and protect the poorest populations. In addition, inadequate oversight and alleged corruption in the Oil for Food program raise concerns about the Iraqi government's ability to manage the remaining Oil for Food commodities, continue the food distribution system, and absorb \$32 billion in expected donor funds for reconstruction. The CPA has taken steps, such as appointing inspectors general, to build internal controls and accountability measures in Iraq's ministries.

- Several investigations of the Oil for Food program will soon be under way. These efforts may wish to consider several areas for further study and analysis to better determine the extent of corruption in the program, the adequacy of internal controls, and the lessons learned in implementing a large-scale humanitarian aid program within a sanctions framework.

## Background

In August 1990, Iraq invaded Kuwait, and the United Nations imposed sanctions against Iraq. Security Council resolution 661 of 1990 prohibited all nations from buying and selling Iraqi commodities, except for food and medicine. Security Council resolution 661 also prohibited all nations from exporting weapons or military equipment to Iraq and established a sanctions committee to monitor compliance and progress in implementing the sanctions. The members of the sanctions committee were members of the Security Council. Subsequent Security Council resolutions specifically prohibited nations from exporting to Iraq items that could be used to build chemical, biological, or nuclear weapons. In 1991, the Security Council offered to let Iraq sell oil under a U.N. program to meet its peoples' basic needs. The Iraqi government rejected the offer, and over the next 5 years, the United Nations reported food shortages and a general deterioration in social services.

In December 1996, the United Nations and Iraq agreed on the Oil for Food program, which permitted Iraq to sell up to \$1 billion worth of oil every 90 days to pay for food, medicine, and humanitarian goods. Subsequent U.N. resolutions increased the amount of oil that could be sold and expanded



the humanitarian goods that could be imported. In 1999, the Security Council removed all restrictions on the amount of oil Iraq could sell to purchase civilian goods. The United Nations and the Security Council monitored and screened contracts that the Iraqi government signed with commodity suppliers and oil purchasers, and Iraq's oil revenue was placed in a U.N.-controlled escrow account. In May 2003, U.N. resolution 1483 requested the U.N. Secretary General to transfer the Oil for Food program to the CPA by November 2003. (Appendix I contains a detailed chronology of Oil for Food program and sanctions events.) The United Nations allocated 59 percent of the oil revenue for the 15 central and southern governorates, which were controlled by the central government; 13 percent for the 3 northern Kurdish governorates; 25 percent for a war reparations fund for victims of the Iraq invasion of Kuwait in 1990; and 3 percent for U.N. administrative costs, including the costs of weapons inspectors.

From 1997 to 2002, the Oil for Food program was responsible for more than \$67 billion of Iraq's oil revenue. Through a large portion of this revenue, the United Nations provided food, medicine, and services to 24 million people and helped the Iraqi government supply goods to 24 economic sectors. Despite concerns that sanctions may have worsened the humanitarian situation, the Oil for Food program appears to have helped the Iraqi people. The Oil for Food program facilitated the operation of the Public Distribution System run by Iraq's Ministry of Trade. The system distributes a monthly "food basket" that normally consists of a dozen items<sup>2</sup> to all Iraqis. About 60 percent of Iraqis rely on this basket as their main source of food. According to the United Nations, the average daily food intake increased from around 1,275 calories per person per day in 1996 to about 2,220 calories at the end of 2001. Malnutrition rates for children under 5 fell by more than half. In February 2002, the United Nations reported that the Oil for Food program had considerable success in arresting the decline in living conditions and improving the nutritional status of the average Iraqi citizen.

<sup>2</sup>Wheat flour, rice, vegetable ghee (semifluid clarified butter used for cooking), pulses (edible seeds of various leguminous crops, such as peas, beans, or lentils), sugar, tea, salt, milk, infant formula, weaning cereal, soap, and detergent.

**Former Iraqi Regime  
Acquired an  
Estimated \$10.1  
Billion in Illicit  
Revenue**

We estimate that, from 1997 through 2002, the former Iraqi regime acquired \$10.1 billion in illegal revenues—\$5.7 billion through oil smuggled out of Iraq and \$4.4 billion through surcharges against oil sales and illicit commissions from commodity suppliers. This estimate is higher than the \$6.6 billion in illegal revenues we reported in May 2002.<sup>3</sup> We updated our estimate to include (1) oil revenue and contract amounts for 2002, (2) updated letters of credit from prior years, and (3) newer estimates of illicit commissions from commodity suppliers. Appendix II describes our methodology for determining illegal revenues gained by the former Iraqi regime.

Oil was smuggled out through several routes, according to U.S. government officials and oil industry experts. Oil entered Syria by pipeline, crossed the borders of Jordan and Turkey by truck, and was smuggled through the Persian Gulf by ship. In addition to revenues from oil smuggling, the Iraqi government levied surcharges against oil purchasers and commissions against commodity suppliers participating in the Oil for Food program. According to some Security Council members, the surcharge was up to 50 cents per barrel of oil and the commission was 5 to 15 percent of the commodity contract.

In our 2002 report, we estimated that the Iraqi regime received a 5-percent illicit commission on commodity contracts. However, a September 2003 Department of Defense review found that at least 48 percent of 759 Oil for Food contracts that it reviewed were potentially overpriced by an average of 21 percent.<sup>4</sup> Defense officials found 5 contracts that included "after-sales service charges" of between 10 and 20 percent. In addition, interviews by U.S. investigators with high-ranking Iraqi regime officials, including the former oil and finance ministers, confirmed that the former regime received a 10-percent commission from commodity suppliers. According to the former oil minister, the regime instituted a fixed 10-percent commission in early 2001 to address a prior "compliance" problem with junior officials. These junior officials had been reporting lower

<sup>3</sup>U.S. General Accounting Office, *Weapons of Mass Destruction: U.N. Confronts Significant Challenges in Implementing Sanctions Against Iraq*, GAO-02-325 (Washington, D.C., May 23, 2002).

<sup>4</sup>The Defense Contract Audit Agency and the Defense Contract Management Agency, *Report on the Pricing Evaluation of Contracts Awarded under the Iraq Oil for Food Program* (Washington, D.C., Sept. 12, 2003).

commissions than what they had negotiated with suppliers and pocketing the difference.

**United Nations and Security Council Had Responsibility for Oversight of Program, but Iraq Contracted Directly with Purchasers and Suppliers**

Both OIP, as an office within the U.N. Secretariat, and the Security Council's sanctions committee were responsible for overseeing the Oil for Food Program. However, the Iraqi government negotiated contracts directly with purchasers of Iraqi oil and suppliers of commodities. While OIP was to examine each contract for price and value, it is unclear how it performed this function. The sanctions committee was responsible for monitoring oil smuggling, screening contracts for items that could have military uses, and approving oil and commodity contracts. The sanctions committee responded to illegal surcharges on oil purchases, but it is unclear what actions it took to respond to commissions on commodity contracts.

**Iraq Negotiated Directly with Oil Purchasers and Suppliers**

U.N. Security Council resolutions and procedures recognized the sovereignty of Iraq and gave the Iraqi government authority to negotiate contracts and decide on contractors. Security Council resolution 986 of 1995 authorized states to import petroleum products from Iraq, subject to the Iraqi government's endorsement of transactions. Resolution 986 also stated that each export of goods would be at the request of the government of Iraq. Security Council procedures for implementing resolution 986 further stated that the Iraqi government or the United Nations Inter-Agency Humanitarian Program would contract directly with suppliers and conclude the appropriate contractual arrangements. Iraqi control over contract negotiations was an important factor in allowing Iraq to levy illegal surcharges and commissions.

When the United Nations first proposed the Oil for Food program in 1991, it recognized this vulnerability. At that time, the Secretary General proposed that either the United Nations, an independent agent, or the government of Iraq be given the responsibility to negotiate contracts with oil purchasers and commodity suppliers. The Secretary General concluded that it would be highly unusual or impractical for the United Nations or an independent agent to trade Iraq's oil or purchase commodities. He recommended that Iraq negotiate the contracts and select the contractors. However, he stated that the United Nations and Security Council would have to ensure that Iraq's contracting did not circumvent the sanctions and was not fraudulent. The Security Council further proposed that U.N.

agents review contracts and compliance at Iraq's oil ministry, but Iraq refused these terms.

#### OIP Was Responsible for Key Oversight Aspects of the Program

OIP administered the Oil for Food program from December 1996 to November 2003. As provided in Security Council resolution 986 of 1995 and a memorandum of understanding between the United Nations and the Iraqi government, OIP was responsible for monitoring the legal sale of Iraq's oil, monitoring Iraq's purchase of commodities and the delivery of goods, and accounting for the program's finances. The United Nations received 3 percent of Iraq's oil export proceeds for its administrative and operational costs, which included the cost of U.N. weapons inspections.

The sanctions committee's procedures for implementing resolution 986 stated that independent U.N. inspection agents were responsible for monitoring the quality and quantity of the oil shipped. The agents were authorized to stop shipments if they found irregularities. OIP hired a private firm to monitor Iraqi oil sales at exit points. However, the monitoring measures contained weaknesses. According to U.N. reports and a statement from the monitoring firm, the major offshore terminal at Mina al-Bakar did not have a meter to measure the oil pumped nor could onshore storage capacity be measured. Therefore, the U.N. monitors could not confirm the volume of oil loaded onto vessels. Also, in 2001, the oil tanker *Essex* took a large quantity of unauthorized oil from the platform when the monitors were off duty. In December 2001, the Security Council called upon OIP to improve the monitoring at the offshore terminal.

OIP also was responsible for monitoring Iraq's purchase of commodities and the delivery of goods. Security Council resolution 986, paragraph 8a(ii), required Iraq to submit a plan, approved by the Secretary General, to ensure equitable distribution of Iraq's commodity purchases. The initial distribution plans focused on food and medicines while subsequent plans were expansive and covered 24 economic and social sectors, including electricity, oil, and telecommunications.

