

# THE IRAQI OIL FOR FOOD PROGRAM AND ITS IMPACT

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## HEARING BEFORE THE SUBCOMMITTEE ON ENERGY AND POWER OF THE COMMITTEE ON COMMERCE HOUSE OF REPRESENTATIVES ONE HUNDRED SIXTH CONGRESS FIRST SESSION

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FRIDAY, MARCH 26, 1999

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON COMMERCE,  
SUBCOMMITTEE ON ENERGY AND POWER,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2322, Rayburn House Office Building, Hon. Joe Barton (chairman) presiding.

Members present: Representatives Barton, Largent, Burr, Shimkus, Bryant, and Hall.

Staff present: Catherine Van Way, majority counsel; and Rick Kessler, minority professional staff member.

Mr. BARTON. The Subcommittee on Energy and Power of the Commerce Committee hearing on the Iraqi Oil-For-Food Program will come to order.

I would like to welcome everyone. I believe that this is an issue which impacts our national energy security and which everyone, not just individuals from the oil-producing States, should pay attention to.

After Iraq's invasion of Kuwait in 1990, the United Nations imposed sanctions which prohibited all trade with Iraq. However, in April 1995, in recognition of the humanitarian needs of the people of Iraq, Security Council Resolution 986 was passed, which authorized the sale of oil from Iraq to be used to purchase goods authorized by the United Nations Security Council.

Under this program, Iraq is currently allowed to sell up to \$5.2 billion worth of oil every 6 months. The money generated from the sale is deposited in the bank of the choosing of the government of Iraq and is supposed to be used to provide humanitarian goods to the Iraqi people under United Nations supervision.

Under this program, Iraqi oil sales have risen over the past year from 1.47 million barrels per day to 2.1 million barrels per day. The revenue received for those sales has been approximately \$3 billion every 6 months.

The United States recently proposed that the Security Council consider lifting the ceiling on oil sales permitted under the Oil-For-Food Program. It is worth noting that the Oil-For-Food Program is not the only way Iraq currently sells its oil. Some oil is exported to Jordan under a long-standing program; some oil we are told is smuggled into Turkey and sold on the black market. In addition, other oil is exported through Iran and from seaports in the south, again for what we believe to be black market sales.

Since the Oil-For-Food Program was begun, \$2.75 billion worth of food, over \$500 million worth of medicine, and \$400 million worth of supplies for things such as water, sanitation, electricity and education projects have been delivered to the people of Iraq. The program has been criticized for its slowness. In February of this year, the U.N. Secretary General reported that there are \$275 million worth of medicine sitting in Iraqi warehouses that have been undistributed.

All that being said, the question arises, is this a worthwhile program? Two-thirds of the world's proven reserves of oil reside in the Middle East. In fact, Saudi Arabia and Iraq are first and second in proven reserves of oil and Iraq, which is largely unexplored, might ultimately have more oil than Saudi Arabia. For the past several months, oil prices have languished at historic lows. The precipitous and sustained drop in oil prices have been attributed in part to the Asian economic crisis, which caused a drop in anticipated demand, while oil production has continued to grow. Many also attribute growing Iraqi oil exports as a factor for today's low oil prices. Some argue that Iraqi oil is not impacting prices, but I find it interesting that oil prices rose slightly this week because of an announcement by OPEC that its member countries would be cutting production by 2.1 million barrels a day. It may be a coincidence, but Iraq is exporting 2.1 million barrels a day.

Low oil prices pose the greatest threat to domestic producers of oil and gas, because in the United States, our small independent oil and gas producers have the highest cost of production. We are beginning to see the impact as U.S. oil production has begun to decline in the wake of these sustained and abnormally low prices. The U.S. is now dependent on imports to meet more than 50 percent of our daily petroleum needs. That number is likely to grow dramatically as more marginal wells are shut in and domestic exploration activities are slowed in the wake of these continued low oil prices.

I believe that we should not ignore the humanitarian needs of the people of Iraq, but I also believe that we should not ignore the needs of our own people here in the United States, and these low oil prices, which I believe are caused in part by the Iraqi oil production, are having an impact on our energy security.

I will be most interested to hear from our administration witnesses today to see if they can explain this apparent policy disconnect.

Finally, I want to note that I hope today's hearing will be the first of a number of hearings that this subcommittee will be having on the domestic oil and gas industry. I am deeply concerned that the current situation in the Oil Patch in the United States in the long term does cause a national security risk to our country. If we cannot maintain existing production and to some extent encourage new exploration for domestic resources, we will be in a situation where we are more and more dependent on foreign oil.

I want to welcome everyone, especially our witnesses, to this hearing. I am sure they are going to find it very informative.

With that, I would like to recognize the ranking member from Rockwall, Texas, Mr. Ralph Hall, for an opening statement.

Mr. HALL. Mr. Chairman, I thank you, and members of the committee, I thank you for having this hearing, but not much to have it on Friday. I would have rather had it on Tuesday or Wednesday or Thursday.

Mr. BARTON. I understand.

Mr. HALL. I see folks on the committee that would be strapped to an airplane right now.

Mr. BARTON. You and me, that's right.

Mr. HALL. My folks over here, Democrats are poorer than Republicans, they all caught the bus out last night.

Seriously, Joe, thank you for the good hard work you do and the very successful work you do as chairman of this committee. You do a great job and I am very proud to work with you as our chairman. Few live in the Oil Patch, as I do. It is, I guess, stunningly apparent to you that when you talk to anyone in or even near the oil business, that these days are about the toughest and the most frightening in the history of the people that are in the oil business. Regrettably, this is not an idle boast, considering the market calamities of the 1980's and the 1950's, because we have some pretty bad times to compare it with.

We are here today to examine one of the most often cited reasons for today's low oil prices, and the Iraqi Oil-For-Food Program, as the chairman has pointed out, is considered one of the big problems of it. I am a big believer in the unfettered operation of markets, and I also believe in being compassionate to people, particularly those who are unfortunate enough in life to have to live under a regressive regime of a Saddam Hussein. At the same time, it is important for us to think about this country and for us to examine how the world oil market is doing and whether or not it is working, and then to get our own assessment of how well it is working. If it is not working properly we need to make some changes in it, and we can only change that over which we have some control. So we have very good panelists today and I am sure we will know a lot more about it after we hear them.

I, for one, am suspicious of this program. It seems to be borne out of an appropriate humane consideration, but it may be disruptive of the worldwide crude oil market and could spawn a lot of abuse.

We have good witnesses here today who can help us better understand the impact of the Oil-For-Food Program. I want to extend a special welcome to my old friend, Congressman Wes Watkins, whose district lies just across the Red River from mine. I don't know of anybody that works harder, day and night, than Wes Watkins. You know, Wes was a Democrat at one time and we worked together then. He, when he switched over to the Republican Party, they asked me about it. We have a mutual television station that comes into Oklahoma and Texas and they asked me about Wes. And they said well, what do you think about him switching over to the Republican Party? I said, well, I would be for him, and he could win even with the laundry ticket. And they tell me that he used that for a commercial. But I got a few ugly letters from Democrats. But I got my friend back up here, and I am glad to work with Wes.

I also want to welcome a fine group of Texans. The newest member of the Texas Railroad Commission, Mike Williams, whom I had the pleasure of having lunch with yesterday. He is on the Railroad Commission, and I think that is one of the most dignified and prestigious offices that we have in the State of Texas, and the most important. Tom Taylor, who represents TIPRO, and Dave Bole of Randall and Dewey. We have good, outstanding—Joe, you invited some good Texans up here, and I am proud of you.

Mr. BARTON. There is no such thing as a bad Texan, though.

Mr. HALL. Well, I don't know.

I thank the chairman. I thank you for having them here, and I hope this hearing is only one of however many it takes to determine what remedies exist to deal with the current price situation. It is a situation that is helping to destroy the domestic onshore petroleum industry, even as we sit here today. And while we have seen some upward pressure on prices lately, we need not to be lulled by any underlying factors which remain unchanged that we can change.

I guess that is the testimony we are going to hear today. Seriously, thank you for having this hearing. It is a very important hearing, and it can yield an awful lot to folks that are hurting. Thank you.

Mr. BARTON. Thank you, Congressman Hall. I might point out we wanted to do this hearing yesterday, but we had a full committee markup of the satellite bill, and Chairman Bliley thought that we ought to do the markup.

Mr. HALL. Well, I haven't had anything to fuss at you about this year yet, and this gave me a first shot.

Mr. BARTON. Okay. But you and myself and Mr. Largent are normally on the first plane out of town after the first vote, so we are all in the same boat on that.

The chairman recognizes the distinguished gentleman from Illinois, Mr. Shimkus, for an opening statement.

Mr. SHIMKUS. I would like to ask permission to submit my statement for the record and just say that it seems like we are in a Catch-22 where consumers all love the low oil prices, but what it does is shut down marginal wells. I have the two largest fields in Illinois in my district. Most of the operating wells are in my colleague David Phelps' district, and we all know what this does is it closes down those wells, the low prices, thus making us more dependent on foreign oil. And national security and energy security is one of my main focuses on this subcommittee.

So I appreciate this, and I am also looking forward to talking with the folks from the administration, with the, Iraqi intransitives on the inspections and stuff. I think it is time that we reopen this debate on this program, and I look forward to this hearing.

I yield back my time.

Mr. BARTON. Good. We thank you, Mr. Shimkus. Without objection, his statement will be inserted in the record in its entirety.

We welcome Mr. Largent from Oklahoma to give an opening statement. Congressman Largent has put a lot of emphasis in the last year or so on this issue and is one of our congressional experts on it.

Mr. Largent for an opening statement.

Mr. LARGENT. Thank you, Mr. Chairman. I, too, will submit my entire statement and just make some brief opening remarks. First, I want to thank you for having this hearing. I wish we could draw even more attention to this issue, because as you know, it is very serious. I also want to recognize two Oklahomans that are also on our panels today. Mike Smith, who is our Oklahoma State Department of Energy Secretary, and Pete Brown, an independent producer from Oklahoma City. Thanks for coming.

There is a number of questions that I hope that we can get some answers to, and I would like to verbalize those right now. One is, why is the Iraqi oil export quota measured on a revenue basis, currently \$5.2 billion worth of oil over 6 months, rather than measured on a quantity basis? The second question I would like to ask is what assurances do we have that the money is being spent in the manner intended; in other words, for food, and are we relying on Iraqi government entities to verify this. I am glad to see that there is somebody from the State Department that hopefully will answer that question for us today.

Why are the funds allowed to be spent by the Iraqis for oil production equipment? Has this policy been revisited since we began responding to the Iraqi military aggression by bombing their missile defenses on almost a daily basis? And what about the 5 percent of the Oil-For-Food funds that are going to fund the U.N. investigations and costs. Currently, as we know, there are no inspectors there. Also, I think it would pose an interesting question to try to figure out why one of the military targets, when we are exchanging oil for food, why one of the military targets in the latest round of bombing was an oil refinery in Iraq. That seems a small irony to me. Can the U.S. truly determine what the oil production export capacity of Iraq is, given their ability to sell oil on various black markets? And how can the U.S. propose that the U.N. Security Council could consider lifting the ceiling on oil sales permitted under the Oil-For-Food Program while conceding that increased U.S. dependence on foreign oil imports is a threat to our national security?

Mr. Chairman, one thing that I think that is imperative for this Congress and this administration to come to terms with, we had a vote last week on the import of steel, and I think many of the arguments that were made during that debate were about the importance of the steel industry for national security reasons. If we don't have the ability, the capacity to make steel in this country anymore, we can't build tanks and airplanes and ships to protect this country, and the same is equally true of our ability to produce energy domestically.

I know that back in the 1980's there was a push to develop a national energy policy, and included in that was to say that we should cap imports at 50 percent, this was back in the 1980's, because anything beyond that would pose a very critical national security risk. And now, as you know, we have well exceeded 50 percent, it has even gone up as high as 58 percent in recent years, and I think this is a very important question that Congress, the American people, the President, and the Pentagon need to address, is that at what point, what is the threshold that we are going to say



enough is enough. How much oil can we import without severely and critically undermining our national security interest?

Mr. Chairman, I appreciate you having this hearing, and hopefully, this is the first in many steps toward resolving a number of these questions. I yield back.

[The prepared statement of Hon. Steve Largent follows:]

PREPARED STATEMENT OF HON. STEVE LARGENT, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF OKLAHOMA

I want to thank the Chairman for holding this hearing on the impact of foreign oil imports on our domestic oil industry, specifically the Iraqi Oil for Food Program.

At the outset, I want to acknowledge the Chairman's efforts to include two Oklahomans on the panels of experts testifying today. I doubt that there is anybody more qualified to speak on the current state of our domestic oil industry and the impact of increased U.S. dependence on foreign oil than Secretary Mike Smith of the Oklahoma Department of Energy and Pete Brown, an independent oil and gas producer from Oklahoma City. I would encourage the committee to pay close attention to their testimony because I believe it will shed some light on the seriousness of the state of our domestic oil industry.

It is my hope that the hearing today on the Iraqi Oil for Food Program will address some concerns I have about the goals and merits of the program. These concerns include:

- 1) Why is the Iraqi oil export quota measured on a revenue basis (currently \$5.2 billion worth of oil over 6 months) rather than measured on a quantity basis?
- 2) What assurances do we have that the money is being spent in the manner intended? Are we relying on Iraqi government entities to verify this?
- 3) Why are funds allowed to be spent by the Iraqis for oil production equipment?
- 4) Has this policy been revisited since we began responding to Iraqi military aggression by bombing their missile defenses on almost a daily basis? What about the 5% of the Oil for Food funds that are going to fund the U.N. investigations and costs?
- 5) Can the U.S. truly determine what the oil production and export capacity of Iraq is given their ability to sell oil on various black markets and transport it by other than pipeline means?
- 6) How can the U.S. propose that the U.N. Security Council consider lifting the ceiling on oil sales permitted under the oil for food program, while conceding that increased U.S. dependence on foreign oil imports is a threat to our national security?

Our domestic petroleum industry is currently facing a severe crisis: one that if not addressed expeditiously could prove disastrous economically, yet more importantly, threatens our national security. Since October of 1997, it is estimated that our domestic oil and gas industry has lost 57,000 jobs—5 times the number of jobs lost in the American steel industry! And each barrel of domestic oil lost will be replaced by imported oil.

In December of 1994, the Secretary of Commerce issued the results of an investigation conducted under the Trade Expansion Act which studied the impact of crude oil imports on the national security of the United States. The investigation determined that oil imports threaten to impair our national security.

In February of 1995, President Clinton concurred with the Commerce Department's finding that "the nation's growing reliance on imports of crude oil and refined petroleum products threaten the nation's security because they increase U.S. vulnerability to oil supply interruptions." At that time (1995), imports comprised about 50 percent of the United States consumption. In 1998, gross imports had risen to 53 percent!

Unfortunately, little has been done over the past four years to heed this ominous warning. Now, the domestic petroleum industry faces a more complicated and potentially devastating set of problems than it did four years ago. According to recent figures released by the Independent Petroleum Association of America (IPAA), preliminary employment data for the exploration and production sector of the oil and natural gas industry, as of December 1998, stood at 309,300, compared to 339,800 in the same month last year. Since the early 1980's, roughly half a million jobs relating to the oil and natural gas industry have been lost. And rather than attempting to decrease our reliance on foreign imports—the U.S. has become more dependent on imported oil.

The hardest hit by this latest crisis has been the independent producer. The Energy Information Agency recently released a report that indicated that about 60 percent of oil production in the lower 48 states comes from independents, a percentage that increased by ten percent over the past ten years. This reflects an irreversible trend. Major oil companies are leaving the onshore lower 48 states. They have concluded that these wells do not produce the volumes they need to meet the return on capital that they seek. Majors now operate in the United States primarily offshore and Alaska, but more and more they are seeking their new production overseas. At current prices, most—if not all—of the onshore lower 48 production is at risk of loss.

If we lose our independent producers, our reliance on foreign oil will likely increase from about 55 percent to over 70 percent. If we continue on this course, we will systematically degrade our ability to produce a sufficient amount of oil to maintain a secure energy source vital to our national security policy.

Simply put, we can't fight a war, even a defensive war, if we are counting on Saddam Hussein to ship us oil to fuel our tanks, aircraft and ships. And notwithstanding the fact that domestic oil producers are suffering now because of low oil prices, once they are gone we cannot revive their wells or industrial expertise or hope the market will rebound. It will not. The national security impact of losing our ability to produce oil domestically is no different than losing our industrial base to build nuclear submarines. If more than half of our nuclear submarines were imported from foreign countries, I think we could agree that the United States would be in grave danger.

I look forward to the testimony of our expert panelists today. Our domestic oil industry, and the current impact of Iraqi imports, must begin to appear on the nation's radar screen so all Americans can understand the threat that exists. I am committed to making this case so that we can move quickly to look for viable solutions to a very real problem.

Mr. BARTON. I thank the Congressman from Oklahoma for that statement.

We would now like to hear from our first panelist, the Honorable Wes Watkins from the great State of Oklahoma, representing very well with a distinguished career the Third Congressional District.

So, Mr. Watkins, if you will come forward. We will put your statement in the record in its entirety, and being from Oklahoma, which we think is a great State, we will recognize you for such time as you may consume.

**STATEMENT OF HON. WES WATKINS, A REPRESENTATIVE IN  
CONGRESS FROM THE STATE OF OKLAHOMA**

Mr. WATKINS. Thank you, Mr. Chairman. I appreciate the distinguished members being here. Even though short in number, I know we are high in quality, and I can also tell the States that are hurting out there and the districts that are hurting concerning not only this policy that we are talking about today, but the entire failed policy of this administration and the U.N. Security Council dealing with the Oil-For-Food Program and all. I want to acknowledge that I know each of you well and I know some of the things that you are working on, and I appreciate the commitments you have made.

My colleague from Oklahoma, Congressman Largent, Steve, you asked some very logical questions. It reminds me of a guy who says, you know, common sense is not common anymore, you know, and there is not much of it around, and this is something that I think the Oil-For-Food Program is not a—Ralph, my good friend across the river, it is not one of those things that our people in our area find that has much common sense, and I would like to talk about that a little bit.

I call it a failed policy because the sanctions, you might as well not have them. My members of the committee, I will say to friends

that I work closely with, Saddam Hussein has won. Saddam Hussein has won. We are bombing Iraq. At the same time, we have opened up for him, for his people, a lot that we are not willing to do for ourselves. Today it is at \$5.2, it is actually at about \$10.5 billion/year worth of oil that can be sold, and it is a question why net barrels. That is more oil than Iraq exported before the Gulf War in 1991. It is not just being utilized on food or hospitals and medicine, it is being used to help rebuild their infrastructure. Our CRS reports have pointed that out. So when you look at the system we have there and the policies that we have, and I wonder why we are not willing to do it as a State Department, as a country, as the U.N. Security Council, why don't we insist that they abide by what is legal in what they sell.

You know, I have never understood that. We close our eyes just to illegal things that go on. And there is around 300,000 barrels a day that is being sold illegally over the black market to Jordan and to Iran, Syria, and Turkey. And you know, also part of the fallacy of this lack of common sense that I look at and wonder about, on the emergency programs that just passed yesterday, it had \$100 million in there for Jordan, but Jordan is also buying about \$100 million of illegal oil from Iraq. It is hard for me to explain why the policy of this administration is to allow that to happen that way, destroying our oil patches, destroying our means of making a living. I hear in their voices the pain of people I have never heard before, the fact that they are losing everything. I know in my area the oil patches are a war zone. They are yanking up pipe, they are closing down oil wells, and there is going to be a lot more of that, and I cannot stand idly by, and I know you cannot either. I know every one of you right here are the same way I am. We have to try to do something. I don't understand the administration and our country willing to go along with that.

In the last 14 months, we have allowed Iraq to go from 700,000 barrels a day up to 2.3 million barrels a day. Mr. Chairman, as you rightly said, the irony is that the OPEC is dropping production, and I was going to be at OPEC Tuesday. They have dropped, have a policy of 2.1 million drop per day in the oil, and Iraq has gone up about 2.1. Now, I may not be a rocket scientist, but let me tell you, it doesn't take much more than common sense to recognize the fact that literally, OPEC has staggered the market and it has gone up a little bit when they dropped to 2.1 or even the discussion that that is what is happening. We know that it hasn't gotten there yet, but it has cut production, and it has increased the price. Does it stand to reason that the 2.1 million that Iraq has increased affects the market the same way? Am I thinking, Ralph, wrong? I mean is that logic there? Is that is wrong, if 2.1 over here on OPEC affects it like we have seen it, is the 2.1 in there, or are we just seeing something a lot differently? I think we need to look at that. We have allowed it. It is common sense to me.

If our policy, if our policy in the United States in dealing with Iraq is to allow a dissatisfied group of people in Iraq, the Iraqis, to overthrow Saddam Hussein, we have gone about it the wrong way. Because our reports show that they are basically importing anything and everything they want to, and why worry about it? In fact, as I tell them, we have a mental institution in Oklahoma, and

the old boy told me one time, he said I have proof that I am sane, that I have got good sense. I submit to you Iraq has got it better than OPEC, OPEC should be mad, we should be mad. They are having to come down; Iraq is out of the box. Even though they belong, they don't have to abide by that reduction.

In fact, I am going to follow up on the statement that as I prepared for this, under the new program they have a standard or a statement I saw there, I want to check it out, they have a higher price they are going to be able to get. I hope that is a wrong statement I am reading, because I think that also is something we need to be concerned about.

Let me share with you and close on two things, and I think we have to reevaluate this. It is again something that deeply disturbs me. Thomas Pickering, the Under Secretary, said this is in the newspaper of March 18, told the Senators, that is the Senators across on the other side, as we all know, "The humanitarian needs of the Iraqi people must be addressed. The Oil-For-Food Program," he said, "has had a tremendous positive impact on the conditions of the average Iraqi." I don't disagree with that.

With regard to the program's effectiveness on crude prices and domestic energy industry, Pickering agreed with Richardson, our Secretary of Energy, that Iraqi's exports are just one factor. Well, yeah, it is just one factor. It is 2.1 million barrels a day. They said the policy toward Iraq has never been linked to the world oil market. I don't care. "Allowing oil price consideration to drive our sanctions decisions or seeking to use sanctions to target oil prices would undermine our ability to provide for the humanitarian needs of the Iraqi people."

I don't think I am looking in the face of any person here that is not against trying to help with some humanitarian aid. But I want to know how much is for their military buildup, how much money are they using there? How much money are they getting from illegal sources?

The infrastructure, I have infrastructure needs, I think many of you know, in my district, and I have a need to try to rebuild that area.

Then I read over here, in closing my statement, a statement that—you know, it is kind of like our welfare program, a failed program. It is kind of like a giveaway program. What it states here, supporters of increased oil sales, on the other hand, say that the tactic would reduce suffering among Iraqis and make it more difficult for the Iraqi government to maintain anti-government, or anti-American and British sentiment because of being in favor because we give them stuff.

You know, members of the committee, there is one man who stands between us and the Iraqi people and his name is Saddam Hussein. Do you think we are going to have favor of being able to do all of these things, or Saddam Hussein? We are dealing with failed policy that is coming from our administration and the U.N. Security Council and we have to correct it. It is not taking any consideration in for the American people.

I thank you so much for letting me come by to just share with you a little bit, because we need the common sense of this committee at work in trying to shape, Mr. Chairman, some of the policy.

I too plan to be strapped on that airplane heading toward Oklahoma, but I delayed it until about 1 o'clock because of wanting to come here and be with you. I just thank you so much.

[The prepared statement of Hon. Wes Watkins follows:]

PREPARED STATEMENT OF HON. WES WATKINS, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF OKLAHOMA

Chairman Barton, Ranking Member Hall, I would like to thank you for calling this hearing and allowing me the opportunity to testify before the Subcommittee on Energy and Power. Those of us from oil producing states need to do a better job of educating the American public about the importance of our domestic oil industry. I believe this hearing is a step in the right direction, but we need to do more. I would like to encourage our colleagues in the Congress and the Administration to reduce Iraqi oil sales to pre-Persian Gulf War levels—not increase them.

As we all know, we are facing a crisis in our domestic oil and gas industry. World oil prices have dropped from above \$20 a barrel in 1997 to less than \$9 a barrel this year. When adjusted for inflation, these are the lowest prices seen since the Great Depression. This crisis is having a devastating effect on our domestic industry. Since October of 1997, our domestic oil and gas industry has lost 57,000 jobs. That is more than five times the number of jobs lost in the American steel industry.

This subcommittee knows that the backbone of our domestic oil and gas industry is the small, marginal well. Marginal wells are defined as those wells which produce less than 15 barrels a day. At these low prices, it is impossible to keep many of our small, marginal wells open. These marginal wells account for 1.3 million barrels of daily production—equivalent to the amount of oil the United States imports from Saudi Arabia. Marginal wells also contribute 80,000 jobs and generate close to \$14 billion each year in economic activity. However at these low prices, it is becoming impossible to keep many of our marginal wells open. When we lose these marginal wells, the backbone of our domestic oil industry, we become more dependent on foreign oil. We must not lose sight of the fact that the economic health and national security of our country are tied to the strength and stability of the domestic petroleum industry.

There is a general consensus that the current crisis in the domestic oil patch has been caused by a combination of several factors. Certainly the Asian financial crisis, warmer than expected winters, and increased oil production by certain countries have played an important part in driving down prices. However we should not minimize, as some have done, the impact that the resumption of Iraqi oil sales under the oil-for-food program has played in driving down prices.

We are here today because the Clinton Administration is currently considering asking the United Nations to remove the U.N. imposed ceiling on Iraqi oil sales. I am strongly opposed to this proposal because, I believe it would severely damage our already devastated domestic oil and gas industry and would not accomplish the objective of alleviating the suffering of the Iraqi people. Iraq should not be allowed to sell greater quantities of oil than they were prior to the Persian Gulf War, as they are doing now. The extended period of below cost prices is causing more and more of our small, independent producers to plug their marginal wells. Allowing Iraq to sell additional quantities of oil on the world market will only drive down these already depressed prices and force our marginal producers to plug their wells. Once these wells are plugged, we have basically lost this valuable resource for secondary recovery.

It is important that Members understand the flaws inherent in the oil-for-food program's structure and how that affects the amount of oil Iraq can sell on the world market. Iraq's quota is based on a dollar amount rather than on quantitative limits. Currently, the oil-for-food program allows Iraq to sell \$5.2 billion worth of oil every six months. As the price of oil fell through late 1997 and 1998, Iraq was allowed, under this flawed structure, to drastically increase its production. Under this expanded oil-for-food program, Iraq has increased its daily oil production from around 700,000 barrels to 2,300,000 barrels during the last 14 months. This excess Iraqi production has exacerbated the current glut on the market and caused the price of oil to slide even lower. In fact, the 2.3 million barrels a day more than offsets the recent decision by the Organization of Petroleum Exporting Countries (OPEC) to reduce oil production by 2.1 million barrels a day in an effort to prop up prices.

The Administration will likely argue today that Iraq is already producing at capacity and therefore increasing the amount of oil Iraq is allowed to sell will not have an effect on world prices. This argument is flawed in several aspects. First, if Iraq

is already producing at capacity, then there is no need to raise the dollar ceiling on Iraqi oil sales because Iraq cannot sell any more oil than it is currently selling. Second, while Iraq is currently producing at capacity, the UN allows Iraq to use \$600 million annually from the oil-for-food program (which is supposed to be for humanitarian supplies) to improve its oil production capability. This will allow Iraq to improve its production facilities and to further flood the world market with cheap oil.

I am also opposed to this proposal because I do not believe that expanding the oil-for-food program would help alleviate the suffering of the Iraqi people. Iraq has failed to meet the conditions of the 1991 cease-fire agreement and the 1996 oil-for-food program. I am concerned that the oil-for-food program itself is flawed and that many Iraqis will never see the benefit of the oil sales. The State Department has acknowledged that Iraq has not distributed much of the humanitarian supplies they have already acquired through the oil-for-food program. According to U.S. officials cited in the press, "Iraq has kept large supplies of food and medicine in storehouses, refusing to distribute them to the needy" (Associated Press Wire, 1/4/99). State Department Spokesman Jamie Rubin was quoted in the January 14, 1999 State Department Briefing as saying:

"The facts are that (the Iraqis) are failing to order and distribute food and medicine as quickly as they could. The facts are that they are failing to order and distribute food and medicine that would alleviate the problem, and that Iraq plans to order less food and medicine for the Iraqi people than in previous times. So those are the facts."

Why would the Administration even consider a policy which would further damage our domestic oil industry and, according to their own spokesman, do little to alleviate the suffering of the Iraqi people?

I also have concerns about the manner in which humanitarian supplies are distributed. If the Iraqi people are starving, as Saddam Hussein claims, why is the oil-for-food money being spent on oil field and telecommunications equipment. Are these not the same telecommunications facilities we have bombed because they are an important part of Saddam Hussein's command and control complex? I am also concerned that Iraq is allowed to use \$600 million annually in its oil-for-food receipts for oil production equipment. If Iraq can allow food and medicine to sit in warehouses, than why should we allow the Iraqis to expand their oil production and further flood the world market with cheap oil? The oil-for-food program also allows Iraq to spend \$250 million to rehabilitate the agricultural sector. While I have nothing against the Iraqi people growing their own agricultural commodities, does anyone honestly believe that Saddam Hussein will use those crops to feed the Iraqi people at the expense of his treasured military?

The Administration will likely say that Iraq's increased production is necessary to lessen anti-American and anti-British sentiments among the Iraqi people. However, does anyone believe that Saddam Hussein and his regime will allow the United States to claim credit for these humanitarian supplies? I believe it is more realistic to expect that he will continue to let food and medicine sit in warehouses while the Iraqi people starve. Instead, we are rewarding Saddam Hussein for his lawlessness. We are rewarding him for shooting at our planes. We are rewarding him for illegally smuggling oil through Turkey, Jordan, and Iran and we are punishing hard working American families in the domestic oil patch.

Mr. Chairman, a tremendous disconnect between a policy where we bomb Iraq on almost a daily basis yet remain the largest consumer of Iraqi oil. That is why I, along with our colleague from Texas Mr. Thornberry, have introduced H. Con. Res. 39. This resolution urges the Administration to oppose the unmerited expansion of the oil-for-food program.

Mr. BARTON. Does that conclude your oral statement?

Mr. WATKINS. I have a lot more to say, but I better conclude.

Mr. BARTON. I thought you were a little bit moderate today, Congressman. I have heard you be in the Republican Conference what we would call excited. We appreciate your moderate tone.

We are a real high-tech committee, so this is our timer. It is a little egg timer. The Chair is going to recognize himself for 5 minutes. I don't think I will take the 5 minutes.

I want to make sure I understand you, though, Congressman Watkins. You are not opposed to food supplies and medicines going to the people of Iraq, isn't that correct?

Mr. WATKINS. I do not. I do not like the attitude about saying they are not going to buy American food with it. It is a slap in our face again. We are hurting the farmers, as well as the oil patches. It is a double whammy.

Mr. BARTON. Your problem is the producers in your district and in the State of Oklahoma, some of the small, marginal producers that are going out of business, and it doesn't appear that anybody in the U.S. Government cares about that?

Mr. WATKINS. That is correct. I feel strongly about it. I have a tax credit bill coming through my committee, and I hope the leadership and the administration will back that in order to help us have some kind—as we all say, greater national security.

Mr. BARTON. So if we could come up with a program that maintains the current level of humanitarian supplies to Iraq, but cutoff the oil exports, or if not totally cut it off, substantially reduced it, you would support such a program?

Mr. WATKINS. Yes, I would. I think we need to definitely do that. The food, I don't think it should be more than the essential food and medicine. If our policy is for a dissatisfied society over there that would overthrow Saddam Hussein, we have the wrong policy. He is laughing, he is laughing at us.

Mr. BARTON. I would assume that there are corn growers and wheat growers and cattle producers in Oklahoma that would be willing to provide that food for a reasonable price to the people of Iraq.

Mr. WATKINS. I am quite sure we would be happy to do that.

Mr. BARTON. I am going to yield back the balance of my time and recognize the gentleman from Texas, Mr. Hall, for 5 minutes.

Mr. HALL. Thank you, Mr. Chairman. I will try to be brief, too, because I know we have other witnesses that we are very anxious to hear from, and perhaps soon the gentleman from the Department of State will be able to give us a little more input as to some of the whys of what has taken place.

As I said in my opening statement, I am troubled and suspicious of this program. I am not unlike anyone else in that I care about little children and old people, but you know, MacArthur made a great statement one time. He said "The object of war is victory," and I think the President right now today while we are here dispatching men and women of our armed forces to inflict pain and hopefully disgrace on the Yugoslav leadership over there, Milosevic, in an effort to cause the people to drive him out, the easier you make it on people, the more you help the people that need the leadership of even a dictator, the longer he is going to be there. The program doesn't make that much sense to me. But, who cannot feed little hungry kids? And of course, you know, Hiroshima and Nagasaki would have been a lot better off if they had given them a couple of weeks notice to move all the young people and old people offshore and just put the folks that were fighting the war there under the bomb, but that is not the way it works, not the way it can work, not the way it works over there today.

I asked George Bush one time why they didn't destroy Iraq's ability to produce war, and he said well, it wasn't totally his decision, it was a U.N. decision. Besides, they were afraid of Iran. Didn't want to weaken Iraq and then have Iran. And I said well,

while we are over there, why can't we take care of them too while we are there. Of course, that is not the way we do it. I think we missed out when Iran and Iraq were fighting each other, why we didn't just arm the hell out of both of them.

How can we impress on people that are voters and are interested citizens the importance of people outside the producing areas that they ought to care about domestic oil producers? If everyone could hear you speak today, that would get through to them. But how do we get that message over to them?

Mr. WATKINS. Are you really asking me that question?

Mr. HALL. Yes, yes.

Mr. WATKINS. If I knew the answer to that, we would solve all of our problems. Because right here, the members who are not here are the ones that need to be listening and hearing your feelings and the chairman's and other members from the Oil Patch. We do bring in national security.

But I went to Venezuela. I went down and met with the new President the week before, a couple of weeks before, who is probably one of the most dynamic men I ever met in my life. I mean he can look you right in the eye. And I talked to him about the oversupply of production, and he is sincere in wanting to lower it in helping the price, and I think he has followed up on that. There is a lot of hope there. There is 80 percent poverty in Venezuela.

I want to get to this point, right to what you are talking about. There is a lot of hope in Venezuela, but they don't know anything about the new President. All they know is that 6 years ago he tried to overthrow their government and he ended up in jail for 2 years. Less than 2 years ago, we would not even give him a visa to come to this country.

Now, he has his hand on the spigot of the greatest supply of crude oil to the United States. He chased out the president for PdVSA, but yet we have now relied more on Venezuela and Mexico and Canada and of course Saudi Arabia. The Saudi Arabians will produce as much oil as we consume or we produce out of our marginal wells, 1.3 million barrels a day.

So if people understand, we have become more dependent than ever before in the history of our country. And I thought about that when we celebrate Independence Day. I said, we are not independent anymore.

Mr. HALL. You were here when we tried to get an import fee put on, and we have not been able to muster the votes, and the reason given by those that voted against it was the hardship of the people in the Northeast for their heating oil and things like that, and you know, they had a good, sensible argument there. The effort was made at one time by Charlie Cooke back here that worked for me and worked with the committee back at that time to try to produce a paper that would be a good position for one of the Presidential aspirants to use on supporting an oil import fee, and I think Charlie had to write about 300 pages, and that is not good for a one-line quip for a Presidential runner. Finally, we decided that there ought to be an import fee on all oil-related goods. You can imagine how long that takes to put together and explain, and finally the Presidential aspirant was told just to forget it. He didn't put part of that in his program. Yes, it was Al Gore. He wasn't running too



fast then. I don't know how he is going to do now, but he hasn't asked us to put that together for him again, and I doubt that he will.

I thank you. You know, once again I will leave you with this. This is not a question that you can answer. People outside the Oil Patch want cheap gasoline. People in the Oil Patch want to make some money producing the basic ingredient.

Mr. WATKINS. Just trying to make a living this time.

Mr. HALL. I thank you, Wes. Appreciate it.

Mr. BARTON. I recognize the gentleman from Illinois for 5 minutes.

Mr. SHIMKUS. Thank you, Mr. Chairman, and Wes, welcome. As you know, I am a cosponsor of your bill and I appreciate all the good work you do.

One question that hasn't been asked, and we have been talking about it in Illinois, the problem with the base closings and the people who say there is a savings, we never take in the environmental cost of cleanup. When we have marginal wells that are going bankrupt, the State has to assume the cost of cleanup, not only in closing down the well, but also the cleanup of the surrounding area, and that is also a taxpayer issue in Illinois that with these historically low prices, because of the oversupply, that we will have to address as citizens of the State of Illinois. Is that a similar effect on the taxpayers in your district and the State of Oklahoma?

Mr. WATKINS. I am delighted with the vision and commitment and dedication of our independent oil producers in Oklahoma. We established the first checkoff program per barrel, which helps a great deal with environmental and also educational matters. Even in Oklahoma we try to educate the people about the value and the importance, et cetera, of the oil industry. But also, it helps a great deal in matching some money, but also helping in the environmental cleanups. And it has been very good, because the industry itself is helping clean up old wells that they have no connection with.

So I know exactly what you are saying. It is costly to plug a well. It is very expensive, the environmental requirements to do that today. As well as if you ever tried to open one of them back up, it becomes—a marginal well, it is not conducive.

I would just say, I do have—I am cosponsoring with Charlie Stenholm, or we offered it together and are working on it right now, is the Environmental Equalization Act, trying to do exactly what Ralph was talking about. It is a fee. I don't know how we want to work it, but we may want to try to say all the money coming in from this goes to offset the heating oil cost or we do something like that, but it helps us get maybe the offset of \$3 to \$4 where we are paying for the environmental requirements put upon us in this country, but the other countries do not have to do that. They just shift oil to us. And there should be some equalization to that. We should look back also, I might say, at some research in the 1950's and 1960's, where we had a tariff against Venezuela, we had one against Mexico and also Canada. We don't talk about tariffs nowadays basically, but I think as late as the 1960's, in the research, Mr. Chairman, I think we had some tariffs on.

Mr. SHIMKUS. My last question is I am really concerned with our foreign policy with respect to Iraq and Saddam Hussein. The fact that we bombed them and now we have no inspectors in the area, so they can continue to develop their weapons of mass destruction, nuclear, biological and chemical, and I fully believe that they are doing that.

Mr. WATKINS. It is crazy.

Mr. SHIMKUS. How do we know that the revenue generated from the Oil-For-Food Program is not going into those developmental programs?

Mr. WATKINS. I think, I believe and feel, the research I have done indicates some of it is. Let me say the money has been agreed to by the U.N. Security Council to go into an Iraqi bank of their choice. I just think about that just a little bit. Also, if we look at it and see the breakdown, they can have chemicals and everything like this they can buy for agriculture, fertilizers. The biggest bombing ever in this country in domestic is Oklahoma City and it is from fertilizer, and moneys from this program is going to do exactly that. You have every right to be concerned, and I hope you will just get as mad as I am about this thing, because it is the wrong policy. It is a failed policy for our people and for our country.

Mr. SHIMKUS. Thank you. Mr. Chairman, I yield back my time.

Mr. BARTON. The gentleman from Oklahoma, Mr. Largent, is recognized for 5 minutes.

Mr. LARGENT. Wes, I want you to give us a little domestic production 101 course here this morning for our friends that may not be aware of some of these facts.

Tell us what a stripper well is. That is not a Demi Moore movie, but what is a stripper well?

Mr. WATKINS. In Oklahoma we call it 10 barrels or less. A marginal well is considered 15 barrels or less.

Mr. LARGENT. And what percent of our domestic oil production comes from stripper wells, approximately?

Mr. WATKINS. About 25 percent of the overall production. Eighty-five percent of the wells in Oklahoma are stripper wells.

Mr. LARGENT. Okay. And what percent of our domestic production actually comes from our small oil independent producers?

Mr. WATKINS. Small oil independent—oh, from independent wells? About 20 percent. Wouldn't that be about right? Sixty percent of our—did I get the question correctly?

Mr. LARGENT. I think it is closer to 60, 60 to 70 percent of the oil that is produced in this country is done so by our small independents.

Mr. WATKINS. Yes, well over 50 percent.

Mr. LARGENT. Let me ask you a couple of questions here. A lot of times when we hear oil prices, we hear that Nynex Mercantile figure, but how does that differ from what the producers are making at the wellhead? In other words, if we hear \$16 a barrel or \$17 barrel, what are they actually making, the producers, what are they actually getting at the wellhead.

Mr. WATKINS. Well, the various ones, like Oklahoma or Texas Intermediate and all, most of the time is a couple dollars less than what we are hearing out of New York. And also the futures have a play on some of that today now, some of the prices.

Mr. LARGENT. And what would you say approximately is the cost of production for a small independent with stripper wells or marginal wells?

Mr. WATKINS. Of course that would vary, but I would say \$13, \$14 would be an amount that just, if you call it break even. Some would not break even at that amount.

Mr. LARGENT. What are they getting—

Mr. WATKINS. We are up to close to 15, give or take? Twelve at the wellhead.

Mr. LARGENT. So a dollar or 2 less than it costs them to produce the oil?

Mr. WATKINS. That's right. So it is kind of like an artery that has been cut. It is flowing and you can't stop it unless you plug it.

Mr. LARGENT. Well, this is 101. So what we have established here is that it costs them more to produce it than they are making. And what is the result now that you are seeing in your district in terms of personnel and equipment? What is taking place in the oil and gas industry, especially the small producers today?

Mr. WATKINS. They are yanking up pipe, they are plugging up wells, they are stopping the production, and some on the verge I think of suicide.

Mr. LARGENT. And once you close a stripper well or marginal well, what happens to it?

Mr. WATKINS. 90 percent of them are not worthy of opening back up.

Mr. LARGENT. You have lost them.

Mr. BARTON. Will the gentleman yield on that?

Mr. LARGENT. Yes.

Mr. BARTON. It may be different in Oklahoma than in Texas, but you can suspend production with permission of—in our State it is the Railroad Commission. I am not sure what it is called, it may be the corporation—

Mr. WATKINS. Corporation commission.

Mr. BARTON. For what, up to 90 days without having to plug it, but after a certain amount of time, if you are not going to resume production, you do have to go ahead and plug the well.

Mr. WATKINS. I would ask Mike or Pete, they would probably know exactly that on the corporation commission. Do they give you forgiveness time and not plug it?

Mr. SMITH. Two years, Mr. Chairman. Two-year moratorium now, unless it is a health or environmental situation.

Mr. WATKINS. By the way, the way your colleague Ralph Hall described the railroad commissioner, I think I want to leave this job, because that sounds like a very honorable job and a very nice job. Excuse me, Steve.

Mr. BARTON. Well, you have already tried to quit Congress once and we didn't let you.

I yield back to Mr. Largent.

Mr. LARGENT. Wes, just a couple of other questions. There has been—we are seeing the same thing obviously in the First Congressional District where people are leaving the industry. I think the number is close to 50,000 since November have left the industry. I think the number is about a half a million in the last 10 years have left the industry. Those people don't come back. The equip-

ment is rusting, the drilling equipment lays dormant. It is irretrievable at that point. You shut up the stripper wells at some point in time and they are irretrievable.

I guess I would just like to throw out one other question, if I could have an additional minute.

There has been a lot of remedies suggested, some of them that you have proposed. Some people are suggesting an oil import fee. There has been suggestions of regulatory relief. There is a loan program I just learned of yesterday that the Senate is talking about putting into effect; capping imports and tax relief. You have a tax relief bill. What do we need to do, Wes?

Mr. WATKINS. My feeling is this. Maybe it is just the way I—I have always taken a full court press. You understand that term. I mean take everything we can and move it as quickly as we can and move forward. Do I expect everything I am trying to do to get done? No. I hope a few of those things are sending a message to the Arabs and others, and what we are doing today I hope sends a message, and what you do after this can send a message one way or the other. But yes, we need some immediate relief, and I think the income-averaging that Bill Thomas and I are on, trying to go back and pick up some good years they have had where they have paid in some taxes, they could carry that forward. The tax credit bill that I have is one of the quickest things we can do. All of those things, if we can do it, would help secure the industry here in America so we can have a—in agriculture we say we need to have a domestic food basket. I agree that we have to have. I think we have to have a domestic energy basket for national security. We are walking into a trap if we don't. I think common sense tells us that.

So Steve, all of the above is what I would say. Let us try everything we can, knowing full well we have to try to come out with one or two of those things if we possibly can.

The other thing, and this committee could address that. You remember we got a trade adjustment, the displaced workers, I would encourage you to revisit that and make sure that we can get our oil field workers in that, so they can get that kind of training. Because Steve, as you indicated, we are displacing those workers too and they are not going to come back. They are going to go into some computer work, technology, other things out there, and we are losing that infrastructure, and you cannot gear it back up overnight. Even if we had to, we couldn't get it to.

Mr. LARGENT. Thank you, Mr. Chairman. I yield back.

Mr. BARTON. Thank you, Congressman.

I recognize the gentleman from North Carolina, Mr. Burr, for 5 minutes.

Mr. BURR. Wes, I wasn't going to ask a question and I may not ask one, but I may make a statement. You are right, we probably ought to include them in that displaced worker list. What alarms me is how long that list could be if we actually looked at displaced workers that we have had policy that has displaced them, whether it is inadequacies in trade negotiations or decisions as it related to foreign policy, and I guess what you are here saying is our foreign policy decisions do affect the livelihood of the American people.

Mr. WATKINS. Exactly right.

Mr. BURR. It doesn't seem to play a part necessarily in the formation of that policy or those negotiations, and I think maybe we ought to raise that question a little louder. I thank you for your willingness.

Mr. WATKINS. If I can respond to that, I have a sinking feeling, because I think a lot of our State Department people and some of our international people literally are more concerned about getting and having a favorable feeling from where they may be stationed, Ambassadors and others, than our concern about the people on the farms and in the oil patches of this country or other industries. I have detected that. Maybe I am a little harder nosed than what I should be, but I mostly think I have a warm heart.

Mr. BURR. I hope the workers in the oil fields don't find the same end results as the textile workers in the mills across the South.

I thank the chairman, and I yield back.

Mr. WATKINS. By the way, I married a Presbyterian minister's daughter.

Mr. BARTON. We are not going to ask you a second round of questions, but I think Congressman Hall has one final question and then we will excuse you.

Mr. HALL. Wes, just for the record, are you in favor of continuing the Iraqi Oil-For-Food Program?

Mr. WATKINS. Limited to the necessities of food and medicine.

Mr. HALL. And being able to check on them.

Mr. WATKINS. And being able to check on them. You bet. You bet.

Mr. HALL. Somebody said trust, but verify?

Mr. WATKINS. If we go what was above the 700,000 barrel area, then we are just handing them over everything they need and more.

Mr. HALL. I thank you.

Mr. BARTON. Well, Congressman Watkins, we really appreciate, on behalf of this subcommittee, the leadership that you have shown in this area. Almost single-handedly you have raised the visibility of this, and as I said in my opening statement, this is not the only hearing we are going to do on the domestic oil and gas industry. It is unfortunate that this is on a Friday and that we don't have any television coverage for it, at least we don't have now, but I can assure you, and you can assure the people of the Third Congressional District of Oklahoma that if there is something that can be done to change this program and this subcommittee can do it, we will do it, and we will continue to work with you. I just hope that the people of your district appreciate the efforts that you are making on their behalf.

Mr. WATKINS. I thank you, Mr. Chairman, members of the committee, my neighbors in Oklahoma and Texas. I appreciate it.

Mr. HALL. See you out at National.

Mr. BARTON. Save a seat on the plane for Congressman Hall.

We want to recognize our second panel now. We have Mr. Bill Wood, who is the Principal Deputy Assistant Secretary of the Office of International Organizations, the United States Department of State; we have the Honorable Jay Hakes, who is the Administrator of the Energy Information Agency within the United States Department of Energy; we have the Honorable Carl Michael Smith, the Secretary of Energy from the great State of Oklahoma; and we

have, not to be outdone, the Honorable Michael Williams, who is the Commissioner of the Texas Railroad Commission.

Gentlemen, we want to welcome you. Your statements are in the record in their entirety. I am going to recognize you to speak in a second, but before I do that, I want to direct some comments to our representative from the State Department.

We don't call State Department witnesses too frequently to this subcommittee. We have fairly frequent testifiers from our friends at the Department of Energy. It is not normal that we would ask a representative of the State Department. But we have a rule that we like testimony 2 days in advance so our members can actually study it. I won't swear to you that every member uses that time to study, but some do. We got the State Department's testimony I believe this morning, and you were the first people we asked.

Now, if you were me, what kind of—what would your attitude be if you were me and you are the, in some ways, the most important government, Federal Government witness we are going to hear from because you all are in charge of this program and we get your testimony some time this morning.

Mr. WOOD. Mr. Barton, I can only apologize for the lateness of the arrival of the testimony. We don't testify before the subcommittee very often. We are very, very pleased at this opportunity to do so and we thank you very much for inviting us here. If the opportunity arises again in the future, we assure you we will do better.

Mr. BARTON. Well, we had the ability to look at some testimony. I don't know if you are the individual that gave it, but a representative gave similar testimony on a similar issue over in the Senate several weeks ago. I guess it is possible that whoever prepares it is on vacation. I guess it is possible you all don't think very much of the House of Representatives. I guess it is possible that you all don't think it is a very important issue. But I am going to send a letter to the Secretary of State and I may send a letter to the Appropriations Subcommittee chairman asking that we dock your part of the State Department \$100,000, maybe take it out of the Iraqi Oil-For-Food Program, just to send a signal.