The sanction committee's procedures for implementing Security Council resolution 986 stated that experts in the U.N. Secretariat were to examine each proposed Iraqi commodity contract, in particular the details of price and value, and to determine whether the contract items were on the distribution plan. OIP officials told the Defense Contract Audit Agency they performed very limited, if any, pricing review. They stated that no U.N. resolution tasked them with assessing the price reasonableness of the contracts and no contracts were rejected solely on the basis of price. However, OIP officials also stated that, in a number of instances, they

reported to the sanctions committee that commodity prices appeared high but the committee did not cite pricing as a reason to place holds on the contracts.

The sanction committee's procedures for implementing resolution 986 state that independent inspection agents will confirm the arrival of supplies in Iraq. OIP deployed about 78 U.N.-contract monitors to verify shipments and authenticate the supplies for payment. OIP employees were able to visually inspect 7 to 10 percent of the approved deliveries.

**Audits Identified Some Operational Concerns but No Fraud**

Security Council resolution 986 also requested the Secretary General to establish an escrow account for the Oil for Food Program and to appoint independent and certified public accountants to audit the account. The Secretary General established an escrow account at BNP Paribas for the deposit of Iraqi oil revenues and the issue of letters of credit to suppliers with approved contracts. The U.N. Board of Audit, a body of external public auditors, audited the account. The external audits focused on management issues related to the Oil for Food program and the financial condition of the Iraq account. U.N. auditors generally concluded that the Iraq account was fairly presented in accordance with U.N. financial standards. The reports stated that OIP was generally responsive to external audit recommendations. The external audits determined that oil prices were mostly in accordance with the fair market value of oil products to be shipped and checked to confirm that pricing was properly and consistently applied. They also determined that humanitarian and essential services supplies procured with oil funds generally met contract terms with some exceptions. U.N. external audit reports contained no findings of fraud during the program.

The U.N. Office of Internal Oversight Services (OIOS) conducted internal audits of the Oil for Food program and reported the results to OIP's executive director. OIOS officials stated that they have completed 55 audits and have 4 ongoing audits of the Oil for Food program. Overall, OIOS reported that OIP had made satisfactory progress in implementing most of its recommendations. However, because we do not have audit authority at the United Nations, we do not have access to individual OIOS audit reports. However, we were able to obtain 7 very brief summaries of OIOS reports covering the Oil for Food program from July 1, 1996, through June 30, 2003. These summaries identify a variety of operational concerns involving procurement, inflated pricing and inventory controls, coordination, monitoring, and oversight. In one case, OIOS cited purchase prices for winter items for displaced persons in northern Iraq that were on average 61 percent higher than local vendor quotes obtained by OIOS. In

another case, an OIOS review found that there was only limited coordination of program planning and insufficient review and independent assessment of project implementation activities.

#### The Sanctions Committee Had a Key Role in Enforcing Sanctions and Approving Contracts

The sanctions committee was responsible for three key elements of the Oil for Food Program: (1) monitoring implementation of the sanctions, (2) screening contracts to prevent the purchase of items that could have military uses, and (3) approving Iraq's oil and commodity contracts.

U.N. Security Council resolution 661 of 1990 directed all states to prevent Iraq from exporting all products, including petroleum, into their territories. Paragraph 6 of resolution 661 establishes a sanctions committee to report to the Security Council on states' compliance with the sanctions and to recommend actions regarding effective implementation. As early as June 1996, the Maritime Interception Force, a naval force of coalition partners including the United States and Great Britain, informed the sanctions committee that oil was being smuggled out of Iraq through Iranian territorial waters. In December 1996, Iran acknowledged the smuggling and reported that it had taken action. In October 1997, the sanctions committee was again informed about smuggling through Iranian waters. According to multiple sources, oil smuggling also occurred through Jordan, Turkey, Syria, and the Gulf. Smuggling was a major source of illicit revenue for the former Iraqi regime through 2002.

A primary function of the members of the sanctions committee was to review and approve contracts for items that could be used for military purposes. The United States conducted the most thorough review; about 60 U.S. government technical experts assessed each item in a contract to determine its potential military application. According to U.N. Secretariat data in 2002, the United States was responsible for about 90 percent of the holds placed on goods to be exported to Iraq. As of April 2002, about \$5.1 billion worth of goods were being held for shipment to Iraq. According to OIP, no contracts were held solely on the basis of price.

Under Security Council resolution 986 of 1995 and Security Council procedures, the sanctions committee was responsible for approving Iraq's oil contracts, particularly to ensure that the contract price was fair, and for approving Iraq's commodity contracts. The U.N.'s oil overseers reported in November 2000 that the oil prices proposed by Iraq appeared low and did

not reflect the fair market value.<sup>5</sup> According to a senior OIP official, the independent oil overseers also reported in December 2000 that purchasers of Iraqi oil had been asked to pay surcharges. In March 2001, the United States informed the sanctions committee about allegations that Iraqi government officials were receiving illegal surcharges on oil contracts and illicit commissions on commodity contracts. The sanctions committee took action on the allegations of surcharges in 2001 by implementing retroactive pricing for oil contracts.<sup>6</sup>

However, it is unclear what actions the sanctions committee took to respond to illicit commissions on commodity contracts. Due to increasing concern about the humanitarian situation in Iraq and pressure to expedite the review process, the Security Council passed resolution 1284 in December 1999 to direct the sanctions committee to accelerate the review process. Under fast-track procedures, the sanctions committee allowed OIP to approve contracts for food, medical supplies, and agricultural equipment (beginning in March 2000), water treatment and sanitation (August 2000), housing (February 2001), and electricity supplies (May 2001).

### Challenges Facing the CPA and Interim Iraqi Government in Administering Oil for Food Contracts

In November 2003, the United Nations transferred to the CPA responsibility for 3,050 Oil for Food contracts totaling about \$6.2 billion; the remaining 2,190 contracts were not continued for a variety of reasons. U.N. agencies had renegotiated most of the contracts transferred to the CPA with the suppliers to remove illicit charges and amend delivery and location terms. A lack of coordination and communication about contract documentation and inadequate staffing affected the transfer process and hampered the ability of the CPA's Oil for Food coordination center to ensure commodity deliveries continued without disruption. Evolving policy and implementation decisions on the food distribution system, coordination, and the security situation affected the execution of food contracts. The food distribution system created a dependency on food subsidies that disrupted private food markets. The government will have

<sup>5</sup>The sanctions committee received reports from the independent oil experts appointed by the Secretary General to determine whether there was fraud or deception in the oil contracting process.

<sup>6</sup>Under retroactive pricing, the Security Council did not approve a price per barrel until the oil was delivered to the refinery. The Iraq government signed contracts with suppliers without knowing the price it would have to pay until delivery. This allowed a fair market price to be set.

to decide whether to continue, reform, or eliminate the current system. In addition, inadequate oversight and alleged corruption in the Oil for Food program raise concerns about the Iraqi government's ability to manage the remaining contracts and absorb donor reconstruction funds. The CPA has taken steps, such as appointing inspectors general, to strengthen accountability measures in Iraq's ministries.

**Program Transferred to the CPA in November 2003**

According to OIP, it transferred 3,059 contracts worth about \$6.2 billion in pending commodity shipments to the CPA on November 22, 2003. Prior to the transfer, U.N. agencies had renegotiated the contracts with the suppliers to remove "after-sales service fees"—based on information provided by the CPA and Iraqi ministries—and to change delivery dates and locations. These fees were either calculated separately or were part of the unit price of the goods. At the time of the transfer, all but 251 contracts had been renegotiated with the suppliers. The Defense Contract Management Agency is renegotiating the remaining contracts for the CPA to remove additional fees averaging 10 percent. The criteria for renegotiating contracts and the amount of the reductions were based on information from the CPA in Baghdad and the ministries that originally negotiated the contracts.

An additional 2,199 contracts worth almost \$2 billion were not continued as a result of a review by U.N. agencies, the CPA, and the Iraqi ministries that negotiated the contracts.<sup>1</sup> For example:

- The review did not recommend continuing 762 contracts, worth almost \$1.2 billion, because it determined that the commodities associated with the contracts were no longer needed.
- Another 728 contracts, worth about \$750 million, had been classified as priority contracts, but were not continued for several reasons. About half—351 contracts—were not transferred because suppliers were concerned about the adequacy of security within Iraq or could not reach agreement on price reductions or specification changes. Another 180 contracts were considered fully delivered. Another 136 suppliers had either declared bankruptcy, did not exist, or did not respond to

<sup>1</sup>According to OIP, neither the United Nations nor the CPA had the authority to cancel these contracts. The future of these contracts is to be decided by a sovereign Iraqi government.



	<p>U.N. requests. It is unclear why the remaining 61 contracts were removed from the priority list.</p> <ul style="list-style-type: none"> <li>Suppliers did not want to ship the outstanding small balances for an additional 709 contracts totaling about \$28 million.</li> </ul> <p>The largest portion of the \$6.2 billion in Oil for Food contracts pending shipment in November 2003—about 23 percent—was designated for food procurement. An additional 9 percent was for food handling and transport. The oil infrastructure, power, and agriculture sectors also benefited from the remaining contracts. Nearly one half of the renegotiated contracts were with suppliers in Russia, Jordan, Turkey, the United Arab Emirates, and France.</p>
<p><b>Inadequate Communication, Coordination, and Staffing Affected the Transfer and Implementation of Contracts</b></p>	<p>U.N. resolution 1483 requested the Secretary General, through OIP, to transfer to the CPA all relevant documentation on Oil for Food contracts.<sup>4</sup> However, CPA officials reported that they did not receive complete information, including copies of all contracts. The CPA stated that it received several compact disks in November and January that were to contain detailed contract and delivery data but that the information was incomplete. The CPA further stated that it received incomplete source documents such as the original contracts, amendments, and letters of credit needed to identify the status of commodities, prepare shipment schedules, and contact suppliers. A CPA official stated that, as of April 26, 2004, the center had only 20 percent of the contracts it needed. In addition, the CPA received little information on letters of credit that had expired. Funds for the Oil for Food program are obligated by letters of credit to the bank holding the U.N. escrow account. When these commitments are cancelled, the remaining funds are available for transfer to the Development Fund for Iraq. Without this information, the CPA could not determine the disposition of Oil for Food funds and whether the proper amounts were deposited into the Development Fund for Iraq.<sup>5</sup> The CPA also reported that the database it received was unreliable because it contained mathematical and currency errors in the calculations of contract cost. According to CPA officials, the inadequate data and documentation have made it difficult to prepare accurate reports on the status of inbound goods and closeouts of completed contracts.</p> <p><sup>4</sup>U.N. Resolution 1483, ¶ 25(f) (May 2003).</p> <p><sup>5</sup>As of April 31, 2004, the United Nations had transferred \$5.1 billion in Oil for Food funds to the Development Fund for Iraq.</p>

OIP officials stated that they had transferred all relevant contract information requested by the CPA prior to the transfer date of November 21, 2003. According to a senior OIP official, OIP and U.N. agencies continued to provide relevant information on revised contract amendments and letters of credit within 2 weeks beyond the transfer date. This official stated that the CPA lost some compact disks and some CPA offices were unaware that other CPA offices had the disks. OIP stated that, on several occasions, it clarified for the CPA the locations of the misplaced disks and issued duplicates for lost disks. OIP further noted that it transferred an operational database to the CPA on November 21, 2003. According to a senior OIP official, the CPA sent one junior staff to be trained, in 3 or 4 days, in managing a very large and complex database. This official noted that a database of this size would inevitably contain some errors, but the errors on this database were not of the magnitude to significantly hamper operations.