We have problems with our friends at DOE, not EIA. EIA has been pretty good, but there are others in the Department of Energy that are almost as bad, but I don't think we have ever had an administration witness, and I was chairman of the Oversight and Investigation Subcommittee for 4 years, that had the effrontery to send in the testimony the day they were testifying. I just don't appreciate it. I really don't.

Mr. BURR. Mr. Chairman, I ask that the witness be excused and not have the ability to testify.

Mr. BARTON. Well, unfortunately, we have to have their testimony. They have us between a rock and a hard place.

Mr. BURR. We have his testimony, Mr. Chairman, but we don't need to hear from him verbally.

Mr. BARTON. I think if I send a letter to the Secretary of State and we dock them \$100,000, I think that will get their attention.

I mean we are going to be doing a series of hearings on the oil and gas industry and some of it is domestic, but a lot is international, so we are going to be calling other State Department witnesses, and I really want you to go back, I don't know if this was

in your chain of control or not, Mr. Wood, but I want you to let folks know, we don't expect the State Department to turn cartwheels when they are asked to testify, but we do expect reasonable courtesy and we would like to get it in what the notice requires, which is 2 days ahead of time. But we at least want to get it a day ahead of time so that we can copy it and send it around to the staffs and let everybody review it.

Mr. BURR. Mr. Chairman, could I at least ask the witness to tell the committee why we received the testimony so late, why he couldn't fulfill the rules of the committee.

Mr. BARTON. Well, sure. I mean I tried to ask him that. Why did it take the day of the hearing to get it?

Mr. WOOD. Mr. Chairman, I don't want to try to offer an excuse. All I can say is we were wrong not to get it to you on time. It won't happen again. We apologize. We do consider it both a lack of courtesy and a lack of professionalism. We are very grateful for your suggestion that in the future it has to be, at a minimum, 1 day in advance. We will get it here 2 days in advance.

Mr. BARTON. Again, I am new on this subcommittee, but I have been chairman of the oversight, and Mr. Burr has been one of my distinguished members on the oversight, and we have had this problem with the FDA and we have had it with the EPA. We finally got their attention. We didn't let them testify one time. You know, we just said go home and sit in the corner for the day. We don't want to start out that way. But we do want to let you know that we need to get the testimony on time.

Mr. WOOD. You got our attention, sir.

Mr. BARTON. All right.

We are going to start with Mr. Hakes. Your testimony is in the record in its entirety. We are just going to go right down the line, Mr. Hakes, Mr. Smith, Mr. Wood and Mr. Williams and then we will let our committee members ask questions.

Mr. HALL. Can I ask Mr. Hakes a question before we start?

Mr. BARTON. Yes, sir.

Mr. HALL. Aren't you glad you submitted yours this morning?

Mr. HAKES. I am going to try to get it in 3 days early next time.

Mr. BARTON. Well, my good friend from Texas, it does help the minority staff, too, to help prepare the questions and to read it. I actually read it. I may be the only member, but I read the testimony ahead of time as the chairman so I can know a little bit about where you all are coming from. So I was very upset.

Mr. HALL. I withdraw my question.

Mr. BARTON. Okay. We will give each of you 7 minutes, and if you need a little more time, so be it. So, Mr. Hakes, you are recognized for 7 minutes.

**STATEMENTS OF HON. JAY HAKES, ADMINISTRATOR, ENERGY INFORMATION ADMINISTRATION, DEPARTMENT OF ENERGY; HON. CARL MICHAEL SMITH, SECRETARY OF ENERGY, STATE OF OKLAHOMA; HON. WILLIAM B. WOOD, PRINCIPAL DEPUTY ASSISTANT SECRETARY, OFFICE OF INTERNATIONAL ORGANIZATIONS, DEPARTMENT OF STATE; AND HON. MICHAEL L. WILLIAMS, COMMISSIONER, TEXAS RAILROAD COMMISSION**

Mr. HAKES. Thank you, Mr. Chairman and members of the committee. As you know, the Energy Information Administration is an independent analytical and statistical agency within the Department of Energy. I would like to talk a little bit today about the role that Iraq plays in world oil markets.

We have identified four factors that influenced world oil markets since the end of 1996 and the interaction between these factors make it difficult to assess the impact of each individually, but I would like to discuss them and sort of put them in some context.

One factor that has clearly influenced the world oil market has been the increase in Iraqi oil production and the consequent exports that have occurred since the beginning of the United Nations Oil-For-Food Program. Iraq's oil production is currently 2.5 million barrels per day, which is about 2 million barrels per day higher than it was prior to the Oil-For-Food Program, although it is still lower than it was prior to their invasion of Kuwait in 1990. You can basically follow the movement of price there with that blue line, and you can see where the program started, it sort of zig-zagged up to the 2.5 million level.

Even with the current oil exports of about 2 million barrels per day, Iraq is still below the ceiling of \$5.3 billion per 6 months imposed under the current phase of the Oil-For-Food Program. In order for Iraq to approach the ceiling during the next year or 2, the price of West Texas Intermediate crude would have to average about \$18 to \$19 per barrel day.

Mr. BARTON. \$18 per barrel?

Mr. HAKES. Yes, excuse me. \$18 to \$19 per barrel, which are prices that we are not currently forecasting, incidentally.

Another factor that is important in terms of its impact on the world oil market is the dramatic slowdown in oil demand growth in Asia as a result of the economic crisis. I think after the Persian Gulf War most oil producers around the world realized that eventually at some point Iraq would come back, and that this would pose a problem for the market. And a number of them, including Saudi Arabia and others, made the comment that they thought that the increased demand in Asia would probably help soak up the Iraq increased production when that happened. But you can see that almost at the same time that Iraq is coming back onto the world market, there is an economic collapse in Asia, and the demand sort of stops.

Demand in Asia was growing roughly 850 thousand barrels a day each year, and that is adding a lot of demand into the world market. Then you can see for 1998, demand growth was virtually negligible. So at the very time when there was a hope that Asian demand would soak up the Iraqi extra production, that demand was not there.



EIA is estimating that Asian oil demand will grow by only 1.5 million barrels per day during the entire period from 1997 to 2000, instead of the 3.4 million barrels per day that would have been expected before this economic crisis occurred.

Added on top of this have been three warm winters in a row, which has reduced the demand for heating oil, and this has further thrown the world market out of balance and created excess supply.

Another factor that contributed to it is as Iraq was coming back on the market in 1997, other areas of the world instead of cutting back on their production actually were increasing production. There was quite a bullish market internationally in oil, and OPEC, which some thought might cut back because they had increased after the Persian Gulf War to cover the absence of Iraq, they actually had an increase in 1997, and it was not until 1998 that they began to cut.

Let me just speak briefly, Mr. Chairman, about the outlook for Iraqi oil production in the world oil market. We feel that Iraq is currently producing at pretty much its full capacity since its oil revenues are significantly less than allowed and they would be producing more today if they could. Our current forecast assumes that Iraqi crude oil production capacity increases only by 100,000 to 200,000 barrels per day between now and the year 2000. Currently, the United Nations is allowing Iraq to import about \$300 million worth of parts that are used to improve their oil infrastructure. How fast Iraq receives these parts and how well these parts are used will determine how quickly Iraqi oil production might increase. Some analysts believe that the capacity would be somewhat higher in the year 2000 than the EIA is estimating, but most of them expect the increases to be fairly modest.

Now, the newest issue on the block of course is the recent announcement by OPEC that they are setting targets for reducing production. OPEC itself has pledged 1.7 million barrels per day of cuts and some nations outside of OPEC have joined into the agreement and pledged another 0.4 million barrels per day cuts. The cartel in the past has had a difficult time fully enforcing these cuts. However, Saudi Arabia has already put them into effect for April orders, so at least a part of this seems to be quite real. We have been predicting up until the OPEC action that the price of oil would probably, for West Texas Intermediate, get to slightly below \$15 a barrel at the end of this year. I am sure we will raise that estimate when we come out with our next update, which is scheduled for April 8. At that time we will do a fairly detailed analysis of the estimated impact of the OPEC actions. But that is where it stands for now, and I of course will be glad to answer any questions the members of the committee may have.

[The prepared statement of Hon. Jay Hakes follows:]

PREPARED STATEMENT OF HON. JAY HAKES, ADMINISTRATOR, ENERGY INFORMATION ADMINISTRATION, DEPARTMENT OF ENERGY

*Short-Term World Oil Market Outlook*

Mr. Chairman and members of the Committee, I wish to thank you for the opportunity to testify today on our short-term world oil outlook, paying particular attention to Iraq's role in the international oil market. As Administrator for the Energy Information Administration (EIA), which is an independent analytical and statistical agency within the Department of Energy, I have been asked to provide an over-

view of the world oil market—how we got here and where we think we are headed. As part of this discussion, I will highlight Iraq's oil production history thus far in the 1990s and provide our assessment of the short-term outlook for Iraqi crude oil production.

EIA has identified four factors that have influenced the world oil market since the end of 1996. The interaction between these factors makes it difficult to assess the impact of each individually. Nevertheless, I will discuss each factor separately and try to put the oil market impact of each in context.

One factor influencing the world oil market has been the increase in Iraqi oil production (and exports) that have occurred since the beginning of the United Nations' "oil-for-food" program. Iraq's oil production is currently 2.5 million barrels per day, which is about 2 million barrels per day higher than it was prior to the "oil-for-food" program, although it is still lower than it was just prior to their invasion of Kuwait in 1990 (figure 1). But even with current oil exports of about 2 million barrels per day, Iraq is still well below the ceiling of \$5.256 billion imposed under the current phase of the "oil-for-food" program. In order for Iraq to approach the ceiling during the next year or two, the price of West Texas Intermediate crude oil would have to average about \$19 per barrel during a 180-day phase of the United Nations' "oil-for-food" program. I would like to point out, however, that EIA is not forecasting prices at this level in the short-term.

Another factor that is equally important in terms of its impact on the world oil market is the dramatic slowdown in oil demand growth in Asia as a result of the economic crisis, which began in the summer of 1997. Between 1991 and 1996, Asian oil demand was increasing on average by about 850,000 barrels per day each year (figure 2). If Asian oil demand had continued to grow at this pace, EIA would have expected oil demand to be about 2 million barrels per day more in 2000 than in our current forecast, which would have helped soak up the increased production from Iraq. Instead, EIA is estimating that Asian oil demand will grow by only 1.5 million barrels per day during the 1997-2000 period, instead of the 3.4 million barrels per day that would have been expected before the Asia crisis occurred.

Weather has also been a major factor influencing the world oil market in recent years. Oil demand typically peaks in the winter, along with the demand for heating oil. Weather patterns in the northeast United States and Western Europe are particularly important to the world oil market since these are the regions where oil is used significantly as a fuel for heating. The winters of 1996-97 and 1997-98 were particularly warm compared to "normal" temperatures, and now it is apparent that this winter will be the third significantly warmer than normal winter in a row. As a result, global oil inventories are much higher than they would have been had temperatures been more "normal" during the past three heating seasons.

The last major factor that EIA has identified as a major influence in the world oil market was oil production increases from many countries outside of Iraq, particularly in 1997. Global oil supply increased by about 2.3 million barrels per day in 1997, much more than the 1.7 million barrels per day of global oil demand growth that year. This followed a period of 32 months in which the price of West Texas Intermediate crude oil averaged above \$17 per barrel each month. While oil production from Iraq increased more than any other single country in 1997 (about 600,000 barrels per day) as a result of the "oil-for-food" program which began in December 1996, other OPEC and non-OPEC countries also increased oil production significantly in 1997 (world production increased by 2.3 million barrels per day, making Iraq's increase about 25 percent of the total). Within OPEC, Saudi Arabia oil production increased by 370,000 barrels per day, Venezuela increased by 227,000 barrels per day, Qatar increased by 139,000 barrels per day, and Nigeria increased by 129,000 barrels per day. Outside of OPEC, most of the growth was in the Americas (North, Central, and South America, but excluding Venezuela, an OPEC member), which increased by over 500,000 barrels per day. Since demand growth did not keep pace with the supply growth in 1997, much of this oil found its way into inventories.

Turning to the future, let's look at where EIA thinks the oil market is headed in the short-term (through 2000). In 1998, OPEC and some non-OPEC countries agreed to cut oil production in order to help increase oil prices. In part because of these agreements and the beginning of an expected gradual recovery in Asia, EIA's most recent forecast had prices increasing by about \$3.50 per barrel by December 1999 from the historical low point in December 1998, and by an additional \$1-\$1.50 by the end of 2000. Now that OPEC and some non-OPEC countries have agreed to cut production by about 2 million barrels a day (figure 3), we would expect prices to increase even more. EIA's next Short-Term Energy Outlook, which is updated monthly, is scheduled for release on April 8, 1999. At that time, EIA will incorporate a detailed analysis of the new OPEC cuts into our price forecast. I can say now, however, that our forecast for oil prices will be higher. This forecast will be

based on the assumption that demand growth will outstrip supply growth in both 1999 and 2000, even if producers only partially implement the planned cuts.

Let me spend a little time discussing our outlook for Iraqi oil production. As I stated before, Iraq's crude oil production has increased by about 2 million barrels per day since late 1996. However, we feel that they are currently producing at full capacity since their oil revenues are significantly less than allowed and would produce more if they could, and that their oil production capacity is not expected to increase substantially through 2000. Our current forecast assumes that Iraqi crude oil production capacity increases by only 100,000-200,000 barrels per day between now and 2000 (figure 1). Currently, the United Nations is allowing Iraq to import \$300 million worth of parts that are to be used to improve their oil infrastructure. How fast Iraq receives these parts and how well these parts are used will help determine how quickly Iraqi oil production capacity might increase. There are some analysts that expect Iraqi oil production capacity to be somewhat higher by the end of 2000 than EIA is estimating. However, most analysts expect Iraq's oil production increases this year and next to be far less than what they were in 1997 and 1998.

This concludes my testimony before the Committee. I would be glad to answer questions at the appropriate time.

Figure 1

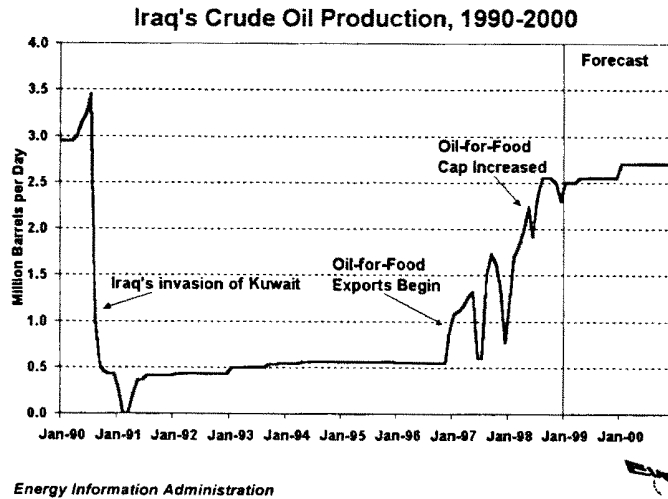
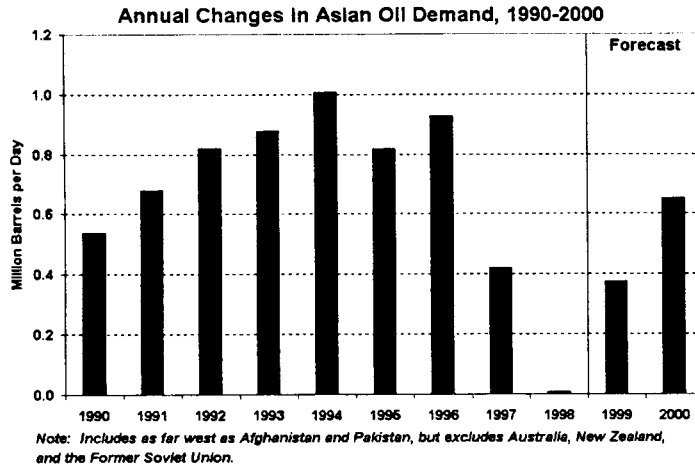
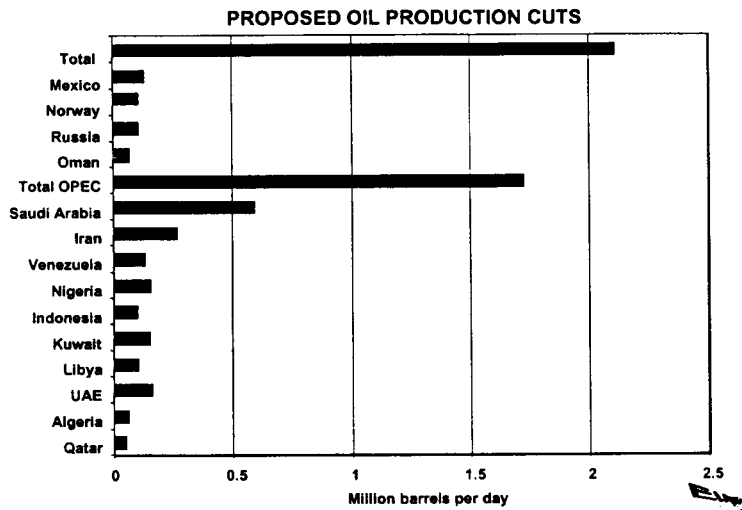


Figure 2



Energy Information Administration

Figure 3



*Note: Numbers are based on OPEC's 3/24/99 communique*

Energy Information Administration

Mr. BARTON. Just before we recognize Mr. Smith, Iraq is part of OPEC, is it not?

Mr. HAKES. Yes.

Mr. BARTON. Mr. Smith, we will recognize you for 7 minutes. Mr. Largent, do you want to formally introduce Mr. Smith.

Mr. LARGENT. Yes, I did in my opening statement. This is our Secretary of Energy from the great State of Oklahoma. We are glad to have him here.

Mr. BARTON. You are recognized for 7 minutes.

#### STATEMENT OF CARL MICHAEL SMITH

Mr. SMITH. Thank you, Mr. Chairman, and members of the subcommittee. As Congressman Largent mentioned, I serve as Secretary of Energy for the State of Oklahoma, and this year I am vice chairman of the Interstate Oil and Gas Compact Commission. I have been a member of Oklahoma's oil and gas community my entire adult life, either as a producer, as an attorney for operators, and currently in my public service. I have experienced firsthand the Arab embargo of 1973, the oilfield pipe and equipment shortage of the mid-1970's, the ill-conceived Natural Gas Policy Act of 1978, the misguided Fuel Use Act of 1978, the plunderous windfall profits tax of 1980, the Middle East turmoil of the late 1970's and early 1980's, the collapse of our domestic oil and gas industry in the mid-1980's, precipitating, as Congressman Largent mentioned earlier, a loss of about a half a million jobs, the advent of computer technology into the industry, the Gulf War, and now, Operation Desert Fox. In short, I have seen a lot of success, a lot of failure, and an abundance of public policy, most of which has, unfortunately, been poorly conceived and missed the mark.

Since entering public life in 1990, I have been assisting in the conception and implementation of energy policy. Most of this work has involved assisting the IOGCC Governors in drafting and implementing A Dependent Nation: How Federal Oil and Gas Policy is Eroding America's Economic Independents. Recently, I have assisted my Governor, Frank Keating, as he has led the other oil and gas producing State Governors in addressing an unprecedented oil price trough which is approaching its 18th month.

Today's hearing focuses on the Iraqi Oil-For-Food Program and its impacts. Mr. Chairman, the American people, and the people of my State, are very confused. Occasionally a constituent asks for my explanation of our Iraqi policy, and a rational answer is impossible. I overhear comments in elevators and discussions in coffee shops throughout my home state. No one can understand why, according to press reports, 3 days of Operation Desert Fox cost the American taxpayers almost \$1 billion, yet the rogue of the world, Saddam Hussein, is seemingly stronger than ever. Our proposed response is not to isolate him or cutoff his funding for weapons of mass destruction, rather to allow his continuing military threat to be enhanced through unlimited oil production, or so it seems. No one can argue that the Iraqi people have suffered a mighty hardship under his reign of terror, or that they deserve humanitarian aid. What is hard to explain to my constituents, who are losing their jobs due to less than break-even oil prices, is why our government would put our military at risk, spend balances of tax dollars, and then

allow Saddam to flood the world oil market. Even more puzzling was America's acquiescence in the United Nations formula allowing Iraqi oil sales to be limited by a dollar amount rather than by volumes of oil. The Oklahoma Geological Survey, which is in my cabinet policy area, has reported that the almost singular contributor to the 1997 and 1998 world oil glut has been Iraq. As the attached data attached to my testimony which, by the way, Mr. Hakes, was from your agency, demonstrates that most of the world oil production, both OPEC and non-OPEC, has been relatively stable. The exception to that has been Iraq. Even more shocking is Iraq's rise to No. 4 source of U.S. imports last year, and in 1 month, Mr. Chairman, they were actually No. 3, almost nosing out Kuwait. They have sort of been neck and neck for the three and four spot.

Certain facts are not in dispute. America is importing nearly 60 percent of its daily crude oil needs. Current wellhead prices are far below the break-even point for most domestic producers. The world is awash in over-produced oil. Allowing Iraq to produce unlimited oil impairs America's economic and military security, and the lifting of limitations helps finance Saddam's almost certain future mischief.

Long before the current crisis, President Clinton approved 1994 findings by the U.S. Department of Commerce that oil imports, which were then at a much lower level, threatened U.S. security. Can you imagine our response if this morning we awakened to 60 percent of our air, water or food controlled by foreign sources? Oil is the lifeblood of our Nation and we cannot permit Iraq to further the disintegration of our domestic oil industry.

Mr. Chairman and subcommittee members, I cannot count the number of times I have wanted to shout from the rooftops, America, wake up. We need America's oil to protect our shores and our way of life. I am proud to say, my constituents have always been first in line on both counts, and on their behalf I thank you for this opportunity to testify.

[The prepared statement of Carl Michael Smith follows:]

PREPARED STATEMENT OF CARL MICHAEL SMITH, SECRETARY OF ENERGY, STATE OF OKLAHOMA

Mr. Chairman and members of the subcommittee, I serve as Secretary of Energy for the State of Oklahoma and as Vice-Chairman of the Interstate Oil and Gas Compact Commission (IOGCC).

I have been a member of Oklahoma's oil and gas community my entire adult life. I experienced first hand the Arab embargo of 1973, the oilfield pipe and equipment shortage of the mid-1970s, the ill-conceived Natural Gas Policy Act of 1978, the misguided Fuel Use Act of 1978, the plunderous windfall profits tax of 1980, the Middle East turmoil of the late 70s and early 80s, the collapse of our domestic oil and gas industry in the middle 1980s (precipitating a loss of approximately 500,000 jobs), the advent of computer technology into the industry, the Gulf War, and now, Operation Desert Fox. In short, I've seen a lot of success, failure, and lots of public policy, unfortunately, most of which has been ill conceived. Since entering public life in 1995, I have been assisting in the conception and implementation of energy policy. Most of this work has involved assisting the IOGCC governors in drafting and implementing *A Dependant Nation: How Federal Oil and Gas Policy is Eroding America's Independence*. Recently, I have assisted my Governor, Frank Keating, as he has led the other oil and gas producing state governors in addressing an unprecedented oil price trough which is approaching its 18th month.

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stand why, according to NBC News on December 23, 1998, three days of Operation Desert Fox cost the American taxpayer almost \$1 billion, yet the rogue of the world, Saddam Hussein, is seemingly stronger than ever. Our response is not to isolate him or cut off his funding for weapons of mass destruction, rather allow his continuing military threat to be enhanced through unlimited oil production. No one can argue that the Iraqi people have suffered a mighty hardship under his reign of terror or that they deserve humanitarian aid. What is hard to explain to my constituents, who are losing their jobs due to an oil market producing a dollar price per barrel less than break-even cost, why our government would put our military at risk, spend billions in tax dollars, and then willingly allow Saddam to flood the world oil market. Even more puzzling was America's acquiescence in the United Nations formula allowing Iraqi oil sales, under current sanctions, to be limited by a dollar amount rather than volumes of oil. The Oklahoma Geological Survey, which is in my cabinet policy area, has reported that the almost singular contributor to the 1997 and 1998 world oil glut has been Iraq. As the attached data demonstrates, most world oil producers (both OPEC and non-OPEC) have been relatively stable—the exception being Iraq. Even more shocking is, during 1998, Iraq rose to the number 4 source of U.S. imports, almost nosing out Kuwait for the number 3 spot.

Certain facts are not in dispute:

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- The world is awash in overproduced oil
- Allowing Iraq to produce unlimited oil impairs America's economic and military security, and a lifting of monetary limitations helps finance Saddam's almost certain future mischief

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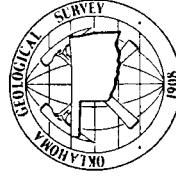
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# SELECTED PETROLEUM PRODUCTION AND IMPORT DATA

29

by

Charles J. Mankin



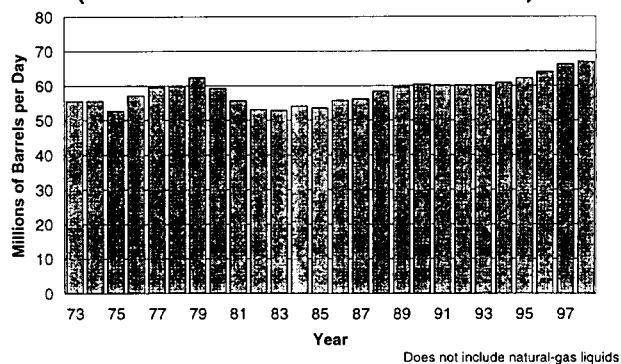


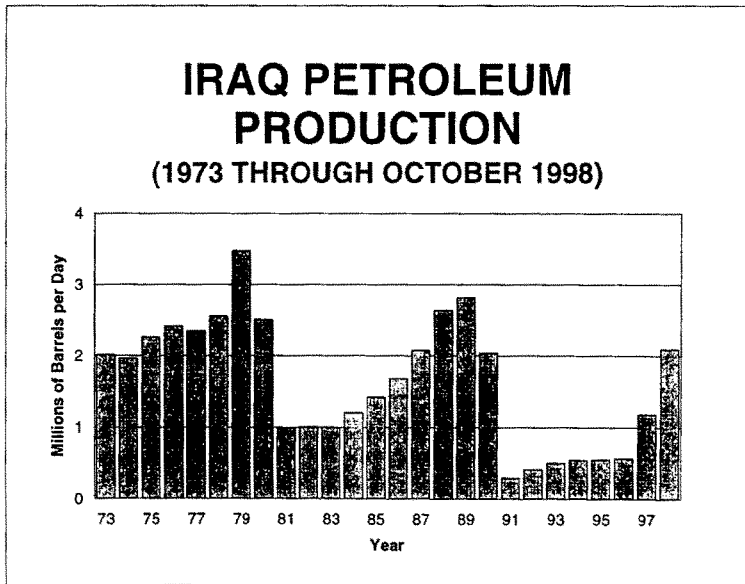
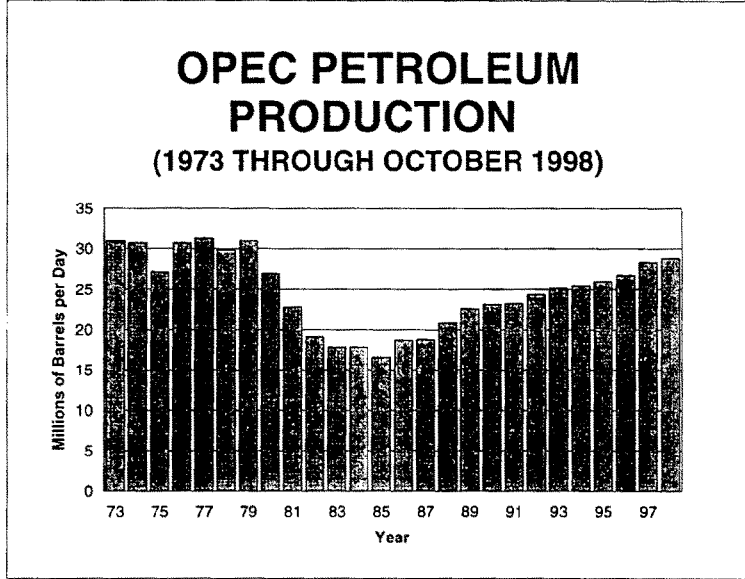
## SOURCES OF INFORMATION

- The Energy Information Administration (EIA) was the primary source of data used to prepare the following graphs
  - ▶ International Petroleum Statistics Report
  - ▶ Petroleum Supply Monthly
  - ▶ Energy InfoDisc, quarterly CD-ROM

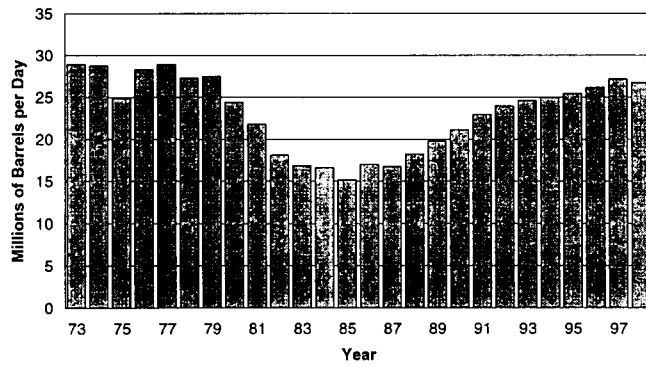
## WORLD PETROLEUM PRODUCTION

(1973 THROUGH OCTOBER 1998)

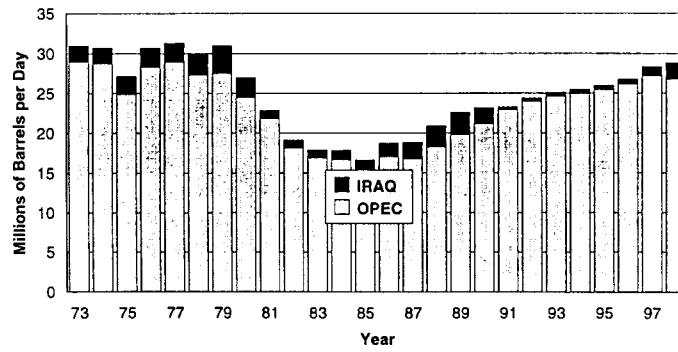




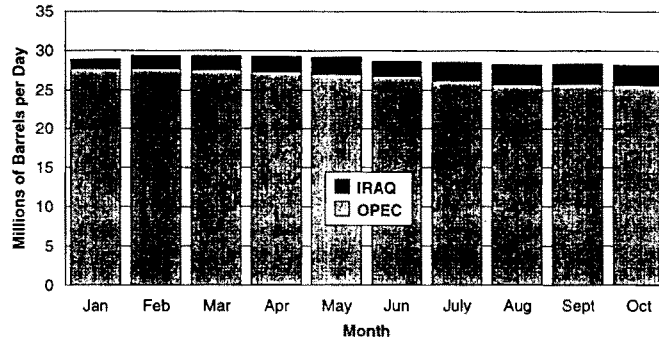
### OPEC MINUS IRAQ PETROLEUM PRODUCTION



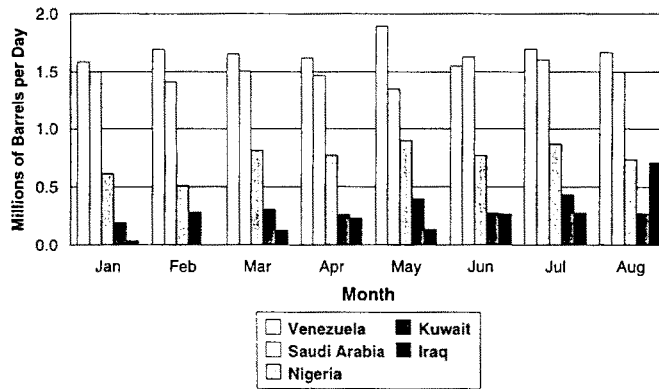
### OPEC PETROLEUM PRODUCTION (1973 THROUGH OCTOBER 1998)



## OPEC PETROLEUM PRODUCTION FOR 1998



## SELECTED IMPORTS OF PETROLEUM TO U.S.



Mr. BARTON. Thank you, Mr. Smith. We would now like to hear from Mr. Wood. We do have your testimony, so you are recognized for 7 minutes to elaborate on it.

Mr. WOOD. Thank you very much, Mr. Chairman. Let me again repeat how pleased I am to be here to discuss—

Mr. BARTON. You need to speak into the microphone so that we can hear you.

#### **STATEMENT OF WILLIAM B. WOOD**

Mr. WOOD. Okay. I am pleased to be here today and I want to reiterate that fact. Thank you for inviting me.

The U.S. policy is to contain Saddam Hussein until he can be removed from power.

In the meantime, U.S. sanctions on Iraq and the Oil-For-Food Program are critical to the containment of Iraq. We must maintain broad international support for these programs in order to keep Saddam Hussein contained. Sanctions on Iraq were put in place by the international community following the brutal invasion by Iraq of its peaceful neighbor, Kuwait. The sanctions deprived Saddam of the revenue he would otherwise use to reconstitute his weapons of mass destruction.

It is essential that we address the humanitarian needs of the Iraqi people. Doing so is right in itself, but also crucial to maintaining Security Council, regional and other support for the international sanctions regime while we continue our efforts to change the Iraqi regime. It is also consistent with our message to the Iraqi people that the United States is not against the people of Iraq, only the regime that is responsible for their plight. By meeting Iraq's general humanitarian needs, Oil-For-Food allows us to maintain a tough sanctions regime against Iraq.

In 1991, the Bush Administration first proposed an Oil-For-Food Program to meet the humanitarian needs of the Iraqi people. Iraq rejected the program. In 1995, the Security Council, with full U.S. leadership and support, adopted a revised Oil-For-Food Program, which Iraq finally accepted at the end of 1996. The first food shipments under this program arrived in Iraq in March 1997. In February 1998, based on the Secretary General's recommendations that additional funds were needed to meet the needs of the Iraqi people, the legitimate humanitarian needs of the Iraqi people, the Security Council expanded the Oil-For-Food Program. That program has most recently renewed last November.

I might add that that is the reason why the Oil-For-Food Program is accounted for in dollars, because it is based on estimates of what it would cost to take care of the humanitarian needs of Iraq. It is not an effort to promote Iraqi exports, it is an effort to raise money for the specific humanitarian needs of Iraq.

The current Oil-For-Food Program permits Iraq to sell up to \$5.2 billion worth of oil every 6 months, two-thirds of which goes toward the purchase of food, medicine and other humanitarian goods such as water and sanitation infrastructure supplies. The remaining one-third goes to pay claims arising from Iraq's occupation of Kuwait, and to pay U.N. administrative and UNSCOM disarmament costs. All revenues of Iraq's oil sales are deposited in a U.N. escrow account to which Baghdad has no access. Although it is true that

Iraq's agreement as to which bank was selected was necessary, Iraq did not get to choose the bank and, indeed, its first choices were refused under the memorandum of understanding between Iraq and the United Nations. We are assured that the bank in which the escrow account exists is functioning in a transparent and effective manner and funds cannot be released from that account without U.N. agreement.

All contracts are reviewed by the U.N. sanctions committee, of which the U.S. is a member. Because the committee operates by consensus, we can hold or block any contract that is inappropriate or ill-advised. U.N. monitors on Iraq's borders and inside Iraq oversee importation and distribution within Iraq, and in northern Iraq, the three northern governments, distribution is actually carried out by the U.N. itself.

Oil-For-Food, the largest humanitarian program in the U.N.'s history, requires that Saddam spend his own money on the thing he cares least about: his own people.

Oil-For-Food is not a step toward lifting sanctions, nor does it reward Saddam Hussein. In fact, it makes sanctions, his worst enemy, sustainable. Without an Oil-For-Food Program, history has shown that Saddam Hussein would starve his own people to buy weapons and build palaces and to force the international community to lift sanctions. Although we could use our veto at the U.N. to prevent the lifting of sanctions, the pressure of a sympathetic international community, absent Oil-For-Food, could well lead to a de facto breakdown of the implementation of the sanctions regime. So it is not simply a distribution problem, it is also an implementation problem.

Sanctions have slowed considerably Iraq's ability to expand oil exports. We estimate that sanctions have prevented Iraq from exporting more than \$120 billion of oil from 1991 to 1996. In the last two phases of the Oil-For-Food Program, the Security Council earmarked limited funds for the importation of spare parts and equipment to improve Iraq's crumbling oil infrastructure so that funds can be made available for legitimate, necessary humanitarian needs. Those spare parts have just begun to arrive in Iraq, and it will be many more months before there will be an appreciable growth in the Iraqi ability to export oil as a result of them.

We are also discussing in Security Council capitals and in the Security Council itself how to keep Oil-For-Food viable and effective. We have proposed that the Security Council consider raising the ceiling on oil sales consistent with Iraq's legitimate humanitarian needs. In the short run, Iraq would be unable to expand oil exports. Over time, allowing increased Iraqi oil exports would address concerns regarding the shortfall in revenues needed for humanitarian purchases. Saddam would not benefit from these increased oil export revenues. The revenues would be put into the escrow account and released only for the purchase of humanitarian goods.

Raising the ceiling on revenue available for the purchase of humanitarian goods would also serve to counter growing calls from Arab states and Security Council members to lift sanctions outright. By removing the root cause of calls for lifting sanctions, we free our allies in the Arab world and elsewhere to support our broader Iraqi policy goals. We also draw Security Council support

away from more radical French and Russian proposals to lift sanctions altogether.

We also understand your concerns about the current oil market. However, Iraq is only one among several factors which has adversely impacted oil prices. Our sanction—our Iraq sanctions policy, frankly, has never been linked to the price of oil on world markets. This was true in the early 1990's, when Iraqi oil was completely cutoff the world market, putting upward pressure on oil prices, and it remains the case today. Allowing oil price considerations to drive our sanctions decisions or seeking to use sanctions to target oil prices would undermine our ability to maintain an international consensus aimed at containing Saddam Hussein, as well as provide for the humanitarian needs of the Iraqi people.

Were international support for an effective U.N. sanctions regime to erode, Saddam Hussein would be a much greater threat to the world community. He would quickly regain the free use of \$10 billion to \$15 billion per year to put into his weapons of mass destruction programs. But we have promoted raising the ceiling under monitoring. Moreover, the prospect of Iraq without U.N. sanctions would also have a negative effect on oil prices.

Over the long term, the only way to ensure that Saddam no longer threatens either his people or his neighbors is to work for a new government of Iraq, one that will maintain the territorial integrity and unity of Iraq, respect the rights of Iraq's people and neighbors and fulfill Iraq's international obligations. We are committed to helping the Iraqis achieve this regime change or transition.

Mr. Chairman, I realize I am over my time, but let me only make one sort of summary comment. The Oil-For-Food Program has been characterized repeatedly as a humanitarian program. It is certainly a humanitarian program. We are a humane Nation. We are not making war on the population of Iraq. That is Saddam's strategy. But it is not the policy of the administration to benefit the populations of other countries at cost to our own population. That is not our goal, and that is not what we believe we are achieving here.

Mr. BARTON. That may not be the goal, but that is certainly the result. And I am not going to get in a debate right now. We still need to hear from Mr. Williams, but I guarantee you when we get to the question and answer period, we are going to have a dialog.

Mr. WOOD. We do believe, however, that this is a national security requirement. That is my last comment.

[The prepared statement of William B. Wood follows:]

PREPARED STATEMENT OF HON. WILLIAM B. WOOD, DEPUTY ASSISTANT SECRETARY OF STATE

Mr. Chairman: I am pleased to be here today to discuss US policy toward Iraq and the role the Oil-for-Food program plays within it.

The Administration's policy is to contain Saddam Hussein until he can be removed from power. We will contain Iraq by maintaining sanctions on Iraq, enforcing the no-fly zones in the North and South, and by maintaining a robust military presence in the region and a readiness to use force if Iraq reconstitutes its prohibited weapons programs, threatens its neighbors, or moves against the Kurds in the north.

In addition to these elements of containment, we are also working at the United Nations to build consensus in the Security Council in support of an effective disarmament and monitoring presence in Iraq.

Over the long-term, however, the only way to ensure that Saddam no longer threatens either his people or his neighbors is to work for a new government in Iraq—one that will maintain the territorial integrity and unity of Iraq, respect the rights of Iraq's people and Iraq's neighbors, and fulfill Iraq's international obligations. We are committed to helping Iraqis achieve this regime change or transition. There are many tools we can use to help them, including both the \$8 million in Economic Support Funds Congress has appropriated for this purpose, and the Iraq Liberation Act. In the final analysis, change has to come from the Iraqi people themselves. We cannot impose ideas or initiatives on them.

In the meantime, UN sanctions on Iraq and the Oil-for-Food program are critical to the containment of the Iraqi regime. We must maintain broad international support for these programs in order to keep Saddam contained.

Sanctions on Iraq were put in place by the international community following the brutal invasion by Iraq of its peaceful neighbor Kuwait. The sanctions deprive Saddam of the revenue he would otherwise use to reconstitute weapons of mass destruction.

It is also essential that we address the humanitarian needs of the Iraqi people. Doing so is right in itself, and crucial to maintaining Security Council and regional support for sanctions while we continue our efforts for regime change. It is also consistent with our message to the Iraqi people that the United States is not against the people of Iraq—only the regime that is responsible for their plight. By meeting Iraq's genuine humanitarian needs, oil-for-food allows us to maintain a tough sanctions regime against Iraq.

The current oil-for-food program permits Iraq to sell up to \$5.2 billion worth of oil every six months, two-thirds of which goes towards the purchase of food, medicine and other humanitarian goods such as water and sanitation infrastructure supplies. The remaining one-third goes to pay claims arising from Iraq's occupation of Kuwait, and to pay UN administrative and UNSCOM disarmament costs. All revenues from Iraq's oil sales are deposited in a UN escrow account to which Baghdad has no access. All contracts are reviewed by the UN Sanctions Committee, of which the U.S. is a member. Because the Committee operates by consensus, we can hold or block any contract that is inappropriate or ill-advised. UN monitors on Iraq's borders and inside Iraq oversee their import and distribution. In northern Iraq, the distribution is carried out directly by UN personnel.

Sanctions have never prohibited the import of food or medicine to Iraq. However, the regime in Baghdad has been unwilling to take full advantage of this exemption, and, therefore, in 1991, the Bush Administration first proposed an oil-for-food program to meet the humanitarian needs of the Iraqi people. Iraq rejected the program. In 1995, the Security Council, with full US leadership and support, adopted a revised oil-for-food program, which Iraq finally accepted at the end of 1996. The first food shipments under this program arrived in Iraq in March 1997. In February 1998, based on the Secretary General's recommendations that additional funds were needed to meet the needs of the Iraqi people, the Security Council adopted an expanded oil-for-food program. That program was renewed again in November.

Oil-for-food is not a step towards lifting sanctions, nor does it reward Saddam. In fact, it makes sanctions—his worst enemy—sustainable. Without an oil-for-food program, history has shown that Saddam Hussein would starve his own people to force the international community to lift sanctions. Although we could use our veto at the UN to prevent the lifting of sanctions, the pressure of a sympathetic international community—absent oil-for-food—could well lead to the de facto breakdown of the sanctions regime.

The oil-for-food program has had a tremendous positive impact on conditions for the average Iraqi. Since the beginning of the program, \$2.75 billion worth of food, over \$500 million of medicine and \$400 million worth of supplies for such things as water, sanitation, electricity and education projects, has been delivered to Iraq. The average daily food ration has increased from 1275 calories per day in 1996 to 2100 calories per day now. However, problems remain. Although malnutrition rates have declined, they are still too high. Significant work on the sanitation and water, electrical, education, agriculture and other sectors is still required.

Sanctions have slowed considerably Iraq's ability to expand oil exports. We estimate that sanctions have prevented Iraq from exporting more than \$120 billion worth of oil from 1991 to 1996. We have in the last two phases of the program permitted funds to be earmarked for the importation of carefully screened spare parts and equipment to improve Iraq's crumbling oil infrastructure to fund needed humanitarian purchases. Those spare parts have just begun to arrive and it will be many months before there will be significant growth in Iraqi ability to export oil.

We are also discussing in Security Council capitals how to keep Oil-for-Food viable and effective. We have proposed that the Security Council consider raising the



ceiling on oil sales consistent with Iraq's legitimate humanitarian needs. In the short run, Iraq would be unable to expand oil exports. Over time, allowing increased Iraqi oil exports would address concerns regarding the shortfall in revenues needed for humanitarian purchases. Saddam would not benefit from these increased oil export revenues. The revenues would be put in an escrow account and released only for the purchase of humanitarian goods.

Raising the ceiling on revenue available for the purchase of humanitarian goods also would serve to counter growing calls from Arab states and Security Council members to lift sanctions outright. By removing the root cause of calls for lifting sanctions, we free our allies in the Arab world and elsewhere to support our broader Iraq policy objectives. We also draw Security Council support away from more radical French and Russian proposals to lift sanctions altogether.

We also understand your concerns about the current oil market situation. However, Iraq is only one among several factors which has adversely impacted oil prices over the last year. Our Iraq sanctions policy, moreover, has never been linked to the price of oil on world markets. This was true in the early 1990s when Iraqi oil was completely off the world market, putting upward pressure on oil prices, and it remains the case today. Allowing oil price considerations to drive our sanctions decisions, or seeking to use sanctions to target oil prices, would undermine our ability to maintain an international consensus aimed at containing Saddam Hussein as well as to provide for the humanitarian needs of the Iraqi people.

The US will continue to work to improve the oil-for-food program, and to ensure that it serves its intended purpose. In February, the UN Secretary General reported that there are \$275 million worth of medicine sitting in Iraqi warehouses undistributed. This is unacceptable, and we will work to change it. We will continue to scrutinize every contract for goods under the oil-for-food program and can veto any contract that we judge to be inappropriate or ill-advised. Given the absence of UNSCOM and IAEA, which have a role in monitoring dual-use goods, we have tightened our standards for contract approval. In January, the Security Council formed three panels to examine disarmament, humanitarian and Kuwait-related issues. We expect that the humanitarian panel's report, due in mid-April, will suggest additional changes that may enhance the program's effectiveness.

Were international support for effective UN sanctions regimes to erode, Saddam Hussein would be a much greater threat to the world community. He would quickly regain the free use of ten to fifteen billion dollars per year to put into his WMD programs. Moreover, the prospect of Iraq without UN sanctions would also have a much greater negative impact on oil prices.

We remain concerned about the illegal traffic of oil and petroleum products out of Iraq—to Turkey, Jordan, Syria and the Persian Gulf. Each of these avenues presents unique problems, and we are addressing each of them differently. We continue to work with Turkey to find a way to bring illicit trade over the Turkish border within the framework of the oil-for-food program. We believe a similar approach should also be taken regarding Syria. With respect to the smuggling of Iraqi gasoil through Iranian territorial waters, we have had considerable success over the past year in combining efforts to bring third-country pressure to bear on Tehran to end the trade with more direct military actions. This has included bombing of the section of the Basra refinery devoted to this trade during Desert Fox, and the conduct of "surge operations" by the multi-national Maritime Interception Force or "MIF," in areas of the northern Gulf known to be used by the Iraqis and others as routes for smuggled cargoes. As for Jordan, although the UN has taken note of Jordan's trade of bartered humanitarian goods in exchange for Iraqi oil at concessionary prices, we continue to work to reduce Jordan's dependence on Iraqi oil.

Although the oil-for-food program is not perfect, it is essential to our policy of containing Saddam until there is a new government in Baghdad. Without it, sanctions would be much more difficult to sustain. Saddam Hussein would once again have control over tens of billions of dollars a year to spend on weapons of mass destruction.

Over the long-term, however, the only way to ensure that Saddam no longer threatens either his people or his neighbors is to work for a new government in Iraq—one that will maintain the territorial integrity and unity of Iraq, respect the rights of Iraq's people and Iraq's neighbors, and fulfill Iraq's international obligations. We are committed to helping Iraqis achieve this regime change or transition.

Thank you, and I welcome any questions you may have.

Mr. BARTON. Thank you. Mr. Williams, your statement is in the record in its entirety and we will recognize you for up to 7 minutes to elaborate on it. We welcome you as one of the members of the

Railroad Commission from Texas. I believe you are the newest member. You have a distinguished background. I won't put that all in the record, but you are a former administration official in the Bush Administration, you have a distinguished record in the private sector and public sector in Texas. We are very glad that you could testify today.

#### STATEMENT OF MICHAEL L. WILLIAMS

Mr. WILLIAMS. Chairman Barton, thank you, and members of the committee, thank you for the opportunity to be with you. Before I go any further, Congressman Hall, thank you for the kind words earlier this morning.

I appreciate this opportunity to testify on behalf of the Texas Railroad Commission on the impact of the United Nations sponsored Oil-For-Food Program and the impact that it has on the vital interests of Texans, as well as the Nation.

Admittedly, the goal of the Iraqi Oil-For-Food Program is quite laudable. However, I must admit that as presently structured, that program is adverse to the interests of Texans and Americans. No Texan would take issue, and quite frankly no American would take issue with a responsible attempt to provide food and medicine and other necessities for the Iraqi people. Arguably, however, we do have some serious doubts that the program is actually meeting the humanitarian needs of the Iraqi people, and nonetheless quite frankly it is more troublesome that Iraq is being permitted to sell oil and make money out of the pockets of Texas producers and, I might add, Oklahoma producers and other domestic producers, their workers and their families at the same time that Iraqi ground troops are firing at American fighter pilots who are protecting the no-fly zone. Moreover, by allowing Iraq to sell \$10.4 billion of oil during a 12-month period, irrespective of linking it to the impact that Iraqi production is having on worldwide crude oil supplies and price, provides no incentive for the Iraqis to be proper stewards of their crude oil reserves, nor is there any incentive whatsoever for the Iraqis to concern themselves with the harmful impact that their behavior might be having on producers worldwide, particularly those producers here in the U.S.