In November 2003, the CPA established a coordination center in Baghdad to oversee the receipt and delivery of Oil for Food commodities. The CPA authorized 48 coalition positions, to be assisted by Iraqis from various ministries. However, according to several U.S. and U.N. officials, the CPA had insufficient staff to manage the program and high staff turnover. As of mid-December 2003, the center had 19 coalition staff, including 18 staff whose tours ended in January 2004. U.S. and WFP officials stated that the staff assigned at the time of the transfer lacked experience in managing and monitoring the import and distribution of goods. A former CPA official stated that the Oil for Food program had been thrust upon an already overburdened and understaffed CPA. A November 2003 WFP report placed part of the blame in food shortfalls during the fall of 2003 on OIP delays in releasing guidelines for the contract prioritization and renegotiation process; OIP stated that this was due to the lack of complete information from the CPA on how deliveries were to be authenticated. A September 2003 U.N. report also noted that the transfer process in the northern governorates was slowing down due to an insufficient number of CPA counterparts to work with U.N. staff on transition issues.

The center's capacity improved in March 2004 when its coalition staff totaled 37. By April 2004, the coordination center had 16 coalition staff. Up to 40 Iraqi ministry staff are currently working on Oil for Food contracts. As of April 1, the coordination center's seven ministry advisors have begun working with staff at their respective ministries as the first step in moving control of the program to the Iraqi government. However, according to a coordination center official, as of April 26, 2004, inadequate staffing

continued to hamper the CPA's ability to ensure that Oil for Food deliveries continue without disruption.

**Changing Policy and Implementation Decisions, Coordination, and Security Affect the Management of Food Contracts**

According to U.S. officials and documents, CPA's failed plans to privatize the food distribution system and delayed negotiations with WFP to administer the system resulted in diminished stocks of food commodities and localized shortages. In addition, problems in transportation and communications and general confusion after major combat operations delayed contracts that had been prioritized.

Before the transfer of the Oil for Food program, the CPA administrator proposed to eliminate Iraq's food distribution system and to provide former recipients with cash payments. He asserted that the system was expensive and depressed the agricultural sector. As a result, the Ministry of Trade began drawing down existing inventories of food. In December 2003, as the security environment worsened, the CPA administrator reversed his decision to reform the food ration system and left the decision to a provisional Iraqi government.

In January 2004, CPA negotiated a memorandum of understanding (MOU) with WFP and the Ministry of Trade that committed WFP to procuring a 3-month, \$900 million emergency food stock by March 31, 2004, and assuming the delivery of remaining food basket items to hub warehouses inside Iraq through June 2004. Delays in signing the MOU were due to disagreements about the procurement of emergency food stocks, contract delivery terms, and the terms of WFP's involvement. No additional food was procured during the negotiations, and food stocks diminished and localized shortages occurred in February and March 2004. The CPA and WFP addressed these problems with emergency procurements from nearby countries.

An April WFP report projected a continued supply of food items through May 2004 except for a 12-percent shortage in milk. Only 55 percent of required domestic wheat has been procured for July 2004 and no domestic wheat has been procured for August. In accordance with the MOU, WFP completed its procurement of emergency food stocks by March 31, 2004. The Ministry of Trade assumed responsibility for food procurement on April 1, 2004.

A U.S. official stated in early March 2004 that coordination between WFP and the Ministry of Trade had been deteriorating. The Ministry had not provided WFP with complete and timely information on monthly food

allocation plans, weekly stock reports, or information on cargo arrivals, as the MOU required. WFP staff reported that the Ministry's data were subject to sudden, large, and unexplained stock adjustments, thereby making it difficult to plan deliveries. However, a State Department official noted in April 2004 that coordination between WFP and the Ministry was improving.

The security environment in Iraq also affected planning for the transfer and the movement of Oil for Food goods in the fall of 2003. The transfer occurred during a period of deteriorating security conditions and growing violence in Iraq. A September 2003 U.N. report found that the evacuation of U.N. personnel from Baghdad, following the bombing of the U.N. office in August 2003, affected the timetable and procedures for the transfer of the Oil for Food program to the CPA and contributed to delays in prioritizing and renegotiating contracts. Most WFP staff remained in Amman and other regional offices and continued to manage the Oil for Food program from those locations. The August bombing of the U.N. Baghdad office also resulted in the temporary suspension of the border inspection process and shipments of humanitarian supplies and equipment. A March 2004 CPA report also noted that stability of the food supply would be affected if security conditions worsened. According to a coordination center official in Baghdad, the worsening security situation during April 2004 has affected the food supply due to (1) the withdrawal of insurance by a major Arab insurance company, which is making it more difficult to find shippers to carry goods into Iraq; (2) a shortage of truck drivers willing to drive in Iraq; and (3) continuing and shifting route closures and generally high-risk conditions.

After the CPA transfers responsibility for the food distribution system to the Iraqi provisional government in July 2004, the government will have to decide whether to continue, reform, or eliminate the current system. Documents from the Ministries of Finance and Planning indicate that the annual cost of maintaining the system is as high as \$5 billion, or about 25 percent of total government expenditures. In 2005 and 2006, expenditures for food will be almost as much as all expenditures for capital projects. According to a September 2003 joint U.N. and World Bank needs assessment of Iraq,<sup>18</sup> the food subsidy, given out as a monthly ration to the entire population, staved off mass starvation during the time of the

<sup>18</sup> United Nations/World Bank, *Joint Iraq Needs Assessment: Agriculture, Water Resources, and Food Security* (New York: October 2003).

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sanctions, but disrupted the market for food grains produced locally. The agricultural sector had little incentive to produce crops in the absence of a promising market. However, the Iraqi government may find it politically difficult to scale back the food distribution system with 60 percent of the population relying on monthly rations as their primary source of nutrition. WFP is completing a vulnerability assessment that Iraq could use to make future decisions on food security programs and better target food items to those most in need.

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#### Addressing Corruption

The history of inadequate oversight and alleged corruption in the Oil for Food program raises questions about the Iraqi government's ability to manage the import and distribution of Oil for Food commodities and the billions in international assistance expected to flow into the country. The CPA and Iraqi ministries must address corruption in the Oil for Food program to help ensure that the remaining contracts are managed with transparent and accountable controls. Building these internal control and accountability measures into the operations of Iraqi ministries will also help safeguard the \$18.4 billion in fiscal year 2004 U.S. reconstruction funds and \$13.8 billion pledged by other countries.

To address these concerns and oversee government operations, the CPA administrator announced the appointment of inspectors general for 21 of Iraq's 25 national ministries on March 30, 2004. At the same time, the CPA announced the establishment of two independent agencies to work with the inspectors general—the Commission on Public Integrity and a Board of Supreme Audit. Finally, the United States will spend about \$1.63 billion on governance-related activities in Iraq, which will include building an effective financial management system in Iraq's ministries.

CPA's coordination center continues to provide on the job training for ministry staff who will assume responsibility for Oil for Food contracts after July 2004. Coalition personnel have provided Iraqi staff with guidance on working with suppliers in a fair and open manner and determining when changes to letters of credit are appropriate. In addition, according to center staff, coalition and Iraqi staff signed a code of conduct, which outlined proper job behavior. Among other provisions, the code of conduct prohibited kickbacks and secret commissions from suppliers. The center also developed a code of conduct for suppliers. In addition, the center has begun identifying the steps needed for the transition of full authority to the Iraqi ministries. These steps include transferring contract-related documents, contacting suppliers, and providing authority to amend

contracts. In addition, the January 2004 MOU agreement commits WFP to training ministry staff in procurement and transport functions. Training is taking place at WFP headquarters in Rome, Italy.

### Potential Issues for Further Investigation

Several investigations into the Oil for Food program are planned or under way. A U.N. inquiry officially began on April 21, 2004, with a Security Council resolution supporting the inquiry<sup>11</sup> and the appointment of three high-level officials to oversee the investigation. In addition, the CPA's Inspector General is planning to contract with an independent accounting firm to assess the Oil for Food program's internal controls and to assist the CPA in its management of the program. The Defense Contract Audit Agency is working with the CPA Inspector General to refine the scope of work and will also act as CPA's contracting representative for the review. The Iraqi Governing Council also contracted with an international accounting firm to investigate the extent to which individuals and entities wrongfully benefited from the Oil for Food program and identify those assets for recovery to the Iraqi government.

These investigations of the Oil for Food program provide an opportunity to better quantify the extent of corruption, determine the adequacy of internal controls, and identify ways to improve future humanitarian assistance programs conducted within an economic sanctions framework. Based on our work, we have identified several areas that warrant further analysis:

### Size and Structure of the Oil for Food Program

The scope of the Oil for Food program was extensive. The United Nations attempted to oversee a \$67 billion program providing humanitarian and other assistance in 24 sectors to a country with 24 million people and borders 3,500 kilometers long.