Quite the contrary, the Oil-For-Food Program places a premium on how much money Iraq is allowed to generate, rather than how many barrels of crude oil it is being allowed to sell. So the program encourages them to provide and dump as much crude oil as possible on the market during the 6-month period to reach that \$5 plus billion mark with no regard to the price per barrel.

The Oil-For-Food Program doesn't just permit Iraq to act in a way that is adverse to American interests, but to some extent it encourages them to do so and that puts domestic production at great risk. We have already heard today about the cost and what happens to domestic production when prices are running at somewhere below \$15 a barrel. What is happening in Texas is that we are now at an all-time low for oil rig count. We have 191 oil rigs presently in service compared to 377 at this time last year. Between February 1998 and 1999, some 9,500 wells in Texas were plugged.

In the same time period, some 2,200 wells were shut in. So wells in Texas and across the country have been placed at great risk be-

cause of the impact of Iraqi production on the world market depressing prices.

And what is the impact in terms of what is happening to real people? In Texas we have had since December 1997 the loss of some 11,000 jobs. Unemployment claims in Texas has risen some 304 percent compared to this time last year. And I might add that I grew up in the oil patch in Midland—and most people typically think of folks in the oil business as being, as we frequently say, a bunch of J.R. Ewings with cowboy boots and exotic gold cuff links. The oil patch is comprised of a wide variety of folks; and of those 11,000 folks who have lost jobs, many of the people who have lost jobs in the oil fields are Hispanic, and many of the people in the accounting departments and the personnel departments and the H.R. departments and otherwise are African-American. This is an industry that represents the bulk and the diversity of Texas, and it is being hurt.

What is happening to our schoolchildren? In Texas, about two-thirds of the 1,000 school districts in the State of Texas receive some funding from oil and gas revenues, particularly from ad valorem and tax revenues. Ninety-five of those school districts receive half of their funding from that source, and we are estimating in Texas that we lose anywhere from \$150 million to \$160 million because of the depressed prices.

This is also affecting those royalty interests owners in Texas, many of those who are living on fixed incomes who look for that royalty check each and every month in order to make payments. But obviously with depressed prices, they are not in a position to do so.

And so what might be done? While I am the newest member of the Texas Railroad Commission and have not been around a long time, I will take the liberty to make some suggestions. And the first might be that Congress and the administration might press the United Nations to conduct a thorough investigation to determine whether the Iraqis, indeed, are using the designated amount of oil-for-food funds to provide food and medicines and other necessities for the Iraqi people.

The second thing, frankly, you might look to restructure the oil-for-food production formula. Currently the cap allows for \$5.26 billion of Iraqi oil production every 6 months without regard to the number of barrels it would take to reach that target. And I have heard that this program has never linked the production to the barrels; and, quite frankly, I think that would be helpful to do so, so that we would not encourage overproduction and a depression on prices.

And the third would be that we look at and revisit the notion of allowing the Iraqis to use the oil-for-food funds in a way to rebuild Iraq's oil infrastructure. I just want you to think about the irony of producers in Texas and Oklahoma and elsewhere who have to look for refinancing and have to find money and capital in order to go out and work rigs; and we are providing an opportunity for the Iraqis who are now assisting in providing the oversupply to the industry. We are providing dollars for them to buildup and retrofit their infrastructure.

Mr. Chairman and members of the committee, I thank you again for the opportunity of being with you this morning; and I stand to answer any questions that you might have.

[The prepared statement of Michael L. Williams follows:]

PREPARED STATEMENT OF MICHAEL L. WILLIAMS, COMMISSIONER, TEXAS RAILROAD COMMISSION

Mr. Chairman, and members of the committee, I appreciate this opportunity to testify on the impact of the United Nations sponsored oil-for-food program on our vital national energy interests. For time purposes, I have summarized my testimony and have submitted additional written testimony for the record.

Founded in 1891, the Texas Railroad Commission's chief responsibility is to protect and conserve one of Texas and America's most precious natural resources: oil. As America's number one producer of oil, Texas' proper resource management of oil has yielded profound contributions for both our state and the nation:

- The discovery of crude oil at Spindletop in Beaumont, Texas in 1901 changed the face of the American transportation industry and gave way to thousands of oil and related service companies that have employed untold millions of Americans.
- Plentiful supplies of Texas crude oil made possible our modern automobile industry. World War II may well have taken a different course.
- Allied Forces would not have sailed to victory on a sea of oil if it were not for Texas' extra production capacity and Hitler's lack of oil during World War II.
- And today, petrochemicals derived from oil and natural gas have enabled us to create everything from Teflon to televisions.

Crude oil exploration and production have been central to the modern industrial age. As we approach the 21st Century, we must continue to protect and conserve this precious natural resource that has proven a powerful economic, military, political, and strategic tool. And with the proper stewardship of the 120 billion barrels of crude oil still locked underground in Texas, our nation's energy future could be just as bright.

THE IRAQI OIL-FOR-FOOD PROGRAM AS PRESENTLY STRUCTURED THREATENS AMERICAN INTERESTS

The Iraqi oil-for-food program is another matter. The goal of the program is quite laudable. No Texan would take issue with a responsible attempt to provide food and medicine for the Iraqi people. Arguably, there are some serious doubts that the program is actually meeting the humanitarian needs of the Iraqi people.

U.N. Secretary General Kofi Annan, someone who knows the ins-and-outs of the program, admitted in February, "Only half of the \$540 million worth of drugs and medical supplies delivered to Iraq since the program was launched in 1995 have reached hospitals and clinics."

The Iraqi oil-for-food program, as presently structured, is adverse to American interests. It is more than troublesome that Iraq is being permitted to sell oil and take money out of the pockets of Texas producers, workers and families at the same time that Iraqi ground troops are firing at American fighter pilots who are protecting the "no-fly zone."

Moreover, by allowing Iraq to sell \$5.26 billion of oil during a six month period (irrespective of the impact that Iraqi production has on worldwide crude oil supplies or price), there is no incentive for Iraq to properly steward its crude oil reserves. Nor is there an incentive for Iraqis to concern themselves with the harmful impact their behavior might have on producers worldwide.

Quite the contrary, the oil-for-food program places a premium on how much money Iraq is allowed to generate rather than how many barrels of crude oil it is allowed to sell. In so doing, the program encourages Iraq to sell as much crude oil as possible during the six-month interval to reach the more than \$5 billion mark, with no regard to price per barrel. Oil for food doesn't just permit Iraq to act in a way that is adverse to American interests, it encourages it to do so.

While there is no certain number, there appears to be developing a consensus in the industry, that the amount of excess oil on the world market is roughly between one and two million barrels a day. That said, on average, Iraqi oil production accounts for more than 2.3 million barrels a day. Furthermore, evidence indicates that Saddam may be illegally exporting an additional 100,000 barrels a day. Even the U.S. Department of Energy admitted in late 1998, "[The] increase in Iraqi oil exports has been playing a significant role in the world oil glut which is responsible for the sharp decline in world oil prices."

We may be dropping bombs on Iraq without visible retaliation; however, Saddam Hussein is engaged in a clandestine campaign of full-scale economic terrorism. His conduct is keeping world oil prices low by pouring even more oil onto an already saturated market under the guise of the oil-for-food program.

#### THE OVERSUPPLY OF CRUDE OIL HURTS DOMESTIC PRODUCTION

In his letter to Congress earlier this month, President Clinton stated that "The United States has expressed its support for [once again] lifting the cap on Iraqi oil exports under the oil-for-food program." In fact, the Clinton Administration advocates eliminating the cap. In light of Secretary Annan's recent report, however, that dog simply won't hunt.

More oil on the already flooded world market would adversely affect oil prices across the globe. It's Supply and Demand 101: the more product on the market, the cheaper it is. In the United States where production costs are relatively high and production is relatively low, drastic price declines have sent the rig count and production spiraling. Since last year, U.S. production has fallen by 4.7%. In Texas, production has fallen by 7.4%. The rig count, the historical barometer of industry vitality, is down 78% since a year ago. Texas' rig count has plunged 97% during the same period.

#### LESS DOMESTIC PRODUCTION MEANS LESS FOR TEXANS

The Iraqi people are not the only ones who stand to lose something under Oil for Food. Texans like the Ryder family from our state's Permian Basin have seen their lives fall apart during the past year. In their early fifties, Ronnie Ryder and his wife, Inatte, used to think retirement might not be so far off. After working in the oil business for 30 years, Ronnie is now looking for "any job he can get." Inatte is back in school and working nights at an elderly care facility. Unfortunately, the Ryder's story doesn't stop there.

Until the price crisis hit, Ronnie's son was working in a roustabout gang for Phillips Petroleum. Today, with their first child on the way, Rusty and Priscilla Ryder don't get to spend much time together as Rusty has been forced to take a job driving trucks cross-country. I wish the Ryder's story was the exception, but I'm afraid that in the oil patch, it's become the rule.

The overwhelming majority of producing wells in Texas are marginal wells—or wells that produce 10 barrels or less per day. Those wells are placed in jeopardy by low and unstable prices. With profits falling and the amount of oil on the market increasing, thousands of Texans who operate marginal wells have been forced to shut in wells—an irreversible process. When those wells get shut in workers get shut out.

Economic studies have shown that for each dollar invested in the oil and gas industry at the wellhead, there is a positive economic effect of \$2.91 on the Texas economy. Without marginal well production, millions of dollars and thousands of Texas jobs will be severely impacted. State unemployment will increase, sales tax revenues will drop, and property tax revenues used to fund schools will plummet.

As the number of producing marginal wells decline because they are no longer economically viable to produce, royalty and interest owners are directly impacted by a loss in revenue. Royalty income has sustained countless families, small farms and ranches and rural towns for decades. In turn, royalty dollars circulate many times through a local economy by way of the grocer, the doctor, the pharmacist, small shops, retail stores, and service providers. In many rural communities people are dependent on royalty payments for their daily existence. Shutting in or reducing marginal well production could mean financial devastation to some.

The importance of marginal well production and its rippling effect on the state economy is reinforced in a recent article published by the Texas Workforce Commission. According to their December 1998 publication of the Texas Labor Market Review, mining (oil & gas extraction) continued its trend of declining employment and loss of jobs. The article states that persistently low crude oil prices are placing tremendous pressure on mining employment counts and are affecting other industries that support drilling and explorations activities in Texas. Employment in all three of the major industries within the goods producing sector (mining, construction, and manufacturing) declined in December, for a total loss of 2,400 jobs. As of January 1999 release, mining was suffering the seventh straight month of declining employment. Employment estimates in the mining sector alone decreased from 169,300 in January 1998 to 160,600 for January 1999—a 75% decrease of some 8,700 jobs. Additional workforce impact information can be found on the Texas Workforce Commission web site at [www.twc.state.tx.us](http://www.twc.state.tx.us).

Low oil prices are also taking a toll on Texas' greatest resource: our children. It is estimated that Texas' statewide Fiscal Year 2000 school district losses will be between \$150-\$160 million. The impact is already being felt by many cities and counties across our state as jobs are lost, related services are cut, and state and local revenues plunge. I think David Goodman, superintendent of Andrews Independent School District in West Texas summed it up best when he asked, "Do you know of any businesses that could stand to lose one-third of its operating budget and still open its doors the next year?"

The Texas Comptroller's Office recently surveyed appraisal districts and contract firms that appraise oil and gas reserves for property tax purposes. Although the appraisals are not complete, the appraisers' consensus is that oil properties will decline in value from January 1, 1998 to January 1, 1999 by about 40% and gas properties will decline about 15%. In school districts where oil and gas reserves comprise more than \$250 million, these value losses were translated into property tax levy losses and are available on the Comptroller's web site at [www.window.state.tx.us/taxinfo/proptax/levyloss.html](http://www.window.state.tx.us/taxinfo/proptax/levyloss.html).

According to the American Petroleum Institute, at least 51,000 Americans have lost their jobs since December of 1997 because of low oil prices—nearly 9,000 of them are in Texas. Compared to a year ago, oil-related unemployment claims are up 304%. Contrary to the impression left by popular culture, those are not men and women who wear exotic cowboy boots and wear gold watches. Rather, they are Americans like you and me, *like the Ryders* with real car payments, real mortgages, and real families to feed.

#### WHAT TO DO

Like the families of America's steelworkers or farmers, oil families are suffering in ways that they have not felt before. And, like we have to the steel and farming industries, we should reach out and correct policies like Oil for Food that make bad times even worse. For the sake of American families and schoolchildren, the oil-for-food program should be revisited and restructured. To that end, I would urge you to consider the following.

- First, Congress and the Administration might press the United Nations to conduct a thorough investigation to determine whether Iraq is using the designated amount of oil-for-food funds to provide food and medicines for the Iraqi people. According to U.S. National Security Adviser Sandy Berger, "Saddam is so indifferent to the suffering of his people that he still refuses to make full use of this allowance."
- Secondly, while the humanitarian needs of the Iraqi people might necessitate additional revenues, we should seek to insure that any attempt to eliminate the crude oil production cap takes into account and does not exacerbate the negative impact that additional Iraqi production might have on domestic producers.
- Third, the United States should call on the United Nations to revise the resolution so that oil-for-food funds are not used to rebuild Iraq's oil infrastructure. Common sense says that it is not in the United States' best interest to rebuild a competitor's economic and industrial arsenal.
- Fourth, we should urge the United Nations to restructure the oil-for-food production formula. Currently, the cap allows for \$5.26 billion dollars of Iraqi oil production every six months without regard to the number of barrels it would take to reach that target. Nor does it take into account the impact Iraqi production has on world oil prices. During every six-month period the U.N. should designate the number of barrels of oil Iraq would be allowed to produce to reach a designated revenue target. We must urge that the target be placed at a level that neither fosters price instability nor that is harmful to the preservation of domestic production.
- Fifth, members of Congress from producing and non-producing states should band together—as they have recently for other vital U.S. industries—to boycott the sale of Iraqi oil within the United States, thereby mitigating the insult to our men and women in uniform stationed in the Persian Gulf and working in the oil patch.

It's a disgrace that hard-working Texans have been forced to bear the brunt of a skewed foreign policy that does more harm than good. Congress and the Clinton Administration should revisit and revise the United State's support of the oil-for-food program as it stands—if not for our oil producers, for the sake of the coming addition to the Ryder family.

RAILROAD COMMISSION OF TEXAS  
AUSTIN, TEXAS  
March 22, 1999

The Honorable JOE BARTON  
2264 Rayburn House Office Building  
Washington, D.C. 20515

DEAR MR. BARTON, there's a clear and urgent need to evaluate our nation's domestic energy policy. Texas Railroad Commissioner Michael Williams will testify before the House Subcommittee on Energy and Power on Friday, March 26th. He'll offer his insight into our nation's domestic energy policy and the U.N.-sponsored "Oil for Food" program with Iraq. I want you to know that as Chairman of the Railroad Commission of Texas, I'm in complete support of Commissioner Williams' testimony.

When the energy industry in Texas suffers, we all feel its effects through decreased state revenues and fewer dollars for our state's public schools. The Texas Comptroller of Public Accounts estimates that with every dollar drop in the price of oil, approximately 10,000 Texas jobs are lost. Lower prices and an increasing dependence on foreign oil means many of those jobs are going abroad. These losses are particularly staggering when you consider that the U.S. already imports more than 50% of the oil we use, placing our nation more and more at the mercy of foreign—and often unfriendly—governments.

In Texas, Governor George W. Bush recently signed emergency legislation that gives certain oil and gas producers temporary exemptions from severance taxes when prices fall below set levels. It's not a silver bullet, but it's a step in the right direction and shows that Texas is committed to helping one of our state's most important industries. Now it's time for Washington to step up to the plate for domestic producers.

The Independent Petroleum Association of America will hold Crude Awakening rallies in Washington, D.C., Austin, Texas and across the nation this week where members will sign the "Oil Price Crisis Relief Resolution." *The IPAA and its members make it very clear: the federal government needs to respond to this downturn in prices.* The resolution states that Washington should support the filling of the Strategic Petroleum Reserve (SPR), get behind a reduction of taxes on marginal wells, work to encourage domestic production, investigate improper trade practices in the U.S. market by foreign suppliers, and offer much needed regulatory reform for the industry.

Your actions in the coming weeks will show just how committed Washington is to a strong domestic energy policy. It's more than simple economics. It's an issue of critical importance for our national security. With best wishes, I am,

Sincerely,

TONY GARZA  
Chairman

Mr. BARTON. We thank you, Mr. Williams. The Chair is going to recognize himself for 5 minutes. We are going to be very flexible. We have got four members here. We are going to use the 5-minute rule, but we are going to give additional time and probably do additional questions; and if people want to interrupt, that is fine.

If the staff would put the first chart there, the EIA, the Iraq crude oil production chart. Let's put that back up on the easel.

I want to start off—this is off of the CNN news line that we get on the Internet: March 4, the headline is "British jets attack Iraqis in the southern no-fly zone." March 6, "U.S. launches new attacks in Iraq no-fly zone." March 14, "U.S. jets strike at Iraqi northern no-fly zone." March 15, "U.S. war planes attack Iraq's northern no-fly zone." March 16, "Iraq breaks sanctions by flying pilgrims to Saudi Arabia." March 17, "Sanctions-busting Iraqi pilgrims snub no-fly zone rules again."

This chart shows that right before the Kuwaiti invasion by Iraq, they were producing about 3.5 million barrels. Once the invasion occurred and President Bush declared that would not stand, their production fell to about 500,000 barrels per day. And then when the oil-for-food program began in January or late November 1996,

it started ratcheting back up; and it is currently up to 2.6 million barrels a day.

Mr. WOOD, does the State Department dispute any of those figures?

Mr. WOOD. I don't believe we do.

Mr. BARTON. Okay. If it is true that Mr. Hakes' statement that they—I mean, at least before the invasion they were producing for a short spike period up to 3.5 million. But I believe, Mr. Hakes, you said you don't believe they could get much higher than what they are doing right now?

Mr. HAKES. They would need a lot more spare parts and capital development to repair the equipment to get back up to that level.

Mr. BARTON. So for all intents and purposes, is it fair to say that we are allowing Iraq to produce as much oil as they are capable of producing? Is that a fair statement?

Mr. WOOD. It is certainly true at the moment, yes, sir.

Mr. BARTON. I can only characterize the current policy, after listening very intently and scanning the testimony, that our Iraqi policy is designed to maximize Iraqi production at the expense of the marginal producer in the United States, which is a small independent oil and gas producer. And I don't, quite frankly, think that makes a lot of sense. Do you disagree that if it is not the intent, that is the effect of this policy, Mr. Wood?

Mr. WOOD. The intent of the policy, sir, is to maximize international support for the continued isolation and containment of Iraq.

Mr. BARTON. And it seems to be working really well. "Sanctions-busting Iraqi pilgrims snub no-fly zone rules again." Now, that is not some political headline. That is the CNN news line March 17, 1999. Could you explain to me how these sanctions are working when Iraq can produce as much oil as they are capable of, regardless of the price; they can fly pilgrims to wherever they want to in the world; they have thrown our inspectors out. So please explain to me and the American people how effective these sanctions are. I think the sanctions are driving constituents in the oil producing States with marginal producers out of business. I think that is what the sanctions are doing.

Mr. WOOD. Mr. Chairman, there is no question that Iraq is, as it always has, resisting sanctions implementation. At the same time, first, the sanctions are being very effective in controlling Iraqi exports and the revenues that come from those exports.

Mr. BARTON. But the only export they have, Mr. Wood, is oil. Maybe some olives, I don't know.

Mr. WOOD. I understand and we are controlling with a high degree of confidence where the revenues from those exports go.

Mr. BARTON. I see.

Mr. WOOD. We are also—we are preventing, through this regime, the use of those revenues for the purposes that Saddam Hussein would most like to use them for.

Mr. BARTON. Let me ask this question, because my first 5 minutes is about out. Where did this determination that they needed \$5.2 billion every 6 months come from? Who made that determination?



Mr. WOOD. That was the result of an extensive United Nations study that was completed in February 1998, I think.

Mr. BARTON. And did the Iraqi government have any input into that study?

Mr. WOOD. The Iraqi government refused to cooperate with that study in large part. It was conducted, for the most part, by organizations like the World Food Program and others.

Mr. BARTON. Okay. Now, do we have any confidence that the food that is being purchased is actually getting to the Iraqi people?

Mr. WOOD. We do have, obviously, some problems. The papers reported very recently that the Iraqis were—that the government was not distributing medicines, for instance, that were supposed to be distributed. But at the same time, we know that Iraq has imported an average of 3.8 billion metric tons of food a year, which is more than 50 percent higher than the annual average for the 6 years prior to the program's implementation.

We know that the malnutrition rate in the government-controlled south has stabilized over the past year at about 15 percent for infants and 25 percent for children between 1 and 4 years of age; and that is an improvement over the previous years. We know that UNICEF reports that malnutrition in the north for the Kurds has dropped—for children under 5 has dropped to 25 percent last year from 30 percent in 1997 and 37 percent in 1994.

So we have got some clear indications that the goal of the oil-for-food program, which is to take care of the Iraqi population in spite of Saddam Hussein's intentions, is being achieved.

Mr. BARTON. Now, is it true—one of my briefing papers said that Saddam Hussein has refused to let any of this money be spent on food that is purchased or manufactured in the United States. Is that true?

Mr. WOOD. That is only true very recently, sir.

Mr. BARTON. But it is true right now?

Mr. WOOD. Right, it is true. We have under the oil-for-food program roughly \$240 million of U.S. products have been purchased, of which—

Mr. BARTON. I want you all to listen to this. This program has been in effect since what, November 1996?

Mr. WOOD. Right.

Mr. BARTON. And we allow up to \$5 billion every 6 months, so that is potentially \$10 billion a year. So that is potentially maybe \$12, \$13 billion since we are just into 1999; but I am told that it has not been that much. We have spent how many billions of dollars? Do you know the exact number? I am going to guess it is \$8 or \$9 billion, but I don't know that.

Mr. WOOD. Well, it is important to remember again that the proceeds for the oil-for-food, a large part of it, a third of it goes to the compensation commission to compensate Kuwaitis for their losses—Kuwaitis, Americans, and others for their losses during the Gulf War. So not all of that program goes for the purchase of food.

Mr. BARTON. Give me your best number for how much of the billions of dollars that they have collected has been spent on food that actually went into Iraq.

Mr. WOOD. Our best understanding is that \$902 million have been approved for food.

Mr. BARTON. Only \$902 million?

Mr. WOOD. Let me keep going. \$172 million for health.

Mr. BARTON. Let's just focus on food right now. A little less than a billion dollars on food? Is that your best number?

Mr. WOOD. That is right.

Mr. BARTON. Less than a billion, and of that billion, \$240 million was purchased from the United States sources?

Mr. WOOD. That is right.

Mr. BARTON. Okay. Well, I think I could equate that to how many jobs have been lost and how many millions of barrels of production have been lost in the United States. But that would be hitting a little bit below the belt. But I think you get my drift.

Mr. Hall is recognized for 5 minutes.

Mr. HALL. Thank you, Mr. Chairman. Mr. Williams, I will start with you. You have—one of your cures for the dilemma is that we get the U.N. to do some searching and see what is happening with the food when it gets there, who it goes to. I know you are highly educated, and I also know that you have got an awful lot of street sense, street smarts. Doesn't your street sense tell you that if they couldn't find the dang nuclear plants, that they are going to have a hard time catching those guys stealing that food?

Mr. WILLIAMS. It probably does and it should. The import of that suggestion goes to the fact that we need to have—someone needs to do the investigation and make the—

Mr. HALL. You pointed out by your answer now the dilemma that we are in. And my thrust probably is going to be to see what we can do to kill the policy. I don't think it is a good policy. I don't think it is a sensible policy. We used the Space Station for foreign policy and wound up putting money galore into Russia; and still apparently we are not saving the Space Station. Here we are using food-for-oil as another—really a kind of a—I don't know why we would try to have a good foreign policy with Iraq, but apparently somehow we are trying to keep our foot in the door.

It seems to me—I am not saying cut all the trees and kill all the whales and everything is bad and we ought to disconnect everybody in the world. But I don't see any sense in dealing with Iraq. I don't like to starve children, but war is war; and we are in a state of war with those people. We are bombing them probably today or tonight or tomorrow or whenever we are going to.

Mr. Wood, what do you mean by saying you are controlling where the revenue goes? That thought occurred to me—I heard you say that a moment ago. Where does the revenue go? I will come back to you, Mr. Williams.

Mr. WOOD. As I indicated, the revenue goes into an escrow account that is only released for authorized purposes.

Mr. HALL. Now, this is food for oil.

Mr. BARTON. But it is really not food for oil. That is what is so frustrating about this. They have collected somewhere between \$5 and \$6 billion and they have spent a little less than a billion on food. So it is called food for oil, but it is really not food for oil.

Mr. WOOD. Let me correct what I said earlier because I was giving you the most recent statistics. Since the beginning of the program, a total of \$2.75 billion has been used to purchase food. Over \$500 million has been used to purchase medicine and \$400 million

for supplies in areas of water, sanitation, electricity, and education projects.

Mr. BARTON. So that gets us up to about \$3 billion, but a little over \$2.5 billion for food?

Mr. WOOD. And, again, don't forget the oil-for-food program has only been at the \$5.2 billion level for a year or so.

Mr. BARTON. Right. I am going to give Mr. Hall additional time; and I don't want to dominate this, but that infuriates me. This study that was done apparently was done with a great degree of effort to find out what the true needs were, but you have doubled the program; and the population of Iraq has not doubled in the last year. I mean, I can draw no conclusion to that, sir, but that that is just a pure political judgment on behalf of the bureaucrats in the United Nations to appease Saddam Hussein. I may be wrong, and the studies may show it different; but if the first study was an accurate study, the Iraqi population is not that fertile that they are expanding the population so greatly that they need to double the amount of food and supplies that they need. But, Mr. Hall?

Mr. HALL. Go ahead and get your answer from him.

Mr. WOOD. Mr. Chairman, I think that the easiest example I can give you is that OPEC has just cut back its sale of oil.

Mr. BARTON. Yes, they did. And Iraq did not and Iraq is a member of OPEC.

Mr. WOOD. This is following in December Baghdad's call for the overthrow of the regime of Saudi Arabia and the leadership in some of the other Persian Gulf OPEC members.

Mr. BARTON. Which have the full faith and credit of the United States of America to guarantee that this will not happen by military means.

Mr. WOOD. I understand. But the OPEC nations themselves believed it was better for them to cut back their oil sales than to seek a reduction in the oil-for-food program. And the reason for that, we believe, is a combination of humanitarian concern for people of Iraq and the recognition that taking care of the humanitarian needs of the people of Iraq is an absolute prerequisite to maintaining the integrity of sanctions implementation and to returning, as we hope will occur soon, the weapons-of-mass-destruction inspectors and the other elements of the policy for containing Iraq.

Mr. BARTON. Well, hopes are one thing, sir, but reality is another. And I don't believe anybody on this subcommittee opposes providing in some way food and medicine for the people of Iraq. That is not the message we are sending. But it really does not appear, so far as this hearing is going along, that that is what is happening. And with all due respect, I don't think appeasement works; and I don't think it works with Saddam Hussein, and I would disagree with the collective wisdom of the OPEC nations to think it is okay to appease Saddam Hussein and let him produce as much oil as he wants.

Mr. Hall, I have used almost your entire 5 minutes, so I will give you another 5 minutes. We will give you an additional 2 or 3 minutes.

Mr. HALL. You are the Chairman. It makes a difference.

Mr. BARTON. I am just a little riled up about this.

Mr. HALL. To reclaim my 7 minutes—and you have covered some of the ground I wanted to cover, and of course we have talked about the economic advantages that the Iraqi government and Saddam Hussein has taken. I think, Mr. Hakes, you can tell us another advantage that he has taken. Our research and development expert from Randall and Dewey, Dave Bole, is going to be testifying in a little bit; but we have read his testimony and he has indicated that not only do the Iraqis have this advantage, the two advantages that the Chairman drew out there, they have also made Iraq the swing oil producer, have they not, in that whole part of the country?

Mr. HAKES. Not as I understand that term.

Mr. HALL. Well, let me tell you how I understand the term. It may be wrong. They sell the last barrel into the market. And doesn't that define the market price?

Mr. HAKES. Well, everybody that sells into the market is in a sense selling the last barrel.

Mr. HALL. The last seller getting the most price for it.

Mr. HAKES. The swing producer, as I have normally seen it used, is referred to Saudi Arabia who has the ability to raise and lower production because they have more excess capacity than they use.

Mr. HALL. They have a bigger hole in their well than anybody else.

Mr. HAKES. Right. For instance, a year ago before they made these cuts, they still had the capacity to almost immediately increase production by 2 billion barrels; and they also have been more willing to cut back. So they sort of have been the only swing producer that is able to raise and lower. The Iraqis don't have any ability right now to go above the 2.5.

Mr. BARTON. But they do have the ability to go below 2.5.

Mr. HAKES. As does any producer.

Mr. BARTON. I mean, there is no structural impediment to the Iraqis reducing their oil production if they wanted to.

Mr. HAKES. Right. Particularly the state-owned companies have that option if they are willing to.

Mr. BARTON. And all the oil in Iraq is state owned.

Mr. HAKES. Right. I think the four or five largest companies in the world right now are state-owned companies including Iraq.

Mr. HALL. Mr. Hakes, to where we are on the same line, his testimony will be—it says, "Let me explain what allows Iraq to become the swing producer." I guess that is why we ran across that. "Currently many industry analysts estimate that worldwide oil productive capacity that is, production that could quickly be added to the world market exceeds demand by only about 4 percent." And says, "This increase has allowed Iraq to become the world's swing producer, the producer that sells the last barrels into the market and thereby defines the market for the entire market." Is that not your understanding of what a swing producer is?

Mr. HAKES. No.

Mr. HALL. Okay. I am sorry that I hadn't set that out for you.

Mr. HAKES. I have heard that discussed, but I am not sure that is the way it works.

Mr. HALL. That is a good thing to allude to. Call it whatever type producer you want to; he in the position of selling the last and defining the market.

Mr. HAKES. The market is set by all producers and all buyers.

Mr. HALL. In diamonds or whatever.

Mr. BARTON. Mr. Hall, could you ask one more question and then let us go to Mr. Shimkus. We will come back and give you additional time after the other three.

Mr. HALL. I would like to just ask a quick yes-or-no from Mr. Wood. Are we the only Nation supporting the oil-for-food program?

Mr. WOOD. By no means, sir.

Mr. HALL. A number of other nations? With Iraq?

Mr. WOOD. Absolutely, sir. Both in the Security Council and around the world.

Mr. HALL. You have answered. What would be the impact on our foreign policy and our relations with our allies if the U.S. were to successfully push for an end to the oil-for-food program?

Mr. WOOD. We believe that the sanctions, all of the programs aimed at containment of Iraq, would be seriously eroded. While we retain the ability within the Security Council to veto any legal change in these programs, we believe that their observance by other nations would erode quickly. We would face growing international pressure to lift sanctions. We would have less support for a hard line on maintaining inspections of Iraq's weapons-of-mass-destruction programs. We believe that this would seriously weaken our ability to take a tough line with Iraq while we are pursuing the other track—the two other tracks, which are the enforcement of the no-fly zones and our efforts to replace the regime of Saddam Hussein.

Mr. HALL. Last question. Are you all talking to the oil producers about the impact it has on them?

Mr. WOOD. Absolutely, sir. And I might add—

Mr. HALL. Are you listening to them?

Mr. WOOD. We are, sir. Oman was one of the original sponsors in the United Nations of the first oil-for-food program proposal back in the early 1990's.

Mr. BARTON. Could I just—Mr. Hakes and Mr. Wood, before we go to Mr. Shimkus, are either one of you aware of any other Nation in the world that is permanently shutting in production that will never come back as a result of this program? You say that the other nations support the program. I am not aware of any other nation in the world that has the marginal-well situation like we have in the United States that is being permanently lost because of this. Are there other nations?

Mr. HAKES. I am not as familiar with—Canada might possibly have some, but I would agree with the drift of your question that the United States is in a rather unique position on this issue.

Mr. BARTON. I am told we have lost about 600,000 barrels a day just within the last year. It is never going to come back.

Mr. HAKES. The December-to-December figures going to December 1998, we had lost about 500,000 barrels a day; and it is higher than that now, I am sure; and there is also a leg effect because it discourages new investments, and sometimes that doesn't show up in production losses that you otherwise would have had.

Mr. BARTON. So with the exception of Canada, when the deputy under special assistant secretary talks about the rest of the world supporting this program, it is really the domestic small oil and gas producer in the United States that is supporting it by losing their job and losing their resources. There is no other—

Mr. HAKES. The point, I think, is very valid that the small producers have a very limited ability to come back once they are shut down. In other words, when the price goes down like this and then the price goes back up, that won't necessarily bring those—a higher price won't necessarily bring all of those producers back.

Mr. BARTON. I want to correct the record. It is the principal assistant deputy secretary. I am not trying to be facetious about that, sir.

Mr. Shimkus.

Mr. SHIMKUS. Mr. Chairman, I yield my time to my colleague from Oklahoma so he can catch his plane.

Mr. LARGENT. Thank you, Mr. Chairman. Mr. Wood, I am reading in your testimony that we got at 9:30 this morning. The second paragraph says that the administration's policy is to contain Saddam Hussein until he can be removed from power. It sounds to me that it is the administration's policy to sustain Saddam Hussein until he can be removed from power, and I want to make a statement and get you to respond to it.

As I have studied history throughout the world, the most motivating thing—if you want to foment change in a country, hunger is the most motivating factor to foment political change that we are trying to see in Iraq. And yet we are moving in the opposite direction. Would you like to comment on that? I mean, I am striking at the very fundamental policy decision that is being made.

And I want to say, too, just parenthetically here, that I understand that if we can see this change take place and we get a new regime in there and Iraq comes back on with their oil production and begins increasing their oil production, that we are in the same boat. So what I am really talking about is a foreign policy decision that currently is affecting independent producers; but if we are successful in our foreign policy, we still have the same problem that we have to deal with, and I understand that. So don't think that I am saying—or anybody up here is saying that the problem that we are having in Oklahoma is all because of our foreign policy. But this foreign policy is important, and I am just thinking that we are doing the exact opposite of what we need to be doing if our policy goal is to remove Saddam Hussein from power.

Mr. WOOD. We certainly agree with you that this is a very important foreign policy, and, indeed, in fact there is no issue on which the Secretary of State and our people in New York and others spend more time.

It is not our assessment that withholding humanitarian assistance under the oil-for-food program would be a better way to drive out Saddam Hussein. And I might add that it is not his assessment either. He has not cooperated with this program. In spite of the program, he has tried to keep food from his population. He has tried to keep medicine from his population. That is why we received these press reports a month ago. He finds it more useful to blame the world for the poverty and the malnutrition and the un-

happiness of his own people than to allow them to be adequately nourished.

He has consistently failed to cooperate with the oil-for-food program. He sees it as a threat. He does not see it as a bolster for his regime, and in this assessment, frankly, we agree with him.

Mr. BARTON. If he really felt that, he wouldn't have to sell any oil. If that were literally a true statement, he would refuse to let his state-owned oil company sell any oil. So it can't be true.

Mr. WOOD. During the life of the program, Saddam Hussein has interrupted the flow of oil on several occasions for periods of more than a month at a time. And, again, it is because his assessment is that—we believe that his assessment is that the world will take responsibility for his population even if he won't. And that may extend, as it has in some cases, to proposals to lift sanctions.

Mr. LARGENT. So in this world, we literally cannot force Saddam Hussein to do anything, including allow us to inspect weapons sites. We cannot force him to not fly in the no-fly zone. But what we can do, what we have been effective in doing is forcing food on him. Is that what you are telling us? That is the one thing that we have been effective in doing is forcing food on him when he didn't want it?

Mr. WOOD. I would have to say that I don't think that he is happy with what is happening in the no-fly zones.

Mr. LARGENT. Who distributes the food under this program?

Mr. WOOD. The Iraqi regime distributes it in the south under U.N. monitoring, and the U.N. itself distributes it in the north.

Mr. LARGENT. And where in the pecking order does the Republican Guard fall in? Who gets fed first?

Mr. WOOD. Again, I think that they are—they tend to be less malnourished than anybody else to begin with.

Mr. LARGENT. I think so. We are making them fat.

Mr. WOOD. I am not saying that it is the U.N. that is feeding them. I am not saying that it is this program that is feeding them. They have always been cared for better than the population at large.

Mr. LARGENT. Thank you, Mr. Chairman.

Mr. BARTON. We have been everywhere liberal in the use of time. I have consumed probably three times my 5 minutes, so if you have some additional questions.

Mr. LARGENT. It just seems to me that the administration's policy or our foreign policy in this issue right now is that we want to overthrow this evil empire, but we don't want to make anybody mad doing it. I don't understand that. That just really baffles me. We are going to kill them with kindness.

Mr. HALL. Will the gentleman yield?

Mr. LARGENT. Yes, sir.

Mr. HALL. Does it ever occur to you that we won't ask ourselves the question of whatever happened to consorting with the enemy? You know, they used to shoot you for that. I think it is a sorry policy, and I think this is a sorry program. And I think you are bringing it out very well. So give him 7 more minutes.

Mr. LARGENT. I will yield back, Mr. Chairman.

Mr. BARTON. Mr. Shimkus, do you want to reclaim original order or do you want me to go to Mr. Burr?

Mr. SHIMKUS. I would rather go original order, unless Mr. Burr has a pressing—

Mr. BARTON. Mr. Burr's plane is not until 4:15.

Mr. SHIMKUS. I imagine mine is too, or close to it.

Mr. Wood, I am sorry that I missed the initial fireworks, so welcome. And we are learning a lot, and I appreciate you being here, along with the other panelists. But it seems like you are getting the brunt of the fire right now.

I am trying to follow up on a statement that you said that our allies want this program and they are willing to curtail their own production while allowing Saddam Hussein to produce more, both on the food-to-oil program and through the black market, thus undercutting their prices on the world market. Our allies support this policy?

Mr. WOOD. What I am saying is that we have not received approaches from OPEC nations, and in particular the Gulf OPEC nations, seeking to curtail the oil-for-food program. Just the opposite. They have indicated strong support for the oil-for-food program.

Mr. BARTON. Would the gentleman yield on that?

Mr. SHIMKUS. I will.

Mr. BARTON. Surely you have got people in the State Department that understand if we drive the American marginal producer out of production, it helps every producer in the Middle East over time. And Iraq is part of OPEC. So they are crying with crocodile tears when they support this because every marginal well in Texas, Oklahoma, Louisiana, Illinois, West Virginia, California, Colorado, on and on and on that goes out of production is never coming back. And their wells in the Middle East are there just waiting to resume production. Surely you all understand that. Do you?

Mr. WOOD. Yes, I mean—I am certainly not an expert in our domestic oil industry, but it is obvious from the testimony here today, and from your own comments, sir, that marginal wells once shut down stay shut down.

Mr. SHIMKUS. Maybe that message ought to get back to the State Department.

Mr. WOOD. It will.

Mr. SHIMKUS. Following up on a question I asked to my colleague, Wes, from Oklahoma—and you have kind of elaborated—but you said an escrow—how do we know that the revenue from the oil-for-food program is going for food only? Mr. Watkins said that it is going to an Iraqi bank account. You mentioned an escrow. What bank or banks is this money flowing to, and who controls the account?

Mr. WOOD. I am not sure what—I am told that, I think, it is Banque Nationale of Paris, one of the world's largest and most reputable. Let me just say, though, that within the oil-for-food program there are a series of checks and maybe it would be useful if I went through those.

A U.N. contractor monitors outflow of Iraqi oil through pipelines. This does not mean that there is not a smuggling problem. I will get to that in a second because we are trying to address that.

Then roughly 50 employees of another contractor, a Swiss company, are stationed at the four points of entry for products that are allowed. And they are responsible for verifying the arrival of hu-



manitarian goods. Within Iraq itself, the U.N. Office of the Iraq Program has roughly 150 inspectors whose job it is to ensure that the goods sent into Iraq under our oil for food reach their proper destinations. There are 50 sector observers and 50 geographic observers and 20 of sort of a multidisciplinary unit.

That is how distribution within a particular southern part is tracked. Every contract is approved—every contract is approved by the sanctions committee, of which we are a member. We review every contract. We approve every contract.

In addition, UNSCOM, the weapons-inspection agency, when it is functioning—and I admit it is not functioning now—but when it is functioning, they also receive reports of all imports into Iraq and do their own analysis as to whether or not there is any diversion away from the intended—

Mr. SHIMKUS. But that is not being done now, so there could be diversions?

Mr. WOOD. And as a result, we on the sanctions committee are being more scrupulous in the contracts that we are allowing to go through. So there is an offset there. Maybe—that is the general framework.

Mr. SHIMKUS. Okay. So you would take—so you would not accept Congressman Watkins' premise that there is no control of the money and that the money is going totally for the needs of the food and the medicine?

Mr. WOOD. Sir, I would never say totally. I would say with a high degree of confidence, we are absolutely sure that the vast, vast majority of this revenue is going for what it is—

Mr. SHIMKUS. Does State Department believe that money is fungible?

Mr. WOOD. Yes, sir.

Mr. SHIMKUS. In other words, that if this money is being used to feed the populous and the medicine needs, then that is saving revenue for the Iraqi government to fully feed the Guard and also the people in high places and authority?

Mr. WOOD. That is true. However, Iraq is under the most sweeping sanctions regime in the history of the world. And it is not clear where they will develop new hard currency in order to buy imports, in order to do that.

Now, we have talked about the smuggling program; and this continues to be a problem. There has been smuggling of gas oil products through the Gulf; and we estimate that that has been reduced from roughly 55,000 barrels a day a year ago to approximately 5,000 barrels per day now. And we have done this through a combination of third-party pressure on Iran, which is where the smuggling was destined; the bombing of the Basrah oil refinery which was responsible for producing this oil; and through the activities of the maritime interception force and other activities there. So there is a dramatic decrease in that smuggling.

Trade through Turkey we also believe has decreased significantly by about 50 percent. We estimate that the current trade is roughly 20,000 barrels per day compared to 45,000 barrels a day a year ago. We are continuing to work hard with Turkey on reducing this.

So much for the good news. The bad news is that there seems to be a growing illicit trade through Syria, and we are looking into

that; but I assure you that we take the smuggling problem seriously. We take—it is of particular concern because it is the way of raising hard currency for use by the Iraqi regime, which is not under our control. It is the principal way that they can raise hard currency that is not under our control. And what they can buy with hard currency are things that we don't want them to buy.

Mr. SHIMKUS. I would love to follow this line of questioning more, but I want to go to my last one. And this is a little bit more touchy and generic.

How can we as a Nation continue to follow the line of the U.N. position that gives us the authority to patrol the no-fly zone, to do the oil-for-food program, when we are now engaged in activities in Kosovo without any negotiation of the United Nations, no U.N. Security Council. Do you not think that we are now in a position of not legitimizing our presence in that region under the U.N. when we have totally disregarded U.N. negotiations in our current activities?

Mr. WOOD. I think I would make a couple of quick points. First, our policy is to pursue U.S. objectives. And to the degree that the U.N. assists us to do that, it is a valuable tool in the—

Mr. SHIMKUS. It is a U.N. no-fly zone. It is not a U.S. no-fly zone.

Mr. WOOD. The no-fly zone is carried out within the framework of U.N. resolutions. They are not explicitly authorized by U.N. resolutions.

Mr. SHIMKUS. Is it a U.N. no-fly zone or a U.S. no-fly zone?

Mr. WOOD. Again, the no-fly zones were put in place following the Gulf War after Saddam Hussein began to attack his own people—

Mr. SHIMKUS. Who authorized it?

Mr. WOOD. It is not authorized explicitly in any U.N. resolution, but it is within the framework of U.N. resolutions that calls upon nations to assist—to help prevent Iraq from brutalizing its own population. But there is nothing—but the pilots of the no-fly zones don't wear blue helmets. They don't fly U.N. planes. There is no U.N. chain of commands whatsoever. That is a green-hatted operation.

Mr. BARTON. What is a green hat?

Mr. WOOD. It is under the national chain of command.

Mr. SHIMKUS. So go ahead and continue with the answer, then.

Mr. WOOD. Again, we utilize the United Nations, as every nation does—

Mr. SHIMKUS. No, we don't. We haven't in our recent activities in Kosovo. We pick and choose when we need to use the U.N. and when we do not.

Mr. WOOD. We certainly believe that our actions in Kosovo are entirely in keeping with international law. There is, in fact, a vote taking place just about now, I hope, in the Security Council on a resolution to be introduced by Russia criticizing the NATO action. And we believe that it will fail both for lack of votes and because it will have no fewer than three vetoes on it. So we will have to see.

Mr. BARTON. We will have to reclaim somewhat regular order so that we can let Mr. Burr get a question in. Mr. Burr is recognized for 5 minutes.

Mr. BURR. Thank you, Mr. Chairman. Mr. Wood, just keep that mike next to you. I want to ask you about your testimony. Did you really mean it when you said you are pleased to be here today?

Mr. WOOD. Absolutely, sir.

Mr. BURR. Did you write this testimony?

Mr. WOOD. No, sir.

Mr. BURR. When were you told that you were testifying in front of this committee?

Mr. WOOD. Wednesday, sir.

Mr. BURR. Who told you?

Mr. WOOD. I was asked if I was available to do it.

Mr. BURR. Who asked you?

Mr. WOOD. Our normal legislative——

Mr. BURR. Name?

Mr. WOOD. I don't think I have a name.

Mr. BURR. You don't know who asked you?

Mr. WOOD. I can't recall, sir.

Mr. BURR. Who would have approved it?

Mr. WOOD. My boss approved it.

Mr. BURR. Your boss is who?

Mr. WOOD. Assistant Secretary Welch.

Mr. BURR. Did he write your testimony?

Mr. WOOD. No.

Mr. BURR. Who wrote your testimony?

Mr. WOOD. It was written in our office.

Mr. BURR. Who did that?

Mr. WOOD. Some of the people behind me, but——

Mr. BURR. When did you read it?

Mr. WOOD [continuing]. I take full responsibility for it.

Mr. BURR. When did you read your testimony for the first time?

Mr. WOOD. Wednesday evening.

Mr. BURR. Did you have the ability to change your testimony?

Mr. WOOD. Yes, sir.

Mr. BURR. Did your boss sign off on your testimony?

Mr. WOOD. He reviewed it. He didn't sign off on it.

Mr. BARTON. Who is your direct supervisor?

Mr. WOOD. Assistant Secretary Welch.

Mr. BURR. Is he the final sign-off on it, or did it have to go somewhere else?

Mr. WOOD. It had to be cleared fairly widely.

Mr. BURR. To what degree, as far as the hierarchy at State?

Mr. WOOD. Well, because it reflected—because the principal task in writing it was to update the testimony that I think has been mentioned here earlier that Under Secretary Pickering gave in the Senate, there was a wide, wide clearance.

Mr. BARTON. Would the gentleman yield?

Mr. BURR. Let me make one statement, and I would be happy to yield. Would you disagree with the statement that your testimony was to support what the State Department's policy is?

Mr. WOOD. Yes, sir, that is exactly what my testimony is for.

Mr. BARTON. I just want to follow up on this same line. We had some concern, Mr. Wood—and we are not personally offended that you are here. I think you are doing a good job in a difficult situation, so I want to let you know that. But we had a concern that

we were not getting the appropriate level of testifier that should have been here.

That was expressed to me early in the week, and did I want to call the Secretary of State and demand that there be a higher-level official than yourself; and I said no, that the main thing was to get the meat of the issue before the subcommittee. Of course, then when we didn't get testimony until this morning, that kind of inflamed opinion about that.

How many people in the State Department have direct impact on this policy that Mr. Burr and I and every other member of the subcommittee is concerned about? Could you elaborate the chain of command of the people who are directly involved in this policy?

Mr. WOOD. By "this policy," you mean our policy toward Iraq?

Mr. BARTON. No, the great oil-for-food policy that you are trying with some difficulty to defend.

Mr. WOOD. Starting with the Secretary of State. There are officials at the Under Secretary level—well, at the—

Mr. BARTON. I am with Mr. Burr on this one. We want names of people. We want names and titles: Secretary Madeleine Albright, the Secretary of State—

Mr. WOOD. Deputy Secretary of State Strobe Talbott, Under Secretary for Political Affairs Thomas Pickering, Under Secretary for Economic Affairs Stuart Eizenstat, Assistant Secretary for Near East/Middle East Affairs, Martin Indyk, Assistant Secretary for International Organization Affairs, David Welch.

Mr. BARTON. That is six so far.

Mr. WOOD. There are also people in our intelligence—

Mr. BARTON. Give us the name of the person or at least the title. I know the State Department is a massive bureaucracy, so I may even get beyond your mental ability here.

Mr. WOOD. Getting beyond my mental ability is not a high threshold.

Mr. BARTON. No, I think so you are an intelligent man.

Mr. WOOD. But perhaps I can cut this—can help by saying that it is routine State Department practice—and I can't speak for other departments of the government—that officials at the Deputy Assistant Secretary level, my level, are often the testifiers on a variety of subjects. It is not our policy, however, to fail to provide testimony on a timely basis.

Mr. BARTON. Who is your direct report? I forgot.

Mr. WOOD. David Welch, assistant secretary.

Mr. BARTON. But you are the principal deputy assistant.