When the program was first proposed in 1991, the Secretary General considered having either the United Nations, an independent agent, or the Iraqi government negotiate oil and commodity contracts. The Secretary General concluded that the first two options were impractical and proposed that Iraq would negotiate the contracts and U.N. staff would work at Iraq's oil ministry to ensure compliance. The final MOU between

<sup>11</sup>U.N. Security Council Resolution 1538 (April 2004).

the Iraqi government and the United Nations granted control of contract negotiations to Iraq in recognition of its sovereignty.

- How did the size and structure of the Oil for Food program enable the Iraqi government to obtain illegal revenues through illicit surcharges and commissions?

#### Role of Member States in Oversight

Under Security Council resolutions, all member states were responsible for enforcing the sanctions and the United Nations depended on states bordering Iraq to deter smuggling. National companies were required to register with their respective permanent missions to the United Nations prior to direct negotiations with the Iraqi government, but it is unclear what criteria the missions used to assess the qualifications of their companies.

- What was the role of member states in monitoring and enforcing the sanctions? What were the criteria used to certify national purchasers of oil and suppliers of commodities?

#### Role of Neighboring States

Prior to the imposition of sanctions, Turkey was one of Iraq's major trading partners. Total trade between the two countries was valued at \$3 billion per year, and Turkey received about \$1 billion each year by trucking goods to Iraq from Turkish ports. Jordan has also been a top trading partner; in 2001, it was the fifth largest exporter to Iraq and was the ninth largest importer of Iraqi commodities.

Jordan and Iraq had annual trade protocols during the U.N. sanctions that allowed Iraq to sell heavily discounted oil to Jordan in exchange for up to \$300 million in Jordanian goods. The sanctions committee noted the existence of the protocol but took no action.

From November 2000 to March 2003, Iraq exported up to 200,000 barrels per day of oil through a Syrian pipeline in violation of UN sanctions. It is unclear what actions the sanctions committee or the United States took to stop the illegal exporting of Iraqi oil to Syria.

- What actions, if any, were taken to reduce smuggling of Iraqi oil? What precluded the sanctions committee from taking action?

### Assessing the Reasonableness of Contract Pricing

While sanctions committee procedures stated that the Secretariat was to examine each contract for price and value, OIP officials stated that no U.N. resolution tasked them with assessing the price reasonableness of the contracts. Although the sanctions committee was responsible for approving commodity contracts, it primarily screened contracts to prevent the purchases of items with potential military uses.

In December 1999, U.N. Security Council resolution 1284 directed the sanctions committee to accelerate approval procedures for goods no longer subject to sanctions committee review, including food and equipment and supplies to support the health, agricultural, water treatment and sanitation, housing, and electricity sectors.

- Who assessed the reasonableness of prices for commodity contracts negotiated between the Iraqi government and suppliers and what actions were taken? How were prices for commodities assessed for reasonableness under fast-track procedures?

Much of the information on surcharges on oil sales and illicit commissions on commodity contracts is with the ministries in Baghdad and national purchasers and suppliers. We did not have access to this data to verify the various allegations of corruption associated with these transactions. Subsequent investigations of the Oil for Food program should include a statistical sampling of these transactions to more accurately document the extent of corruption and the identities of companies and countries that engaged in illicit transactions. This information would provide a basis for restoring those assets to the Iraqi government.

Subsequent evaluations and audits should also consider an analysis of the lessons learned from the Oil for Food program and how future humanitarian programs of this nature should be structured to ensure that funds are spent on intended beneficiaries and projects. For example, analysts may wish to review the codes of conduct developed for the CPA's Oil for Food coordination center and suppliers. In addition, U.N. specialized agencies implemented the program in the northern governorates while the program in central and southern Iraq was run by the central government in Baghdad. A comparison of these two approaches could provide insight on the extent to which the operations were transparent and the program delivered goods and services to the Iraqi people.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I will be happy to answer any questions you may have.



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**Contacts and  
Acknowledgments**

For questions regarding this testimony, please call Joseph Christoff at (202) 512-8979. Other key contributors to this statement were Pamela Briggs, Mark Connelly, Lynn Cothorn, Philip Farah, Zina Merritt, Tetsuo Miyabara, Stephanie Robinson, Jonathan Rose, Richard Seidin, Audrey Solis, Roger Stoltz, and Phillip Thomas. Lyric Clark, Jeanette Espinola, José M. Peña, III, and Eve Weisberg also provided technical support.

## Appendix I: Timeline of Major Events Related to Sanctions Against Iraq and the Administration of the Oil for Food Program

Date	Event/Action	Summary
Aug. 2, 1990	U.N. Security Council Resolution 660	Iraqi forces invaded Kuwait. Resolution 660 condemned the invasion and demands immediate withdrawal from Kuwait.
Aug. 6, 1990	U.N. Security Council Resolution 661	Imposed economic sanctions against the Republic of Iraq. The resolution called for member states to prevent all commodity imports from Iraq and exports to Iraq, with the exception of supplies intended strictly for medical purposes and, in humanitarian circumstances, foodstuffs.
Aug. 6, 1990	Operation Desert Shield	President Bush ordered the deployment of thousands of U.S. forces to Saudi Arabia.
Nov. 5, 1990	U.S. legislation	Public Law 101-513, §356C, prohibited the import of products from Iraq into the United States and export of U.S. products to Iraq.
Jan. 12, 1991	U.S. legislation	Iraq War Powers Resolution authorized the president to use "all necessary means" to compel Iraq to withdraw military forces from Kuwait.
Jan. 16, 1991	Operation Desert Storm	Operation Desert Storm was launched. Coalition operation was targeted to force Iraq to withdraw from Kuwait.
Feb. 28, 1991	Gulf War cease-fire	Iraq announced acceptance of all relevant U.N. Security Council resolutions.
Apr. 3, 1991	U.N. Security Council Resolution 687 (Cease-Fire Resolution)	Mandated that Iraq must respect the sovereignty of Kuwait and declare and destroy all ballistic missiles with a range of more than 150 kilometers as well as all weapons of mass destruction and production facilities.
Jun. 17, 1991	Creation of U.N. Special Commission	The U.N. Special Commission (UNSCOM) was charged with monitoring Iraqi disarmament as mandated by U.N. resolutions and to assist the International Atomic Energy Agency in nuclear monitoring efforts.
Aug. 15, 1991	U.N. Security Council Resolution 700	Proposed the creation of an Oil for Food program and authorized an escrow account to be established by the Secretary General. Iraq rejected the terms of this resolution.
Sep. 19, 1991	U.N. Security Council Resolution 712	Second attempt to create an Oil for Food program. Iraq rejected the terms of this resolution.
Oct. 2, 1992	U.N. Security Council Resolution 778	Authorized transferring money produced by any Iraqi oil transaction on or after August 6, 1990, which had been deposited into the escrow account, to the states or accounts concerned as long as the oil exports took place or until sanctions were lifted.
Apr. 14, 1995	U.N. Security Council Resolution 986	Allowed Iraq to sell \$1 billion worth of oil every 90 days. Proceeds were to be used to procure foodstuffs, medicine, and material and supplies for essential civilian needs. Resolution 986 was supplemented by several U.N. resolutions over the next 7 years that extended the Oil for Food program for different periods of time and increased the amount of exported oil and imported humanitarian goods.
Mar. 27, 1996	U.N. Security Council Resolution 1051	Established the export and import monitoring system for Iraq.
May 20, 1996	Government of Iraq and the United Nations	Signed a memorandum of understanding allowing Iraq's export of oil to pay for food, medicine, and essential civilian supplies.
Jun. 17, 1996	United States	Based on information provided by the Multinational Interception Force (MIF), communicated concerns about alleged smuggling of Iraqi petroleum products through Iranian territorial waters in violation of resolution 661 to the Security Council sanctions committee.

Date	Event/Action	Summary
Jul. 9, 1996	U.N. Security Council Sanctions Committee	Committee members asked the United States for more factual information about smuggling allegations, including the final destination and the nationality of the vessels involved.
Aug. 20, 1996	U.S. delegation to the U.N. Security Council Sanctions Committee	Provided briefing on the Iraqi oil smuggling allegations to the sanctions committee.
Dec. 3, 1996	Islamic Republic of Iran Permanent Representative to the United Nations	Acknowledged that some vessels carrying illegal goods and oil to and from Iraq had been using the Iranian flag and territorial waters without authorization and that Iranian authorities had confiscated forged documents and manifests. Representative agreed to provide the results of the investigations to the sanctions committee once they were available.
Dec. 10, 1996	Iraq and the United Nations	Phase I of the Oil for Food program began.
Jun. 4, 1997	U.N. Security Council Resolution 1111	Extended the term of resolution 986 another 180 days (phase II).
Sep. 12, 1997	U.N. Security Council Resolution 1126	Authorized special provision to allow Iraq to sell petroleum in a more favorable time frame.
Oct. 8, 1997	Representatives of the United Kingdom of Great Britain and Northern Ireland to the United Nations	Brought the issue of Iraqi smuggling petroleum products through Iranian territorial waters to the attention of the U.N. Security Council sanctions committee.
Nov. 18, 1997	Coordinator of the Multinational Interception Force (MIF)	Reported to the U.N. Security Council sanctions committee that since February 1997 there had been a dramatic increase in the number of ships smuggling petroleum from Iraq inside Iranian territorial waters.
Dec. 4, 1997	U.N. Security Council Resolution 1143	Extended the Oil for Food program another 180 days (phase III).
Feb. 20, 1998	U.N. Security Council Resolution 1153	Raised Iraq's export ceiling of oil to about \$5.3 billion per 6-month phase (phase IV).
Mar. 25, 1998	U.N. Security Council Resolution 1158	Permitted Iraq to export additional oil in the 90 days from March 5, 1998, to compensate for delayed resumption of oil production and reduced oil price.
Jun. 19, 1998	U.N. Security Council Resolution 1175	Authorized Iraq to buy \$300 million worth of oil spare parts to reach the export ceiling of about \$5.3 billion.
Aug. 14, 1998	U.S. legislation	Public Law 105-235, a joint resolution finding Iraq in unacceptable and material breach of its international obligations.
Oct. 31, 1998	U.S. legislation: Iraq Liberation Act	Public Law 105-338, §4, authorized the president to provide assistance to Iraqi democratic opposition organizations.
Oct. 31, 1998	Iraqi termination of U.N. Special Commission (UNSCOM) Activity	Iraq announced it would terminate all forms of interaction with UNSCOM and that it would halt all UNSCOM activity inside Iraq.
Nov. 24, 1998	U.N. Security Council Resolution 1210	Renewed the Oil for Food program for 6 months beyond November 26 at the higher levels established by resolution 1153. The resolution included additional oil spare parts (phase V).
Dec. 16, 1998	Operation Desert Fox	Following Iraq's recurrent blocking of U.N. weapons inspectors, President Clinton ordered 4 days of air strikes against military and security targets in Iraq that contribute to Iraq's ability to produce, store, and maintain weapons of mass destruction and potential delivery systems.