Mr. WOOD. That is right.

Mr. BARTON. Which would indicate that there is a deputy probably below you.

Mr. WOOD. That is right.

Mr. BARTON. Is it safe to say that you are the lowest level State Department official that they could comfortably get away with sending before this subcommittee?

Mr. WOOD. No, sir.

Mr. BARTON. No, sir? There is somebody lower than you?

Mr. WOOD. I hope so, sir.

Mr. BARTON. Okay. If we want to pursue this, though—and I think we will. I have heard nothing yet to indicate that this is a

policy that the Congress should support with any enthusiasm. So if we want to continue this, we should ask up to probably the Under Secretary and just have a State Department panel so that we get every player in the State Department that has put this policy together before this subcommittee.

Mr. WOOD. Well, I—

Mr. BARTON. And probably the U.N. Ambassador.

Mr. WOOD. We very much hope that everybody from the State Department would speak with one voice on the policy. And I believe that I can adequately represent that voice.

Mr. BARTON. Oh, I think you are making the best of a bad deal before this subcommittee.

Mr. WOOD. And at the same time, my initial statement that we were genuinely grateful for this opportunity to testify before the subcommittee, a subcommittee that you yourself pointed out we don't testify before very often—

Mr. BARTON. But you will.

Mr. WOOD. And we look forward to it, sir.

Mr. BARTON. There is a new beginning. We will recognize Mr. Burr for another 5 minutes because I took 3 minutes and didn't even let you get started.

Mr. BURR. Mr. Wood, how long will it take for Saddam to be removed?

Mr. WOOD. Difficult to say, sir. Sooner the better.

Mr. BURR. Who will remove him?

Mr. WOOD. We are working—we, including our new Special Coordinator for Transition in Iraq, Mr. Frank Ricciardone, is working with regional groups, with dissident groups.

Mr. BURR. Outside Iraq? Inside Iraq? Who will actually bring him down?

Mr. WOOD. Don't know.

Mr. BURR. We don't know?

Mr. WOOD. Don't know yet.

Mr. BURR. Will we?

Mr. WOOD. Yes, although not necessarily much before it actually happens. I just don't—this isn't the kind of thing that lends itself to speculation or to, really, public analysis. But it is certainly the case that there are dissident groups outside of Iraq. There are groups inside of Iraq that have been oppressed by Saddam Hussein. This includes the Kurds in the north, the Shiites in the south, it includes numbers of groups. And we believe that every day and every way Saddam Hussein is alienating his own population. This is one of the reasons that we do not wish to provide him the additional lever of claiming that he is protecting his population.

Mr. BURR. So the State Department has determined that hunger does not mobilize his people to be upset with him? Is that what you are saying?

Mr. WOOD. Yes, and he has made that statement.

Mr. BURR. If he gives them the food, they will be angrier at him?

Mr. WOOD. He has concluded that with his control of the media and other things, it is easier for him to blame the outside world if his—

Mr. BURR. I am trying to determine what mobilizes his people, because I think your whole policy is based on an overthrow from

within. And I guess I would ask you where have we used this policy before and it worked?

Mr. WOOD. I think that there are numbers of cases where we have supported dissident groups, both inside and outside of countries, and it has produced an overthrow. I wouldn't like to go into specifics in this forum.

Mr. BARTON. I think that it is working really well in Cuba. I think Fidel Castro came into being in 1959.

Mr. HALL. Haiti.

Mr. BARTON. Haiti. We have a number of sterling examples of this policy.

Mr. BURR. Clearly, if we adopt the same definition for the term "removal" being death by old age, then we have quite a few years that we would live with this policy.

Let me just make one comment and then I will quit, Mr. Chairman. Thomas Pickering testified in front of the Senate Foreign Relations Committee on March 17, a little over a week ago, I guess. I don't think there was anything real difficult in preparation for you to testify. I think, in fact, there was intent at the State Department to make sure that we were as ill prepared for your testimony as we possibly could be.

I will push next time a State Department official is here to refuse that they testify. When we find out that we can get the same information from other sources, maybe we will take that opportunity to grow a larger surplus by our reductions at the State Department in personnel.

I am confident that this is not the last time somebody from the State Department will be in front of this committee and many other committees to try to defend this program, the policies that we have got, and ultimately put all the policies of this State Department under scrutiny.

Mr. Chairman, I thank you and the ranking member for your willingness to hold it; and I feel confident that next time, if we don't do it on the last day before a break, that we will have a full subcommittee of members here to pursue this policy further. And I yield back.

Mr. BARTON. The Chair is going to recognize himself for 5 minutes.

Mr. Williams, can you give me right now a verbal approximation, and then within a week or so in writing, the number of wells in Texas that have been shut in since the oil-for-food program began in late 1996?

Mr. WILLIAMS. I will do that, Mr. Chairman. But since February 1998 through about February 1999, we have shut in about 2,200 wells in Texas; and I will provide that additional information.

Mr. BARTON. 2,200?

Mr. WILLIAMS. Right. And we have plugged about 9,500.

Mr. BARTON. Plugged about 9,500. Mr. Smith, can you again give me an approximation now and within a week or so the numbers for that same question in Oklahoma.

Mr. SMITH. Happy, to Mr. Chairman. Thank you. We have about 70,000 wells in Oklahoma that produce oil and some gas. As Congressman Watkins mentioned, most of those are marginal. We are plugging wells right and left. I don't know the number. I can get

it for you. Maybe Mr. Brown, who is a producer here with me, will know. I am going to guess—and then I will substantiate my number later—that we have plugged since this oil-for-food program started probably about 10 to 15,000 wells.

Mr. BARTON. 10 to 15,000 wells in Oklahoma?

Mr. SMITH. Yes, sir.

Mr. BARTON. So many more in Oklahoma than in Texas?

Mr. SMITH. I think so. Again, that is off the top of my head. I will verify that.

Mr. BARTON. There are different terms for stopping production. But the term “plug” means it is literally cemented in and you cannot resume production from that well.

Mr. SMITH. That is correct.

Mr. BARTON. So it is gone.

Mr. SMITH. That is correct.

Mr. BARTON. Mr. Hakes, I asked those two gentlemen because they represent States. You represent the United States. Could you give us your best approximation for domestically—the number of wells that have been plugged and again, as soon as we can get the exact number, get it to us for the record since this oil-for-food program began.

[The following was received for the record:]

The EIA estimates that as many as 33,000 oil and gas wells were plugged in 1998 in the United States. This estimate is based on two pieces of information and certain assumptions. The Interstate Off and Gas Compact Commission (IOGCC), in a recent report entitled “A Battle for Survival?: The Real Story Behind Low Oil Prices” (Updated Report—April 1999), reported the results of a survey of States that showed that (excluding Texas) at least 48,000 oil and gas wells were abandoned or idled in 1998. It is unlikely that as many as 50 percent of these wells were plugged. Plugging costs can be high and operators generally try to avoid incurring them as long as possible. On the other hand, it is noted that both Pennsylvania and Colorado did report higher plugging percentages. Assuming, for the purpose of determining a rough upper estimate, that 50 percent of the abandoned or idled wells were plugged, the total wells plugged outside of Texas would be 24,000. For Texas, a precise number (8,951) of plugged wells was made available by the Texas Railroad Commission. Combining the two estimates yields the 33,000 wells for the total United States. While it was not possible to determine the exact distribution of total plugged wells between off wells and gas wells, it is clear that the large majority of these were oil wells.

Mr. HAKES. If you are using the term “plug” in the literal sense, that would be data we would get from the States, but we would be glad to assist in the preparation of that number for you.

Mr. BARTON. Well, give me an estimate. And I am not going to hold you to a great degree of accuracy. I am just trying to get a feel for how many wells we have lost forever since this program began. And we have got 10 to 15,000 in Oklahoma and around 2,000 in Texas. So can you give us—fill in the blank for the rest of the country?

Mr. HAKES. Well, I think those are the two largest States for those kinds of wells, so you could extrapolate from that data and say all the other States maybe it is twice that or something.

Mr. BARTON. So kind of a back-of-the-envelope, you would say 20 to 30,000 wells?

Mr. HAKES. I am extrapolating from their data. I would have to go back and check.

Mr. BARTON. You can get us—to the extent such data is available, you can compile that and get it within the next 2 weeks?

Mr. HAKES. Yes, we will certainly do that.

Mr. BARTON. Mr. Smith?

Mr. SMITH. Mr. Chairman, just a correction. I misread Mr. Hakes' chart. I read it as January 1996 for the oil-for-food program start date rather than 1997. I think I was probably high, but I will get those for you.

Mr. BARTON. Okay. We are going to make a good faith effort to either terminate this program or substantially change it. And in order to do that, we need to have factual data that we can show our friends at the State Department these losses have occurred. And while there are other factors, we are not going to deny that the Asian situation and the Caspian Sea and all of that, there is a fairly substantial good correlation between this program starting and the problems in the other area.

Mr. Wood, do you know how many barrels a day the Iraq Nation needs just for internal consumption? And Mr. Hakes may know that number.

Mr. HAKES. The number we use is about 550,000 barrels a day.

Mr. BARTON. 550?

Mr. HAKES. So the exports are roughly 2 million.

Mr. BARTON. I want to be sure. If they are producing 2.5 million barrels or 2.6 million barrels a day, that is for export; and then on top of that they are using half a million.

Mr. HAKES. I believe that is the production number.

Mr. BARTON. That is the total production number and not the export number?

Mr. HAKES. Yes, the exports are about 2 million, I believe.

Mr. BARTON. Okay. So is it the Department of Energy's energy information estimate that they are basically at maximum production right now?

Mr. HAKES. Yes, because of their difficulty getting spare parts and capital investment. You know, I think if they had full access to parts and capital investment, they could quickly get back to pre-war levels; and I think just in terms of the physical potential there, if you had full investment there, they could probably get up to, maybe, 5, 6 million barrels. But right now they have limited access to capital and parts.

Mr. BARTON. But given the infrastructure in place, we can assume that they are at maximum production and they are using half a million barrels a day for internal consumption and then they are exporting as much as they can?

Mr. HAKES. Right. Just to be a little bit more precise, we are estimating that they may go up 50,000 to 100,000 barrels a day over the next year or so, so that there would be some addition. And I would say that there are a couple of respected firms who think they might be able to increase a little bit more than that. But somewhere in that range.

Mr. BARTON. Now, Mr. Wood, as this program was put together at the State Department, and I guess the White House and in the United Nations, my understanding is that Iraq has financial assets that have been frozen in western banks since the invasion; is that correct or not correct?

Mr. WOOD. That is correct, sir.



Mr. BARTON. Do you know the amount of those assets in terms of dollars?

Mr. WOOD. I don't think I do.

Mr. BARTON. Can you get that for us?

Mr. WOOD. We can look for it for the number, sir.

Mr. BARTON. Can you do more than look for it? Can you find it?

Mr. WOOD. We will get you a number, sir. My best understanding is that there are—that there are substantial claims by Americans and by others against those frozen assets just for your—

[The following was received for the record:]

*Question.* Into which bank are the revenues from sales of Iraqi oil under the Oil-for-Food program are deposited?

*Answer.* Revenues from sales of Iraqi oil under the Oil-for-Food program are deposited into an account at the New York branch of the Banque Nationale de Paris. Iraq does not have access to the bank account, nor can Iraq change banks.

*Question.* What is the value of Iraqi frozen assets in the United States? Please provide background on this matter as it relates to the Oil-for-Food program.

*Answer.* Blocked Iraqi assets in the United States total between \$1.2 and 1.3 billion. The asserted value of prewar claims against Iraq by U.S. citizens, corporations, and the U.S. government totals approximately \$5 billion.

In 1992, the U.N. Security Council adopted resolution 778 which required states to transfer to the U.N. limited blocked assets representing the proceeds from the sale of Iraqi oil paid after sanctions were imposed on Iraq on August 6, 1990 to fund UNSCOM and the UN Compensation Commission. The USG transferred to the U.N. a total of \$211 million. Few other countries made such transfers.

The U.S. opposes making further transfers of blocked Iraqi assets to the U.N. because of the potential damage to the interests of U.S. claimants against Iraq.

Mr. BARTON. I understand. But here is my point. Instead of letting the Iraqis export oil, if we have assets that are in western banks, why couldn't we use those assets to buy the food and to send it to the Iraqis and put a liability against future oil production when we have a new government in Iraq so that you still have a contingent claim by the current claimants, but you don't decimate our domestic oil and gas industry in the short-term?

Use the money in the bank, buy them the food and the medical equipment, send it over there, put a voucher in there, put a marker in place. Then when we get a new government, then future oil revenues can go back into those funds, into those accounts that we borrowed against or drawn against. I mean does that seem to be a possible rational policy?

Mr. WOOD. I believe that such an idea has been considered. I think that the lawyers tell us—

Mr. BARTON. Well, God help me if I have suggested something that the lawyers might have a problem with.

Mr. WOOD. I think that the lawyers have some concerns about substituting current claims against current assets for current claims against future assets. But I will certainly ask the questions, sir.

Mr. BARTON. Lawyers have concerns about the sun rising in the east every morning. It may not come up tomorrow, so.

The gentleman from Texas is recognized for 5 minutes.

Mr. HALL. I am entitled to the same amount of time to talk about the engineers. Joe is an engineer, the engineer of the year in Texas the year before last, I think.

You know, as I have been listening—and I thank you for your testimony—and questions that have been asked, and I don't want to ask any of you to comment on what I am about to say, but it

seems like we are aiding the enemy. I don't think there is any question that we are aiding the enemy. It seems, while I don't subscribe to anybody lying to a grand jury or anybody else, the Senate committee, it seemed like this dwarfs Oliver North's being charged with aiding the Contras when they were our friends. And here we are aiding a country that is absolutely our enemy, and we are feeding its children and we are doctoring them.

And while that maybe makes a lot of us feel good, we are putting off the time that those same people are going to rise up and put him out. That is the goal. That is why we are bombing Yugoslavia today, to encourage the people to rise up and fight their own war. Just to get the scenario in Baghdad, it is a sunny afternoon; and Saddam looks up and sees a truck driving up and tells all of his buddies there, Let's tie our camels over in front of the Long Branch. We have this truck coming in. I hate this stuff but we are going to unload it. You have told us, Mr. Wood, that he doesn't like the program. That is the kind of scenario that could take place. And then get back to this country and the oil hits here. All of us—all the testimony I have heard is that this program is hurting our domestic Nation's oil industry. But it hits over here, and they say, Well, we don't like it. We don't like this program. I know this committee doesn't like the program. But let us unload it and put it in the pipeline.

Two of you got bad deals there. I always thought somebody had the best of a contract. You know, marriage isn't anything but a contract; and I didn't marry until I thought I had the best of the contract. Here it looks like they both got the worst of the contract.

Why are we putting up with this? Why are we continuing with this? In February 1998 the U.N. secretary general criticized this oil-for-food program basically for delays and inefficiency. And it seems if this is hurting our Nation's oil industry, at the same time being criticized by the General Secretary of the U.N.; and Saddam says he doesn't want it, what would it take to kill a program like this? Not to fund it? Let me ask a more pointed question: How much money is in our budget to support this program?

Mr. WOOD. Mr. Hall, this program does not directly cost the United States a nickel because it is using Iraq's money exclusively.

Mr. HALL. The money that is in their banks over here?

Mr. BARTON. Are we are paying the unemployment claims for all the displaced workers out of this program?

Mr. HALL. I will take all the help I can get. Thank you, Joe.

Mr. WOOD. I understand the point, but the fact is this uses the proceeds from Iraqi oil sales to fund humanitarian supplies for Iraq to ensure that those revenues are not used for weapons of mass destruction or other nefarious means; to fund, in fact, inspections against weapons of mass destruction, which I admit are temporarily suspended and we are working hard to get them back into place. And roughly a third of it goes to the U.N. compensation commission to pay the just claims of poor Kuwaitis, poor Saudis, poor Americans, for losses that they suffered during the Gulf War.

Saddam Hussein doesn't like this because he is only getting a share of the total value of his oil revenues, because he is not controlling the share that he gets; and the share that he is not controlling is going to fund inspections of his weapons-of-mass-destruction

program; and it is going to feed his population so that he cannot blame their unhappiness on the outside world.

This in our view is—this program is absolutely fundamental to maintaining the solidarity of the international community behind a continued tough line on Iraq. And as you know, we have been facing some problems in that regard. We think that oil for food is absolutely fundamental to maintaining that tough line.

When he was interviewed by David Frost, George Bush said that his most important accomplishment was not winning the Gulf War; it was forming the coalition that won the Gulf War. We are trying to maintain that kind of coalition. We are trying to maintain that kind of international consensus, in spite of the fact that a potentially very rich, potentially very powerful country is doing everything it can to get out of the box. And we are trying to keep them in the box.

Mr. HALL. Well, I must admit we don't have all the information that you have at your disposal, and that is the purpose of these hearings. And I want to reread the record myself.

At best, it seems to me that we are helping to keep Saddam in charge over there by feeding his children and doctoring his people. And if you have another part of your body that hasn't been beat on, if you will turn toward me, I will ask you some more questions. But without that, I have had all the time I need, Mr. Chairman.

Mr. BARTON. I just have a few wrap-up questions for this panel.

And I don't know if this would be Mr. Wood or Mr. Hakes, but we understand that there are currently \$380 million in spare-parts contracts that have been signed with the Iraqi government for additional infrastructure improvement, but only \$11 million worth of that equipment has arrived in the country. If and when that equipment arrives, how much additional export or production capacity does that give the Iraqi oil industry?

Mr. WOOD. I could begin to answer that question. I am not sure what the incremental effect on Iraqi exports will be. But the delay—I mean, we are now in the second 6 months in which up to \$300 million in each phase has been made available for the Iraqi infrastructure improvements. The delay is the result of close scrutiny by the sanctions committee of the proposed contracts, making sure that they go to the right things and they don't go to the wrong things.

For instance, we continue to keep on hold contracts that the Iraqis want to use to improve the Basrah refinery, which is the one that we bombed which was heavily implicated in illegal smuggling. And I am not sure what, frankly, this rash of improvements in the Iraqi infrastructure, what the marginal impact—

Mr. BARTON. Do you know, Mr. Hakes?

Mr. HAKES. Well, I think our analysts in arriving at their projection have assumed a sort of moderate speed in the arrival of these parts. And, I believe, in my written testimony we say that there is some uncertainty that the parts will arrive very quickly and fully. We might raise our estimates a little bit if they increase more—are delivered more slowly we might lower a little bit. But we have sort of assumed that they would arrive at a moderate pace.

Mr. BARTON. Okay. Well, you are going to get a letter next week—the Secretary of State is going to get a letter. We are going to ask that no contracts be signed. You are also going to be asked to give all information that is not classified as to the contents of those contracts. And I am going to sign that letter as subcommittee chairman, and I am going to ask Mr. Hall and every other member of the subcommittee to sign it. Whether I can get them all to sign it, I don't know. I see absolutely no sense in continuing to give the Iraqis the ability to increase their production, even if it is marginal, while our industry is being decimated in the United States.

The other thing we are going to ask you, Mr. Wood, is we want a complete itemization of all revenues that have been collected under this program. We want a complete record of all disbursements that have been made under this program. We want an estimate of the expected revenues for the fiscal year that we are currently in and the fiscal year that will begin in October and an expected disbursement from those same funds. And we are going to want that in the next 2 weeks. And we have got to get you the official request in writing for what I just itemized. I understand you can't act on anything until we make it official. But we are going to take a very, very serious look at this program. And I am going to do everything I can—and I mean everything—to either stop it or at least change it so that we provide for the legitimate humanitarian needs of the Iraqi people, but we do it in a way that is different than is currently being done. And there are some things that can be done differently through our food-for-peace program, using the existing Iraqi assets that are in western banks. There are all kinds of ways to help the humanitarian needs of the Iraqi people that don't involve, basically, letting Iraq produce as much oil as it can and export as much as it can. I mean, that, to me is a flawed policy; and it is a failed policy, and it is not in the national security interest of the United States of America.

Does this panel wish any final comments before we go to the third panel? Anybody? Well, gentlemen, we want to thank you for your attendance. There will be additional questions for the record in addition to the ones that I have itemized; but we do appreciate it, and this is an important hearing of this subcommittee; and your input has been very valuable, so you are excused.

Mr. HALL. And you might tell them that their long tenure at the table will shorten the tenure of the next panel. You have done some good for somebody.

Mr. BARTON. We would like to call forward our third and final panel, but not the least important. Mr. Adam Sieminski, a principal and senior oil analyst from Baltimore, Maryland; we have Mr. Tom Taylor, who is the regional Vice President for the Texas Independent Producers and Royalty Owners Association; we have Mr. F.W. Pete Brown, co-owner of the Cimarron Production Company in Oklahoma; and Mr. David Bole, who is in corporate research and development, Randall and Dewey, Incorporated, in Houston, Texas; and I believe we have Mr. Scott Anderson, who is the executive director of TIPRO who wishes to appear at the table with the TIPRO witness.

Mr. ANDERSON. I will just sit right behind him.

Mr. BARTON. Gentlemen, your statements are in the record. We want to thank you for getting your testimony in on time. It is good to know the private sector pays more attention than some of our public officials. We are going to start with Mr. Sieminski. How close am I?

Mr. SIEMINSKI. That was very good, Mr. Barton. Thank you very much.

Mr. BARTON. We will give each of you 5 minutes and then we will have questions. Starting with you, sir.

**STATEMENTS OF ADAM E. SIEMINSKI, PRINCIPAL AND SENIOR OIL ANALYST, BT ALEX BROWN; TOM TAYLOR, REGIONAL VICE PRESIDENT, TEXAS INDEPENDENT PRODUCERS AND ROYALTY OWNERS ASSOCIATION; F.W. "PETE" BROWN, CO-OWNER, CIMARRON PRODUCTION COMPANY; DAVID L. BOLE, CORPORATE RESEARCH AND DEVELOPMENT, RANDALL AND DEWEY, INC.**

Mr. SIEMINSKI. Thank you, Mr. Barton. I appreciate the opportunity to come in and provide a statement on some of the factual aspects associated with the Iraqi exports.

Let me first try to answer a question that you just asked, sir. What does \$300 million worth of spare parts and equipment do for production? Let me just take a quick crack at that.

U.N. personnel experts who were sent to Iraq said that production would fall somewhere between 4 to 8 percent a year if they did not get \$300 million in spare parts. So if we just said 5 percent or 6 percent, that would be somewhere between 125,000 barrels a day, up to 150,000 barrels a day that, presumably, would be able to stay on line with those funds coming in.

And so that would—if we are now up to \$600 million, I think we could be talking about this possibility of 250,000 barrels a day of oil that would be available to the Iraqis to export.

Let me, in light of, I think, that 7-minute rule, let me make seven quick points. Again, putting the Iraqi oil exports into perspective, they were the greatest source of OPEC's difficulty in meeting their own compliance rule. Second point, exports have gone up quite a bit. We went from about 1.5 million barrels a day in 1998, and that number should hit 2.1 to 2.2 in 1999. That is a little bit less than the growth that occurred between 1997 and 1998.

The third point I had in my written statement said that Iraq's exports were the second largest influence in 1998 in driving oil prices lower. Listening to Mr. Hakes, I might want to revise that. He said that, I believe, that the incremental loss of demand in Asia was about a million barrels a day. And Iraq's exports went up just a little under 900,000. Mr. Hakes said that in his chart, he had the incremental amount in Asia was about 850,000. If we took his number, then Iraq was No. 1 in terms of its impact on the market in 1998.

Fourth point. Production capacity in Iraq looks like it is stuck. Looks like it is stuck at 2.7 million barrels a day. That means that imports would presumably be capped at somewhere near 2.1. But the Iraqis have managed to somehow keep production growing faster than the U.N. technical experts thought they could. And it was

only about a year ago that the U.N. said that exports would be limited to about 1.6 or 1.7 million barrels a day, and they have gotten well over that level. So I don't know how that is being accomplished, and that might be a question that you might want to ask somebody.

Fifth point—

Mr. BARTON. Our staff actually had that in the prepared questions. So it will be asked for the record.

Mr. SIEMINSKI. The fifth point is that while taking the ceiling off of the \$5.265 billion ceiling actually could become more than just a technical kind of thing very soon. Oil prices have already gone up quite a bit since the beginning of the year. Iraq sold oil last week for \$12 a barrel. All they need is another \$2 on top of that \$12 number that they got last year, and they will hit their cap. And they will not do this during this fifth phase, but if you projected that \$2 increment into the next phase which starts May 25, they would actually collect, if they exported 2.1 million barrels a day, \$5.3 billion. And if they can export more than 2.1, that cap could actually come into effect at a price \$2 above current WTI.

Sixth point is kind of, I think, an interesting one and this is—you are going to have to ask somebody else because I don't know the answer to this question, but I would love to know the answer to it. The last two times that Iraq has gone to war—in late 1979 just before their invasion of Iran and then in 1990, in the first half of 1990, just before the invasion of Kuwait—there was a sharp rise in production in Iraq. And we have seen just recently another sharp rise in production.