Date	Event/Action	Summary
Mar. 3, 1999	President Clinton Report to Congress	President Clinton provided the status of efforts to obtain Iraq's compliance with U.N. Security Council resolutions. He discussed the MIF report of oil smuggling out of Iraq and smuggling of other prohibited items into Iraq.
May 27, 1999	U.N. Security Council Resolution 1242	Renewed the Oil for Food program another 6 months (phase VI).
Oct. 4, 1999	U.N. Security Council Resolution 1266	Permitted Iraq to export an additional amount of \$3.04 billion of oil to make up for revenue deficits in phases IV and V.
Nov. 18, 1999	U.N. Security Council Resolution 1275	Extended phase VI of the Oil for Food program for 2 weeks until December 4, 1999.
Dec. 3, 1999	U.N. Security Council Resolution 1290	Extended phase VI of the Oil for Food program for 1 week until December 11, 1999.
Dec. 10, 1999	U.N. Security Council Resolution 1291	Renewed the Oil for Food program another 6 months (phase VII).
Dec. 17, 1999	U.N. Security Council Resolution 1294	Abolished Iraq's export ceiling to purchase civilian goods. Eased restrictions on the flow of civilian goods to Iraq and streamlined the approval process for some of industry spare parts. Also established the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC).
Mar. 31, 2000	U.N. Security Council Resolution 1300	Increased oil spare parts allocation from \$300 million to \$200 million under phases VI and VII.
Jun. 9, 2000	U.N. Security Council Resolution 1307	Renewed the Oil for Food program another 130 days until December 5, 2000 (phase VIII).
Dec. 5, 2000	U.N. Security Council Resolution 1330	Extended the Oil for Food program another 130 days (phase IX).
Mar. 6, 2001	Deputy U.S. Representative to the United Nations Remarks to the Security Council	Ambassador Cunningham acknowledged Iraq's illegal re-export of humanitarian supplies, oil smuggling, establishment of front companies, and payment of kickbacks to manipulate and gain from Oil for Food contracts. Also acknowledged that the United States had put holds on tenders of Oil for Food contracts that posed dual-use concerns.
Mar. 8, 2001	Acting U.S. Representative to the United Nations Remarks to the Security Council	Ambassador Cunningham addressed questions regarding allegations of surcharges on oil and smuggling. Acknowledged that oil industry representatives and other Security Council members provided the United States anecdotal information about Iraqi surcharges on oil sales. Also acknowledged companies claiming they were asked to pay commissions on contracts.
Jun. 1, 2001	U.N. Security Council Resolution 1352	Extended the terms of resolution 1330 (phase IX) another 30 days.
Jul. 9, 2001	U.N. Security Council Resolution 1350	Renewed the Oil for Food program an additional 160 days until November 30, 2001 (phase X).
Nov. 29, 2001	U.N. Security Council Resolution 1387	The resolution stipulated that a new Goods Review List would be adopted and that relevant procedures would be subject to refinement. Renewed the Oil for Food program another 180 days (phase XI).
May 14, 2002	U.N. Security Council Resolution 1439	UNMOVIC reviewed export contracts to ensure they contain no items on a designated list of dual-use items known as the Goods Review List. The resolution also extended the program another 180 days (phase XII).
Nov. 6, 2002	U.N. Security Council Sanctions Committee	MIF reported that there had been a significant reduction in illegal oil exports from Iraq by sea over the past year but noted oil smuggling was continuing.

Date	Event/Action	Summary
Nov. 25, 2002	U.N. Security Council Resolution 1443	Extended phase XII of the Oil for Food program another 90 days.
Dec. 4, 2002	U.N. Security Council Resolution 1447	Renewed the Oil for Food program another 180 days until June 3, 2003 (phase XIII).
Dec. 30, 2002	U.N. Security Council Resolution 1454	Approved changes to the list of goods subject to review and the sanctions committee.
Mar. 12, 2003	U.N. Security Council Sanctions Committee	Chairman reported on a number of alleged sanctions violations noted by letters from several countries and the media from February to November 2002. Alleged incidents involved Syria, India, Liberia, Jordan, Belarus, Switzerland, Lebanon, Ukraine, and the United Arab Emirates.
Mar. 19, 2003	Operation Iraqi Freedom	Operation Iraqi Freedom is launched. Coalition operation led by the United States initiated hostilities in Iraq.
Mar. 28, 2003	U.N. Security Council Resolution 1472	Adjusted the Oil for Food program and gave the Secretary General authority for 45 days to facilitate the delivery and receipt of goods authorized by the Government of Iraq for the humanitarian needs of its people.
Apr. 16, 2003	U.S. legislation	Public Law 108-11, §1503, authorized the President to suspend the application of any provision of the Iraq Sanctions Act of 1990.
Apr. 24, 2003	U.N. Security Council Resolution 1476	Extended provision of resolution 1472 until June 3, 2003.
May 1, 2003	Operation Iraqi Freedom	End of major combat operations and beginning of post-war rebuilding efforts.
May 22, 2003	U.N. Security Council Resolution 1483	Lifted civilian sanctions on Iraq and provided for the end of the Oil for Food program within 6 months, transferring responsibility for the administration of any remaining program activities to the Coalition Provisional Authority (CPA).
Nov. 21, 2003	U.N. Secretary General	Transferred administration of the Oil for Food program to the CPA.
Mar. 19, 2004	U.N. Secretary General	Responded to allegations of fraud by U.N. officials that were involved in the administration of the Oil for Food program.
Mar. 25, 2004	U.N. Secretary General	Proposed that a special investigation be conducted by an independent panel.
April 21, 2004	U.N. Security Council Resolution 1533	Supported the appointment of the independent high level inquiry and called upon the CPA, Iraq, and member states to cooperate fully with the inquiry.

## Appendix II: Scope and Methodology

We used the following methodology to estimate the former Iraqi regime's illicit revenues from oil smuggling, surcharges on oil, and commissions from commodity contracts from 1997 through 2002:

- To estimate the amount of oil the Iraqi regime smuggled, we used Energy Information Administration (EIA) estimates of Iraqi oil production and subtracted oil sold under the Oil for Food program and domestic consumption. The remaining oil was smuggled through Turkey, the Persian Gulf, Jordan, and Syria (oil smuggling to Syria began late 2000). Our estimate is on information from and discussions with officials of EIA, Cambridge Energy Research Associates, and the Middle East Economic Survey, and the private consulting firm Petroleum Finance.
- We used the price of oil sold to estimate the proceeds from smuggled oil. We discounted the price by 9 percent for the difference in quality. We discounted this price by 67 percent for smuggling to Jordan and by 33 percent for smuggling through Turkey, the Persian Gulf, and Syria. According to oil industry experts, this is representative of the prices paid for smuggled oil.
- To estimate the amount Iraq earned from surcharges on oil, we multiplied the barrels of oil sold under the Oil for Food program from 1997 through 2002 by 25 cents per barrel. According to Security Council members, the surcharge varied, but Iraq tried to get as much as 50 cents per barrel. Industry experts also stated the surcharge varied.
- To estimate the commission from commodities, we multiplied Iraq's letters of credit for commodity purchases by 5 percent for 1997 through 1998 and 10 percent for 1999 through 2002. According to Security Council members, the commission varied from 5 percent to 10 percent. This percentage was also confirmed in interviews conducted by U.S. officials with former Iraqi regime ministers of oil, finance, and trade and with Saddam Hussein's presidential advisors.

GAO did not obtain source documents and records from the former regime about its smuggling, surcharges, and commissions. Our estimate of illicit revenues is therefore not a precise accounting number. Areas of uncertainty in our estimate include:

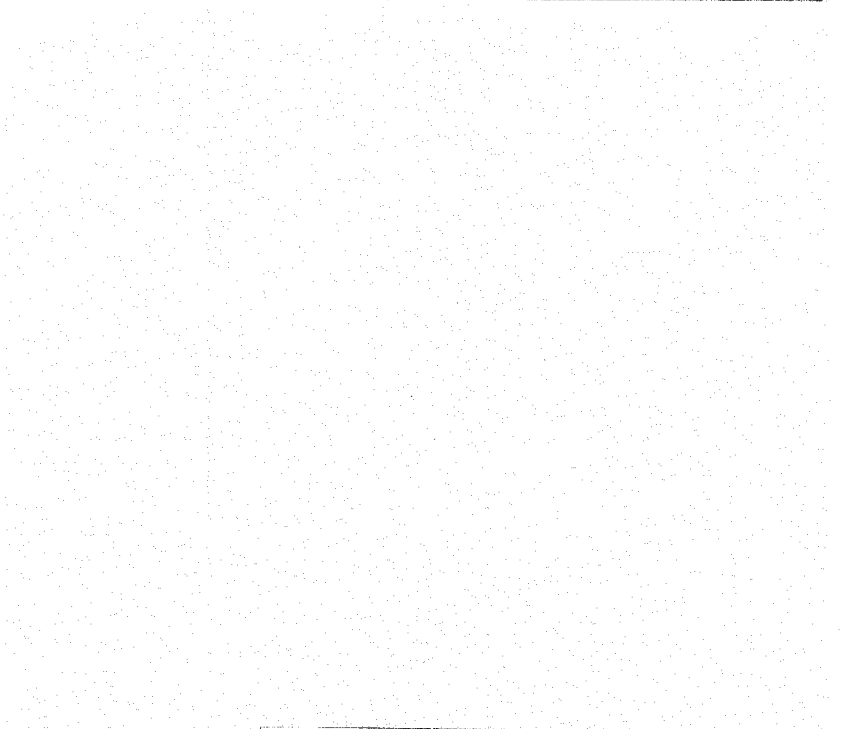
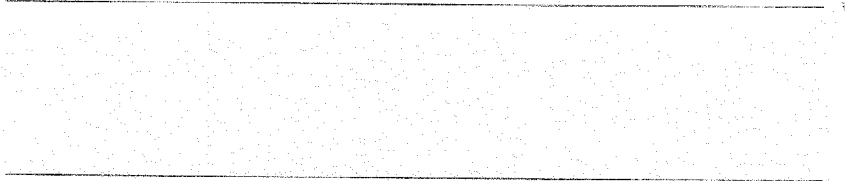
- GAO's estimate of the revenue from smuggled oil is less than the estimates of U.S. intelligence agencies. We used estimates of Iraqi oil production and domestic consumption for our calculations. U.S.

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intelligence agencies used other methods to estimate smuggling.

- GAO's estimate of revenue from oil surcharges is based on a surcharge of 25 cents per barrel from 1997 through 2002. However, the average surcharge could be lower. U.N. Security Council members and oil industry sources do not know when the surcharge began or ended or the precise amount of the surcharge. One oil industry expert stated that the surcharge was imposed at the beginning of the program but that the amount varied. Security Council members and the U.S. Department of Treasury reported that surcharges ranged from 10 cents to 50 cents per barrel. As a test of reasonableness, GAO compared the price paid for oil under the Oil for Food program with a proxy oil price for the period 1987 through 2002. We found that for the entire period, the price of Iraqi oil was considerably below the proxy price. Oil purchasers would have to pay below market price to have a margin to pay the surcharge.

GAO's estimate of the commission on commodities could be understated. We calculated commissions based on the commodity contracts for the 15 governorates in central and southern Iraq (known as the "50-percent account" because these governorates received this percentage of Oil for Food revenues). However, the former Iraqi regime negotiated the food and medical contracts for the northern governorates, and the Defense Contract Audit Agency found that some of these contracts were potentially overpriced. The Defense Contract Audit Agency also found extra fees of between 10 and 20 percent on some contracts.



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Mr. BEREUTER. Thank you very much, Mr. Christoff. We will begin the questioning under the 5-minute rule. First recognize the gentleman from Massachusetts, Mr. Delahunt.

Mr. DELAHUNT. Thank you, Mr. Chairman. In earlier testimony, I think it was Ms. Rosett that listed a number of countries where one could infer that they were not the end user of the product. The UAE I think was one, Liechtenstein was another. And I think what that demonstrates to me is—and I have had discussions with colleagues about this, not just simply the difficulty of enforcement and compliance, but the reality is that when we speak of these international conglomerates in terms of national companies, I think we err. There was a report in *The Wall Street Journal* dated April 23. Let me just read excerpts of it, and how do we address it is the answer that I will be looking for, because we have a different statutory scheme in terms of sanctions than other nations, and I understand that, aside from the multi-lateral sanctions that were imposed on Iraq.

“The United States French conflict over Iraq both before and after the war that started in early 2003 routinely has included accusations that each side has been driven by commercial interests. But for a handful of big companies, especially U.S. ones, the argument didn’t matter much. Before the war, United States companies used French units of French go-betweens to sell goods to Iraq.”

That was before the war. Since the war, French firms are using United States operations to bid for contracts in Iraq, though it is unclear whether they will succeed. One particular company—and I won’t mention the name, won more than \$30 million worth of deals with Mr. Hussein’s Iraq in the 1990s through this device. It is a large American firm that is in the oil business. You know, we have statutes that prohibit American firms from doing business with so-called rogue nations.

I am reminded of a piece on *60 Minutes* where several of them created subsidiaries that were doing business with Iraq, Iran and I am sure other so-called rogue nations in one of the subsidiaries and one of these companies was headquartered in the Cayman Islands. Except when the investigative reporters from *60 Minutes* went to the Cayman Islands, they found an office with a telephone. And subsequent investigation revealed, at least according to this report, that there was an office in Dubai.

Is Dubai part of the UAE, the United Arab Emirates? I want to be sure about my geography. I guess the point I am trying to make here is it is a real mess. I think what we have got to do is do a review and learn from our mistakes, but also understand that there are large international conglomerates that are doing business in a way to avoid both multi-lateral sanctions as well as our domestic legislation. Maybe there are loopholes that we should be addressing in our own statutory scheme. But when we talk about a program where those who are interested in selling commodities under this specific program, we are looking in many respects at ourselves and our failure to address those loopholes or to insist on strict compliance here with American companies that are doing

business via subsidiaries abroad or doing joint ventures with other nations. If you have a comment.

Mr. CHRISTOFF. I would add on that to maybe build on your point, one of the findings that the Defense Contract Audit Agency brought up was the use of middlemen and how often the use of middlemen could increase the costs associated with the contracts; why for example were Russians—I hate to keep using Russians, but why were Russians buying Australian or buying Argentinean and Canadian wheat under contract and then sell it to Iraq. So one of DCAA's important findings was that you have to reduce the middle men because that can result in overpricing and some potential kickbacks as well.

Mr. BEREUTER. Thank you, Mr. Delahunt. The gentleman from Indiana, Mr. Burton.

Mr. BURTON. When you were conducting your audit, Mr. Christoff, did you deal with anyone over at the U.N.?

Mr. CHRISTOFF. We worked with the office of Iraqi programs.

Mr. BURTON. Were they pretty cooperative?

Mr. CHRISTOFF. Yes.

Mr. BURTON. Did you have access to any documents that you wanted?

Mr. CHRISTOFF. We still would like to have access to the OIOS internal audits, to which we have yet to have access; 55 audits that were completed, 4 that are ongoing dealing with the Oil-for-Food Program.

Mr. BURTON. Did you ask for those audits?

Mr. CHRISTOFF. Sure.

Mr. BURTON. What did they say?

Mr. CHRISTOFF. I think as many people pointed out, number one, GAO doesn't have audit authority over the U.N., we all recognize that. And the OIOS indicated that these were internal documents that we would not have access to. I must say in past reviews, we have had good working relationships with OIOS and we have obtained the documents.

Mr. BURTON. I understand and the people you talked to are probably down the food chain a little bit. But what I am trying to figure out is are we really able to get to the bottom of this whole scandal without the full cooperation of the U.N. in getting all the documents that are necessary for us to peruse?

Mr. CHRISTOFF. You would have to have access to all the documents. You have to have access to the OIOS documents. It is important to have information that defines the contracts, who were the contractors; which companies, countries did it go to. That is critical.

Mr. BURTON. I guess the concern that I have and my previous comments was that we need to get to the bottom of this so that we can clean up this mess if it is possible as quickly as possible. And there may be U.S. contractors, there may be other governments involved. But unless we can get the full cooperation of the United Nations and get access to documents that can give us the full picture, even as hardworking as GAO is—and I know you guys work hard—we are never going to get the full picture.

And the Secretary General of the United Nations I think should go out of his way to make sure that the United States and if nec-

essary, other countries have access to the documents in question so there is full disclosure. You know, when we are talking about a criminal activity, there is a discovery period. And the prosecutor and the defense counsel have the right to get all the documents that are relevant to the investigation. This is a huge criminal activity, if you will, involving probably hundreds of companies. And if we are going to be able to provide the kind of leadership and stability in the Middle East that is going to bring about democracy and freedom in Iraq and hopefully other areas, it seems to me we have to have more confidence in the process than we have right now. And I know you can't give us any more answers than you have, but I am just commenting.

If Mr. Kofi Annan or anybody at the U.N. is paying attention to this, in my opinion, it is extremely important that all documents that are relevant to this investigation be given to the United States, to the Congress of the United States and other governments, if that is requested, otherwise, we are never going to get the full picture. And this corruption has to be cleaned up as much as possible.

Mr. BEREUTER. Mr. Chairman, would you like to be recognized? Chairman HYDE.

Chairman HYDE. Thank you, Mr. Chairman. I just have one question. I have listened to a lot of testimony and read a lot and I am still unsure as to whose responsibility it was to make the determination that Iraq would control, supervise, oversee the handling of the individual contracts. Can you nail that down for me?

Mr. CHRISTOFF. I wish I could. You begin in 1991 with some proposals that the U.N. submitted to Iraq in which there were alternatives for the contract negotiations. One alternative was to have the Iraqi government negotiate the contracts directly, which became the preferred alternative. But there were also suggestions for having an "independent agent" that was undefined or having the United Nations engage in the contract negotiations. From the period between 1991 until the final MOU was established, there were negotiations that I don't have all the details of, but the end result was to allow Iraq to negotiate the contracts directly.

Chairman HYDE. But going hand in hand with that judgment ought to have been effective, tight supervision, oversight and that was omitted evidently.

Mr. CHRISTOFF. As part of the 1991 proposal, there was also a proposal that U.N. officials be attached to certain ministries in order to provide that oversight. And I believe that also was rejected by the Iraqi government as the basis of their agreement to even come to terms with an Oil-for-Food Program.

Chairman HYDE. We were so anxious to get an agreement that we swallowed their intransigence, is that right?

Mr. CHRISTOFF. Let us look at what was happening in Iraq in 1995. Truly there was a humanitarian situation and a crisis in Iraq in 1995. After 4 years of economic sanctions, WHO and other U.N. agencies were reporting malnutrition, problems with sanitation and health, so there was a growing need to resolve and get food into Iraq quickly.

Chairman HYDE. Which we took more seriously than Iraq. They are willing to let people starve to death and we were unwilling. So

we should have proceeded with the war. Should have torn up the ceasefire.

Mr. CHRISTOFF. I will pass on that. Thank you.

Mr. BEREUTER. Gentleman from New York, Mr. Meeks, is recognized.

Mr. MEEKS. Thank you, Mr. Chairman. I am just interested and trying to find out about this oversight with this 661. And I think that you have indicated that it was unclear whether the office of OIP performed its function properly. And the U.N. has indicated to our Committee that the OIP did indeed perform that function and that it refused to forward hundreds of contracts that fell outside of a range of acceptable pricing to the 661 Committee, and that this action effectively blocked hundreds of contracts from being approved. The U.N. has also indicated to us that when the missions representing the company submitted questionable explanations for overpricing the contracts, OIP then forwarded the contracts to 661 with notes of concern about pricing.

And further, the U.N. has indicated that those notes of concern never led to 661 to block a contract. My question is, did you interview or attempt to interview U.N. OIP officials to establish whether these facts in conducting your audit of the program.

Mr. CHRISTOFF. Yes. We met with OIP officials. And one of the first questions we asked them for was what was their pricing criteria; what did they use to go out and about to determine the price reasonableness of the contracts. We have not gotten yet that pricing criteria from the Office of the Iraq Program. And they make a distinction. I think we need to think about distinctions here. They were tasked to look at the price and value of the contracts, but it is unclear to me as to how they translated that into looking at price reasonableness.

If they looked at price reasonableness the way the DCAA audit did, perhaps they would have encountered more of this overpricing. DCAA found that 48 percent of all of the Oil-for-Food Program contracts it looked at were overpriced by 21 percent. I am not certain how they translated the mandate to assess price and value into a standard approach for assessing price reasonableness the way the United States or the DCAA would have undertaken a price reasonableness determination.

Mr. MEEKS. With reference to the 661, I understand—wasn't it the 661 Committee, didn't they have the authority and responsibility to oversee the program? And did you investigate why the United States's mission to the U.N. apparently did not attempt to use its power to block individual contractors shutting down overpricing in the humanitarian goods contracts?

Mr. CHRISTOFF. When we did our investigation, we were told the majority of the holds—they are called holds on contracts—were holds that were placed primarily on the basis of dual-use items. There was \$5.1 billion in holds. When we looked at the program in detail in May 2002, 90 percent of those holds were placed by the United States primarily because of concerns of dual-use items, not because of price.

Mr. MEEKS. Well, further dealing with the 661 Committee, I believe there were about 60 experts that were reviewing the contracts

to make sure they didn't contain items that would be used in a weapons program?

Mr. CHRISTOFF. Right.

Mr. MEEKS. And how many were reviewing the contracts to see if they were overpriced, potentially hiding kickbacks?

Mr. CHRISTOFF. When the U.S. oversight function was described to us, it was described as an interagency process consisting of the Department of State, Department of Commerce, Department of Defense, Department of Energy focusing on whether or not the line items in the contract contained commodities that had dual-use potential. That is how it was described to us as an extensive, 60-person interagency process.

Mr. MEEKS. And one last question would be in May 2003, when the CPA was preparing to take over the Oil-for-Food Program contracts, the Defense Contracting Auditing Agency, DCAA was called upon to review those contracts for possible fraud. In reviewing just 60 percent of the active contracts using only market data, the defense auditors found \$656 million of potential overpricing. All of these contracts were approved by the State Department, and a 661 Committee member, apparently without the benefit of such an audit. As a professional auditor, do you find it odd that the U.S. and the U.N. was approving these contracts without auditing them for price validity?

Mr. CHRISTOFF. No. I think it gets back to the good work of DCAA. In looking at pricing value, one should have looked at the price reasonableness of the contracts.

Mr. MEEKS. No further questions.

Mr. BEREUTER. Gentleman from Iowa, Mr. Leach is recognized.

Mr. LEACH. First, I think it is appropriate to express some appreciation to the GAO. This is a very important study that you have done. And in the tradition of the GAO, I think you have done a fine job.

Mr. CHRISTOFF. Thank you.

Mr. LEACH. Secondly, the idea of an Inspector General at the United Nations really was led by the United States with a U.S. commission recommending it with the Thornburg Commission recommending it and pressed by the United States. Having said that, I am intrigued with a couple of aspects of this, and I don't know if you know the answer to this, but what are the practices and policies of this Inspector General office, OIOS as they call it in regard to who may see reports that they initiate? Have you asked that question?

Mr. CHRISTOFF. If I understand the OIOS procedures to be that when they complete their audit, they then submit the completed audit to the head of the agency that they audited. The head of OIOS can also decide on a case-by-case basis to simultaneously submit the audit to the Secretary General.

Mr. LEACH. At his discretion.

Mr. CHRISTOFF. Who in turn can decide at his discretion?

Mr. LEACH. Were any of these reports submitted?

Mr. CHRISTOFF. I don't know. I would like to get the reports.

Mr. LEACH. I think we should have the answer to both reports. Now we have had the United States' top ranking representative saying he didn't see the reports.

Mr. CHRISTOFF. He didn't see the OIOS reports?

Mr. LEACH. I think that is extraordinary. And the reason you have an Inspector General or a GAO type of institution is that you give it to people that make policy and you don't give it to the people you have just overseen exclusively. I mean that seems a little odd.

Mr. CHRISTOFF. There is a vested interest in being defensive if you are the head of the agency that was the recipient of that audit.

Mr. LEACH. I would like to turn to another subject. We have a new review panel underway, and very few people in the world have a higher regard for Paul Volcker than I do. I think he is an outstanding choice and also by background, having headed a premier banking regulatory institution in the United States. Have you checked with our banking regulators on whether banking laws may have been violated by any of these foreign institutions that held these accounts?

Mr. CHRISTOFF. Have not done that.

Mr. LEACH. Do you think that would be an appropriate area of inquiry?

Mr. CHRISTOFF. Yes.

Mr. LEACH. Also, is there an area of accountability here. I mean one is struck with unusual practices as being the norm here. And if it is the norm and if it is sanctioned, you have got a lot of interesting ramifications. One is that if you are a country that has significant private parties or governmental policy makers that might benefit from a circumstance, that may bias your determination of how you are perceived with other issues relating to, in this case, Iraq. And it appears, for instance, that one major bank in one principal country of the Security Council benefited a lot.

It appears from your report and your testimony that in another security council country, there were a lot of intermediaries that played a role in these contracts. That really defines an international system that ought to be reviewed from that perspective alone. Do you have any judgments of your own in that regard?

Mr. CHRISTOFF. I certainly have a lot of questions. One of the key questions that we think is just trying to better understand how the different countries—we are using the term “vetted”—the different companies that were allowed to supply Iraq commodities or purchase its oil, what kind of transparency was surrounding that kind of vetting process, because it would have revealed whether or not the countries might have had a vested interest in trying to put most of these countries on the list, because it was these lists that the government chose from in terms of selling its oil or purchasing its commodities.

Mr. LEACH. Well, let me just return to one aspect of the United States' policy, because we err frequently by always criticizing ourselves. We are more internally self-critical than other countries, but I will be darned if I don't believe that the United States' Government erred grievously in not looking at this more seriously and not bringing it to the attention of the United Nations. And it appears to me that if we had the power to stop certain contracts in one way, we had the power to stop them in another. Am I wrong in this, or is this just an impression that might be in error? Did we have the power to stop these contracts?

Mr. CHRISTOFF. Yes. Absolutely. The United States placed over \$5 billion of holds on U.N. contracts. And any U.N. Sanctions Committee member could hold a contract.

Mr. LEACH. Am I not right to suggest that we appeared not to care about corruption, but to care about dual-use?

Mr. CHRISTOFF. We were not focused on price.

Mr. LEACH. And is price not the indicator of corruption?

Mr. CHRISTOFF. If one looks at the DCAA audit, it certainly is.

Mr. LEACH. Of these internal audits, did the United States' mission at the United Nations have access to them?

Mr. CHRISTOFF. I don't know.

Mr. LEACH. Did United States representatives working at the United Nations have access?

Mr. CHRISTOFF. I don't know.

Mr. LEACH. I am hard-pressed not to think that our government was very sensitive to and too sensitive to conflicts of interests of countries we wanted their votes for and we had shackles on our eyes on the corruption issue at the same time that principals of the United States Government were making major speeches on the subject of corruption around the world. I may be wrong. Is that a valid observation?

Mr. CHRISTOFF. I would also extend it to not just the contract side, but the oil smuggling side as well, the fact that Jordan, Syria were engaged in oil smuggling, clearly with the full knowledge of the United Nations and the United States and the enduring question is what actions, if any, had been undertaken to deter that type of violation of U.N. sanctions.

Mr. BEREUTER. Time of the gentleman has expired. The gentlelady from California, Ms. Watson.

Ms. WATSON. Thank you, Mr. Chairman and thank you, Mr. Christoff for your work. My interest here is not so much in the U.N. and its relativity to the Oil-for-Food, but getting right down to the principals who were able to give out contracts and was there a paper trail on what happened with the money? And at the GAO, I am sure that was your concern, too. What is happening with the U.S. dollars that we put into this program? How is it able—how was this program able to attract such corruption and how did it go so long? Can you shed any light?

Mr. CHRISTOFF. I think the first weakness that we found and I think the prior panel has confirmed was that in allowing the Iraqi government, the central government, to directly negotiate its contracts both to purchase commodities and to sell its oil, that was one of the internal weaknesses, in effect having the regime make that important contract negotiations, because within that negotiation process, discussions of kickbacks and payments could have been made outside the purview of the United Nations.

Ms. WATSON. You know, I am confounded by the fact that we supposedly were unaware. The government in Iraq was corrupt from the beginning, but we did business with them at another time, another era. And we should have been able to foresee that the provisions of the agreement would not hold up, but we went ahead anyway. I am hoping that—and I have got a summary of your report in front of me, but when this thing is wrapped up, I hope we would have some strong recommendations coming from



the GAO based on your recommendations that you have already put into place after we have all these hearings. I hope that our Administration will take heed so as we go into the future, we won't run into this kind of abuse of our monies and abuse of the people that these programs are intended to serve.

Mr. BEREUTER. Thank you, Ms. Watson. Mr. Christoff, I have reserved some minutes of my time to ask a few questions. If I understood your answer to Mr. Burton a few minutes ago, you said the internal audits at the U.N., perhaps 55 have been conducted, and maybe four are underway would ordinarily go to the program head.

Mr. CHRISTOFF. Yes.

Mr. BEREUTER. And the program head is Mr. Benon Sevan about which allegations have been raised. And apparently under U.N. procedure, that may be as far as they go. He may decide—that person may decide to stop them or they could have—is that correct?

Mr. CHRISTOFF. I don't know where each and every one of those 55 audits—where they ended up. Under the OIOS procedures, they send the results to the head of the audited agency and it is the discretion of the OIOS, to also send a copy to the Secretary General.

Mr. BEREUTER. It is possible for him to stop them at that point?

Mr. CHRISTOFF. Yes.

Mr. BEREUTER. At this point, we don't know exactly if any of them were referred to his supervisor or, in fact, the Secretary General. Now I would like to pursue a few things with respect to the bank of Paris. Have you examined the program's escrow account managed by that bank?

Mr. CHRISTOFF. No.

Mr. BEREUTER. If not, have you requested access to it and any other bank records kept by the OIP or other credit banks associated with the program?

Mr. CHRISTOFF. We are still trying to get records from the U.N., let alone going to a bank that we would have absolutely no audit authority over.

Mr. BEREUTER. Do you know if the funds in this escrow account earned interest?

Mr. CHRISTOFF. I don't know.

Mr. BEREUTER. Do you know if there was any involvement of U.N. staff in the kickback system and in the oil voucher scheme?

Mr. CHRISTOFF. Consistently over the course of our review, even going back to 2002, we did not hear of any allegations of U.N. officials being involved in kickbacks. It was not until the list of the oil vouchers that came out in January that it first even came to our attention.

Mr. BEREUTER. I am going to go back to the bank issue and the escrow accounts. Do you know from any source whether or not there were additional banks that eventually had escrow accounts for the United Nations with respect to the Oil-for-Food Program?

Mr. CHRISTOFF. That is still a question that I don't have a definitive answer to. I know the U.N. external auditors recommended that the U.N. diversify and not just rely on BNP Paribas. And I don't know the exact number of additional banks that the U.N. did decide to place escrow account monies in.

Mr. BEREUTER. I got a confirmation from Dr. Ruggie that this was one of the recommendations. And he indicated that is the rea-

son why there are more banks involved in the program now. Is it possible—is there any reason that it is impossible for the U.N. to open its books or provide a full and complete disclosure concerning the operations and administration of the Oil-for-Food Program?

Mr. CHRISTOFF. No. I mean GAO's middle name is transparency and openness, and we fully support the release of all relevant documents so we can get to the bottom of the story.

Mr. BEREUTER. Do you know who it was that negotiated the memorandum of understanding between the government of Iraq and U.N. of May 20, 1996?

Mr. CHRISTOFF. I know who signed it. I don't know who negotiated it. It was signed by the legal counsel of the United Nations and the Ambassador to Iraq at that time.

Mr. BEREUTER. You have had a chance to read it, of course. What specific prerogatives and roles did it accord in Iraq that were not contained in U.N. Security Council Resolution 986? Did it put the responsibility for decisions on procurement of humanitarian goods and services for the three northern provinces, the Kurdish area, in the hands of the Iraqi government?

Mr. CHRISTOFF. This is an important distinction. The resolution stated that in an annex to the resolution or MOU, it stated that the Iraqi government could procure food commodities because it was less expensive to procure them for bulk commodities. But the actual operations of specific projects in the north were under the direction of different U.N. specialized agencies.

Mr. BEREUTER. We have heard a bit about the internal audits before. Did independent and certified public accountants audit the escrow account for the Oil-for-Food Program?

Mr. CHRISTOFF. The U.N. external auditors did, yes

Mr. BEREUTER. They are not employees or under contract in general terms for audit responsibilities but were appointed by someone?

Mr. CHRISTOFF. Appointed by the Secretary General.

Mr. BEREUTER. To conduct audits on the Oil-for-Food Program?

Mr. CHRISTOFF. General Assembly appoints them, excuse me

Mr. BEREUTER. Have you seen those audits?

Mr. CHRISTOFF. We reviewed 12 of the external audit reports.

Mr. BEREUTER. Do you have conclusions about your findings with respect to those in your written documentation?

Mr. CHRISTOFF. It is in the statement and we have stated that in detail what they found?

Mr. BEREUTER. Is there anything else we need to cover? Chairman Hyde, do you have anything additional?

Chairman HYDE. I just want to thank Mr. Christoff and congratulate you on first rate work, indispensable work to the challenges that we have to face. We rely on you and we recognize the integrity of your product.

Mr. CHRISTOFF. Mr. Chairman, thank you for the help of you and your staff in trying to get at some of the documents that we really needed.

Chairman HYDE. We will be your silent stealthy aide.

Mr. BEREUTER. Mr. Christoff, I join you in those commendations. And I would express the hope that the United Nations would be as absolutely as transparent in information as possible because I

think the integrity of the institution demands that. I would ask unanimous consent to include in the record the document provided to the Committee by Ms. Rosett. Without objection, that will be the order. And again, thank you very much. The Committee stands adjourned.

[Whereupon, at 2:35 p.m., the Committee was adjourned.]



## A P P E N D I X

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### MATERIAL SUBMITTED FOR THE HEARING RECORD

PREPARED STATEMENT OF THE HONORABLE NICK SMITH, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF MICHIGAN

I want to thank Chairman Hyde for holding this hearing today. And I would also like to thank our distinguished witnesses for joining us. I look forward to hearing their testimony.

The United Nation's Oil-for-Food (OFF) program developed out of the sanctions placed on Iraq following its invasion of Kuwait in 1991. In 1995, the United Nations realized that a humanitarian crisis was developing and that Iraq, which has the second largest oil reserves in the world, could trade its oil resources for humanitarian goods. With UN Security Council Resolution 986, the OFF program was created. If effective, it would have limited the humanitarian impact of the sanctions while keeping resources out of the hands of Saddam Hussein's regime.

Saddam Hussein was a tyrant dictator who directed mass murder and torture. It is not surprising that he tried to cheat OFF. Unfortunately, resources were not kept out of Hussein's hands. It is now apparent that OFF was abused. Several factors contributed this abuse. First, UNSCR 986 was simply flawed, and its flaws could not be fixed. Second, the UN has not allowed for sufficiently transparent auditing of OFF. And, third, there is the possibility that individuals in the UN bureaucracy were complicit in undermining the program.

The UNSCR 986 was broken by design. Saddam Hussein picked the price at which he sold his oil. He picked his customers. And he controlled the oversight process. Together these allowed Hussein to demand kickbacks that reportedly totaled \$4.2 billion. These flaws were known at the time, but it was impossible to fix them. They were written into UNSCR 986, and fixing them required unanimous support of the Permanent Members of the Security Council. France, Russia, and, to a lesser extent, China were able to prevent incremental improvements to the program. Each of these countries had significant oil contracts with Iraq that would have activated had the sanctions been repealed. They had no interest in the success of OFF or the sanctions.

At the same time, the UN bureaucracy appears to have failed in several ways. It appears that the OFF representatives in Iraq were slow to file reports and bring irregularities to the attention of the Security Council and its special committee that handled OFF, the 661 Committee. It appears that once the 661 Committee was informed of the flaws in the program, it attempted to address them, albeit, in classic UN style, very slowly. However, it took quite long for reports of the actions of misdeeds to reach the levels at which they could be systematically addressed. In the end, because Iraq controlled the program, the documents necessary for a proper audit have only become available since Saddam Hussein's fall.

Finally, there are reports that a number of people in the UN bureaucracy have been participants in this dysfunctional program. The most alarming accusations concern Benon Sevan, who was handpicked by Kofi Annan to run OFF. We do not yet know the facts, and the Secretary-General has appointed a panel to investigate headed by Paul Volcker. This is a step in the right direction.

To be fair, we should remember that sanctions and OFF worked to a certain extent. Saddam Hussein's military capacity was severely degraded by the sanctions. Approximately \$46 billion was spent on humanitarian relief, even if Hussein eventually required kickbacks on these also. It is clear that the sanctions were both necessary and effective.

The real story here is how the UN process breaks down. Countries will have different interests, as France and Russia did. However, the presence of their interests did not excuse their obstruction of American and British attempts to program-

matically improve OFF. This demonstrates that the Security Council does not have any great moral authority. As UN leaders have repeatedly pointed out, it merely acts at the direction of its member states. We have also seen that the UN bureaucracy is insufficiently transparent and possibly corrupt. American taxpayers expect transparency for the dues that they pay, and the UN does not stand up to our standards.

Again, I would like to thank the Chairmen for holding this hearing. The UN is an important part of the international system, but it is not a panacea to the world's problems. The Oil-For-Food program is an excellent example of how member states and the bureaucracy can fail to achieve obviously good goals. We must remember this as we attempt to further involve the UN in Iraq.

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PREPARED STATEMENT OF THE HONORABLE RON PAUL, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF TEXAS

Rep. Ron PAUL: Mr. Chairman, while I am glad to see this Committee holding hearings that bring to light, even if on the margins, the corrupt practices of the United Nations, I am afraid this hearing really misses the main point. The problem is not that the "oil for food" program was mis-managed by corrupt Iraqis and UN officials, along with their co-conspirators in other countries. The problem is with the program itself, and the entire sanctions regime imposed on Iraq. The problem is with sanctions. Sanctions are immoral. Sanctions do not hurt the brutal regimes they are intended to undermine. Sanctions do not hurt dictators—no dictator has ever missed a meal due to sanctions on his country. While the Iraqi people were suffering and starving through US and UN imposed sanctions, the dictator Saddam Hussein was building castles and living a life of unimaginable wealth and comfort. While hundreds of thousands of Iraqi babies and children reportedly died because of the sanctions, Saddam rewarded his family members with palaces and other luxuries. But Saddam and his family were not the only ones to profit from the sanctions regime. According to press reporting, the same people who were tasked with enforcing these immoral sanctions on Iraq were similarly benefitting financially from the sanctions regime. Those with good political connections—inside and outside the United Nations—were able to make enormous profit doing business under cover of the United Nations oil-for-food program. This is unconscionable, but it should hardly surprise us. It is sanctions themselves that create these great opportunities for ill-gotten gain.

As we see sanctions today being applied on countries like Syria and Iran and elsewhere, we should remember the lessons from a previous era: after more than 45 years, sanctions on Cuba have produced nothing remotely approaching their intended purpose. The Castro regime remains as in control as ever. The only thing that has changed is that the Cuban people—whose well-being we purport to have in mind with the sanctions—have suffered for decades by the blockade.