And I heard the comment made earlier that oil or funds are fungible. Even if the sources—with more revenue coming into Iraq from these exports, that would give Saddam the ability to use his own internal funds for possible mischief, and I am kind of wondering what this big increase that we have seen in production exports just in the past month or so really means.

Final point is one that I really wish that Deputy Secretary Wood would have made and that is that if Iraq is allowed to rebuild its facilities—and this would be a lot easier done if the overall sanctions were moved or if the oil-for-food program was changed in some way, as there have been recommendations on the Security Council to allow companies to go in and invest to help Iraq rebuild its—and repair its equipment and facilities, I would think that Iraq would be quite capable of getting up to 3.5 million barrels a day of production pretty quickly, and all of that increment would be available for export.

So I would conclude, Mr. Chairman, with sort of a kind of a recommendation, which is that one of the key focuses of this committee and the questions that I think you should pursue with the State Department is how do we keep direct foreign investment by other countries into the Iraqi oil industry limited during the period that sanctions are on and Iraq is still misbehaving. And I thank you for your time.

[The prepared statement of Adam E. Sieminski follows:]

PREPARED STATEMENT OF ADAM E. SIEMINSKI, PRINCIPAL AND SENIOR OIL ANALYST,  
BT ALEX. BROWN INCORPORATED

IRAQ'S OIL EXPORTS AND WORLD OIL MARKETS

*Iraqi exports were a major reason for the drop in oil prices in 1998*

The rise in Iraqi production from an average of 1.15 mmb/d in 1997 and 2.11 mmb/d in 1998, to about 2.5 mmb/d currently has been the greatest source of OPEC's difficulty in meeting quota compliance under agreements reached in March and June of 1998. Iraq's oil exports, which rose along with production, were a major contributor to the oil price weakness of 1998 and early 1999. Two key factors played a role in this situation. First, the UN's Oil for Food Program sets a monetary (not oil volume) target for humanitarian relief. If oil prices decline for any reason, the amount of oil Iraq is allowed to sell under the program can rise. Low oil prices allowed Iraq to sell more barrels under the 'old' \$2 billion per six months plan. Second, in early 1998 the UN raised the oil-for-food revenue ceiling to \$5.265 billion every 180 days.

*Iraqi oil exports increased from 0.59 mmb/d in 1997 to 1.47 mmb/d in 1998*

During the recent period of low oil prices, the level of exports from Iraq was limited only by Iraq's wellhead production and pipeline/terminal capacities. A UN rule requiring at least 50% of exports to transit via the 1.0 mmb/d capacity Ceyhan (Turkey) route is being ignored, since all export amounts over that level are now exiting mainly via the Gulf port of Mina al-Bakr. Exports are currently averaging about 2.1 mmb/d and have exceeded 2.5 mmb/d for short periods of time since January 1999.

*How the rise in Iraqi exports influenced the oil markets in 1998*

There is little doubt that the rise in exports from Iraq, a 0.87 mmb/d increment between 1998 and 1999, had a significant impact on the oil markets. Of course there were other factors, but in our opinion, Iraq's exports were the second largest influence pushing oil prices lower in 1998.

- The crisis in Asia reduced oil demand by 1.0 mmb/d against expectations
- Warm weather dropped demand by 0.5 mmb/d compared to 'normal'
- Russian exports rose contra-seasonally by 0.2 mmb/d in 4Q 1998
- China curtailed oil imports (by about 0.3 mmb/d) in 2H 1998
- OPEC's efforts to trim production in 1998 were neither timely nor sufficient
- OECD inventories rose some 200-300 mb above industry norms

*Production history*

Iraq's oil production climbed from about 1.5 mmb/d in 1972 to an annual peak of 3.5 mmb/d in 1979. In the last quarter of 1979, Iraq managed to produce 3.7 mmb/d. The Iran-Iraq war, which started in September 1980, led to a significant decline in export capacity and wellhead production. From a low of 1.0 mmb/d production in 1981-83, Iraq's output climbed back to 3.5 mmb/d just before the invasion of Kuwait in August 1990. In 1991-92 Iraq produced about 0.4 mmb/d (which is probably a good estimate of actual internal consumption). More recently, Iraq's internal use has appeared to be about 0.65 mmb/d, but this includes UN-approved exports of 0.1 mmb/d of products to Jordan, and probably reflects some level of smuggling.

*The main physical constraint on exports is now wellhead capacity*

Production capacity in Iraq appears to be limited to about 2.7 mmb/d. The UN has been slow to approve imports of the equipment, expertise and capital required to boost Iraq much beyond this level. Nevertheless, Iraqi engineers have surprised the UN inspectors with their ability to keep output climbing. In March 1998 UN technical experts estimated that Iraq's wellhead production capability was unlikely to exceed 2.2 mmb/d (mid-1998) or 2.4 mmb/d (start 1999). In fact, Iraq has managed to exceed these estimates by about 0.2 mmb/d.

*Status of oil spare parts and equipment authorizations and repairs*

In view of Iraq's inability to take full advantage of the \$5.3 billion oil-for-food allowance, in June 1998 the UN authorized Iraq to purchase up to \$300 million in spare parts and equipment to repair its oil facilities. Later in 1998, an additional \$300 million in purchase authority was granted. To date, UN's Office for the Iraq Programme has approved 395 contracts worth \$237 million. Another \$28 million in contracts is on hold. UN Security Council members (including the US) have argued that some of the requested equipment is either inappropriate or has military use potential. Several members of the Security Council are arguing for more active in-

volvement of outside companies in the needed repairs and expansion of Iraq's oil infrastructure.

*Near term production difficulties*

The Iraqi oil Ministry, UN technical experts and outside consultants all seem to agree that Iraq is experiencing production difficulties. According to a UN report, production in the north has been lost because of water encroachment problems. In the south, production water problems are coupled with pressure maintenance difficulties resulting from lack of water injection facilities. Some experts believe that without a significant increase in investment, Iraq's basic production capacity could fall by 4-8% per year. Many believe that the recent rise in production is related to very aggressive petroleum engineering practices—pushing output beyond normal levels in order to maximize near-term production and exports. There have been some reports that domestic use has been officially constrained as part of this policy.

*With higher oil prices, a new volumetric constraint could come into force*

During January and February, Iraq's oil sold for about \$9 per barrel, a \$2 discount to Brent, and a \$3+ discount to WTI. With Brent prices now at \$14 and WTI at \$15, Iraq's exports are likely selling at close to \$12 per barrel. This raises an interesting policy question if oil prices continue to rise. At a \$14/bbl Iraqi sales price, Iraq would hit the UN's \$5.3b ceiling at an export level of 2.1 mmb/d.

This potential limit to oil exports is more of an issue for the UN's Phase 6 program, which starts May 25, and not for the current Phase 5, because low prices in December-February make it highly unlikely that the \$5.3b cumulative revenue ceiling would be achieved during the current Phase. The Clinton administration has proposed removing the ceiling on oil exports, but still opposes allowing direct foreign investment in the Iraqi oil industry—which may be necessary to significantly boost Iraq's production. Studies are underway now at the UN (with reports due in mid-April) which are intended to review the status of the oil-for-food program.

*Could there be an Iraqi-instigated interruption?*

Although the US and Iraq are still at odds over weapons inspections, and Iraq has experienced some erosion of its support in the UN Security Council, there have been several new proposals advanced to alter the sanctions policy. Despite the US proposal to remove the ceiling, the Iraqi regime does not appear to favor expansion or indefinite continuation of the oil-for-food program. This suggests that some interruption in the program could occur when the current Phase 5 expires May 24. Such an interruption does have precedent—in July 1997 and December 1997 the Iraqi regime temporarily halted exports. However, in those two situations, Iraq's exports were constrained by the earlier monetary limit (and thus Iraq was able to 'make up' its lost production by physically increasing the level of exports. At this time that option does not appear to be available to Iraq.

*What about longer-term production and export capability?*

With investment in both production and pipeline/terminal facilities, Iraq could probably continue to increase its output and exports. Repairs to the Kirkuk-Ceyhan pipeline could boost its capacity from the current 1.0-1.1 mmb/d level to its 1.5 mmb/d pre-Gulf war level. Iraq has had discussions with Syria about re-opening the 0.65 mmb/d capacity Baniyas line that was closed in 1982 during the Iran-Iraq war. The IPSA pipeline through Saudi Arabia to the Red Sea could be opened if currently unfriendly relations between the two governments were to improve.

*Upstream production could rise significantly with access to outside capital and expertise*

Iraqi officials have claimed that 3.0-3.5 mmb/d of production capacity could be reached fairly quickly once sanctions are removed. Iraq's NIOC believes that this can be accomplished by a development effort that includes: re-working and upgrading existing upstream facilities; attracting foreign investment for new fields; and establishing an E&P effort in Iraq's Western desert region. In 1997, former Iraqi oil minister al-Chalabi estimated that Iraq would require a least \$5 billion of foreign capital during the first two or three years after sanctions to lift production capacity to 3.5 mmb/d. There does not seem to be any shortage of potential investors as seen in the material prepared by the Energy Intelligence Group (attached as an exhibit), although the incremental 2.8 mmb/d of production is estimated by EIG to cost about \$18 billion.

*What is the most likely near-term impact on the oil markets?*

*Downside risk to oil prices:* The UN allows more upstream investment, perhaps due to a change of regime in Iraq, or a further softening in the US stance. *Upside*



*potential:* Iraq carries out its recurring threat to cease cooperation with oil-for-food when it expires in May, or some form of conflict (with the US or internal) physically interferes with exports. *Most likely outcome:* an extension of the status quo with no monetary ceiling. This implies no interruption in exports, a likely gradual rise in the overall level of production and exports, but no large-scale near-term expansion of production.

### OPEC Production and Compliance Estimates (mmb/d)

	Mar-99 Quota (1)	Forecast			Feb-99	Jan-99	Dec-98	Nov-98	Oct-98	Sep-98	Aug-98	Feb 98 Base	Pledged Cuts 98	Pledged Cuts 99
		May (e)	Apr (e)	Mar (e)										
Saudi Arabia (2)	7.438	7.57	7.78	8.08	6.13	8.13	8.26	8.11	8.12	7.92	8.14	8.748	0.725	1.310
Iran (3)	3.359	3.60	3.60	3.57	3.85	3.64	3.57	3.58	3.48	3.69	3.38	3.925	0.305	0.569
Iraq (4)	none	2.60	2.55	2.55	2.57	2.41	2.36	2.45	2.43	2.43	2.43	1.720	0.000	0.000
UAE	2.000	2.03	2.18	2.18	2.18	2.18	2.19	2.16	2.17	2.17	2.18	2.382	0.225	0.382
Kuwait (2)	1.838	1.86	1.97	1.97	2.00	1.99	1.99	1.98	1.96	1.99	2.04	2.205	0.225	0.369
Qatar	0.883	0.60	0.64	0.64	0.64	0.65	0.63	0.64	0.59	0.61	0.64	0.700	0.060	0.107
Nigeria	1.885	2.00	2.00	2.00	2.00	1.99	2.04	2.00	1.84	2.01	1.91	2.258	0.225	0.373
Libya	1.227	1.35	1.35	1.35	1.35	1.35	1.34	1.35	1.36	1.35	1.34	1.453	0.130	0.188
Algeria	0.731	0.78	0.80	0.80	0.81	0.83	0.82	0.81	0.79	0.79	0.80	0.868	0.080	0.176
Venezuela	2.720	2.84	2.90	2.90	2.93	2.97	3.00	3.00	2.95	2.93	2.95	3.370	0.525	0.650
Indonesia	1.187	1.30	1.30	1.30	1.30	1.26	1.33	1.31	1.29	1.31	1.27	1.380	0.100	0.134
<b>TOTAL</b>	<b>22.976</b>	<b>26.53</b>	<b>27.06</b>	<b>27.33</b>	<b>27.56</b>	<b>27.40</b>	<b>27.53</b>	<b>27.39</b>	<b>26.97</b>	<b>27.18</b>	<b>27.06</b>	<b>29.009</b>	<b>2.600</b>	<b>4.258</b>

Notes: (1) Individual quotas are based on production ceilings published by OPEC in March 1999

(2) Kuwait and Saudi Arabia figures include 1/2 share of Neutral Zone production (see below)

(3) Iran's base set at 3 925 mmb/d; this implies a quota of 3 620 mmb/d

(4) Iraq not included in OPEC quota agreement; estimated current production capacity is 2.7 mmb/d

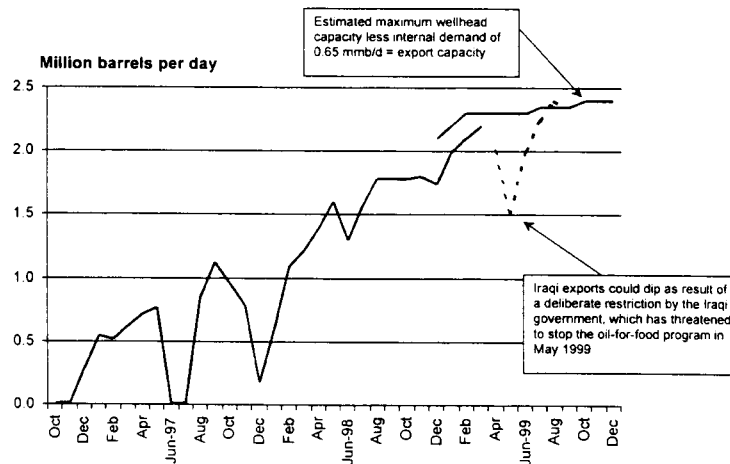
Total cuts pledged by OPEC at March 1999 conference in Vienna compared to February 1998 base

OPEC compliance with pledged cuts (excluding Iraq) improved in Jan-Feb with lower Saudi and Venezuelan production

Memo Items:	no quota	0.54	0.55	0.55	0.56	0.56	0.52	0.52	0.53	0.54	0.57
Neutral Zone		0.54	0.55	0.55	0.56	0.56	0.52	0.52	0.53	0.54	0.57
OPEC production excluding Iraq		23.93	24.51	24.78	24.99	24.99	25.17	24.94	24.54	24.75	24.63
Cuts implemented excluding Iraq		3.36	2.78	2.51	2.30	2.30	2.12	2.35	2.75	2.52	2.65
Compliance ex-Iraq (%)		79%	65%	97%	88%	88%	82%	90%	106%	97%	102%
Net Cuts with Iraq		2.48	1.95	1.68	1.45	1.61	1.48	1.62	2.04	1.81	1.94
Compliance with Iraq (%)		58%	46%	65%	56%	62%	57%	62%	78%	70%	75%

Sources: OPEC, International Energy Agency, authors's estimates

## Iraq's Monthly Oil Exports ...have risen significantly since early 1998

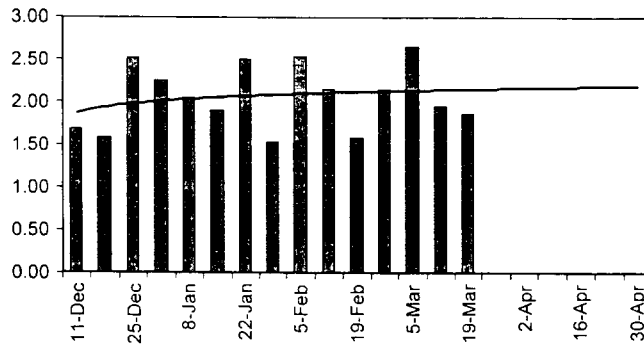


Source: International Energy Agency and author's estimates

## What went wrong in the oil markets in 1998 ...Iraq was the second biggest factor

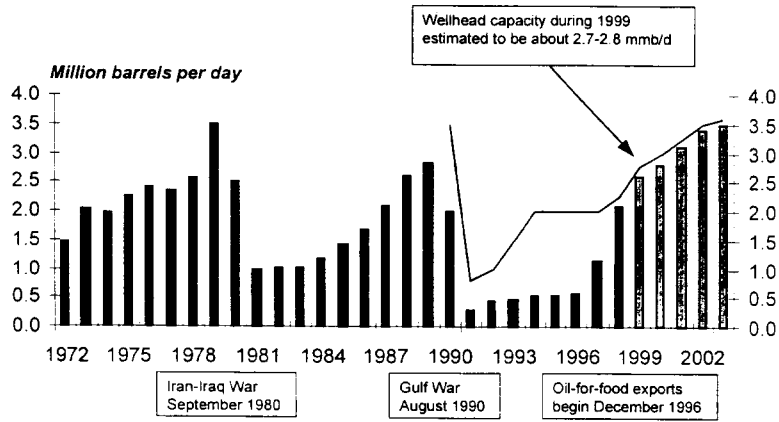
- The crisis in Asia reduced oil demand by 1.0 mmb/d against expectations
- **Iraq added nearly 0.9 mmb/d to supply as the UN authorized higher exports and Iraqi petroleum engineers managed to boost output**
- Warm weather dropped demand by 0.5 mmb/d compared to 'normal'
- Russian exports rose contra-seasonally by 0.2 mmb/d in 4Q 1998 as producers scrambled for revenue after the August financial meltdown
- China curtailed oil imports (by about 0.3 mmb/d) in 2H 1998 in an effort to use up its own inventories
- OPEC's efforts to trim production in 1998 were neither timely nor sufficiently credible in view of the magnitude of the problem
- OECD inventories rose to over 2,800 million barrels, some 200-300 mb above industry norms

### Iraq's Weekly Oil Exports ...trendline suggests a rise towards 2.2 mmb/d



Source: United Nations Office for the Iraq Programme and author's estimates

### Iraq's Crude Oil Output and Wellhead Capacity



Source: US DOE/EIA, IEA and author's estimates

**Iraq's Proposed Production-Sharing Deals**  
**...with investment, oil output could rise sharply**

	Capacity (in 1000 b/d)	Cost (\$ million)	Bidders
West Qurna II	600	3700	Lukoil-lead consortium
Majnoon	600	3500	Eiff Aquitaine
Bin Umar	440	3400	Total
Massiriyah	300	1900	ENI, Repsol
Halfaya	225	2000	BHP
Ratawi	200	1300	Petronas, Crescent, Shell, CanOxy
Tuba	180	500	ONGC, Pertamina, Sonatrach
Gharraf	100	500	TPAO, Japex
Rafidain	100	500	Perenco, Sidanco
Al-Ahdab	90	700	CNPC, Norinco
<b>Total</b>	<b>2835</b>	<b>18000</b>	

*Source: Energy Intelligence Group, International Petroleum Finance, March 1999*

Mr. BARTON. Mr. Taylor, we will put your statement in the record and delighted to hear from you. My understanding is that you actually are an independent producer. Is that correct?

Mr. TAYLOR. I am trying to be.

Mr. BARTON. Trying to be. That is the right answer. Welcome to the committee.

**STATEMENT OF TOM TAYLOR**

Mr. TAYLOR. I want to thank you for allowing me to be here to testify, Mr. Chairman.

Yes, I am trying to be an oil producer in West Texas. I also am the regional vice president for the Texas Independent Producers and Royalty Owners Association, TIPRO, which I am representing here today, consists of approximately 1,600 members with petroleum interests in the State of Texas making us the largest state-wide group in our industry.

We are not here to advocate making life even more unbearable for the Iraqi people. It would be unreasonable, as well as unrealistic, for Americans whose jobs depend on the American oil industry to expect our economic problems to be solved through a "beggar thy neighbor" policy. We are having a humanitarian crisis out in West Texas right now. We are plugging wells. These wells are not shut in; they are plugging wells. Because we don't have—we have 2 years in order to not plug wells. But in all due respect there might have been an attorney or two here in the room. Landowners who don't get royalty checks to provide for their food are concerned. They call their attorneys. They ask them why. The attorneys say those wells are not producing. We have 90 days in most situations to produce those wells. In the event we don't produce those wells, our leases are expired. Then we have 2 years to plug those wells.

By virtue of that, those wells become worthless; and the school systems, as Commissioner Williams pointed out, are losing a tremendous amount of money. Up to 40 percent of our revenues to run our school systems in West Texas are being lost because of this.

Our knowledge is limited about the Iraqi situation, but we know that anyone who thinks the world oil market is a free market is

kidding themselves. War, threat of war, political instability, sanctions, government fiats—these are not exactly what one thinks of when one thinks of a willing buyer and willing seller with each other in a properly functioning marketplace. We know that Mr. Wood and the U.S. policymakers like to tell themselves that our Iraq policy is neutral in terms of effect on oil prices, but they are kidding themselves once again. The sanctions policy, in particular the oil-for-food program, represents significant government intervention into the world oil market and, as presently structured, has a depressing effect on prices.

Finally, we know that low oil prices are bad for any program that depends on revenues for oil, whether the program is a small drilling venture in West Texas, a major development such as that down in the Caspian Sea, or the oil-for-food program in Iraq. If policymakers want to increase the amount of oil revenues available to each of the suffering people in Iraq, the policy focus should be shifted from increasing production to increasing price in order to reach whatever revenue target they may be seeking.

I will elaborate briefly. As has been discussed here, certainly world events other than the Iraq situation have an impact on this. As we discussed, the Asian energy demand, increasing oil production from OPEC, and recent warm winters have all contributed to the current crisis. But increased Iraq production must also be recognized as a material influence on the price. As you have stated, in our records 1.3 million barrels of exports is a direct reflection of this. You have Saudi Arabia that is decreasing by 2 million barrels; and, therefore, they are basically subsidizing the production from Iraq. And as we discussed, there has been a 20 percent rise just off of this speculation.

Now, before a reporter would take that and inflate that, oil prices are back up. They have increased 20 percent from an all-time low, which still causes an uneconomic situation as a producer. The surplus capacity dictates that producers reduce supply, yet our government is encouraging the United Nations to allow Iraq, a distressed seller if there ever was one, to increase supply.

Basically, we are going to be the next 2 million barrels is what we are afraid of as independent producers. We have lost almost 250,000 barrels in Texas alone. I think we have lost, as we stated earlier, 600,000 barrels in the United States as independent producers, and we don't have the luxury of turning those wells back on like they do over there.

The effect of low oil prices in the U.S. has been staggering, as we discussed. The charts prepared by the Independent Petroleum Association is included as an appendices to my testimony, and this will illustrate all too well. It shows the workover rigs, not the drilling rigs, but the workover rigs, which is a key indicator of the industry's efforts to maintain production, has declined almost 50 percent. So we are not even able to be able to work over these wells, because their economics, it doesn't justify the expenditure.

Appendix 2 shows that oil and gas extraction employment has fallen by over 50,000 jobs. In Texas I might also add unemployment claims in my industry quadrupled in 1998 and in 1999 it is even worse. Low oil prices are troublesome for the Oil-For-Food Program, and Appendix 3 outlines the difference in price and pro-

duction scenarios facing this program. At current prices, Iraq will raise over \$3 billion during phase 5. So far, it is far short of the \$5 billion target. The table also shows that at current price average, Iraq will need to export 3 million barrels at the current price to raise \$5 billion. The Department of Energy Secretary Bill Richardson testified last week that Iraq appears unable to increase production to this level. So it appears Iraq will not raise \$5 billion—the \$5.2 billion target price for the foreseeable future. Put simply, the Oil-For-Food Program simply does not work in a world of \$10 oil.

I will conclude with two suggestions for policymakers, and it should be noted that it is important that these suggestions be pursued in concert. First, we suggest that the U.S. press the United Nations to restructure the Oil-For-Food Program so that it no longer gives Iraq an incentive to depress world oil prices. We submit that production increases measured in hundreds of thousands of barrels per day would cause prices to fall further, and the Oil-For-Food Program would still come up short. Put simply, humanitarian needs in Iraq will not be met in a world of \$10 oil.

We believe that the way to restructure the Oil-For-Food Program so that it no longer serves to depress oil prices is for the United Nations to establish an oil quota for Iraq. The quota would be equal to the number of barrels per day that can be reasonably expected to yield the revenues that are believed necessary. The production quota could be adjusted every 80 days as revenue targets and oil price forecasts change. A potential quota table is attached as Appendix 4. As you can see, a slight increase in the dollar amount makes a significant difference.

This proposal may have some flaws and I present it only as a potential option. However, by maintaining Iraq's production at a level that bears some relation to market demand, we can eliminate the downward pressure Iraq's increased production has on price.

In summary, if the United Nations wants to increase the amount of oil revenue available to ease the suffering of the Iraq population, the policy focus should be shifted from increasing production to increasing price. What we are saying is give price a chance.

Our second suggestion is to couple the restructuring of the Oil-For-Food Program with meaningful efforts to stabilize the price of oil at levels that reflect its hidden environmental and military cost. The United States can help achieve this through variable import fees such as fees on tankers that move oil in environmentally sensitive coastal waters, fees designated to recoup some of our Nation's enormous military cost devoted to protecting Middle East oil supplies and/or fees that offset the advantage that imported oil currently enjoys over domestic production due to minimal environmental regulations of foreign production practices.

I close in saying that I would be honored to assist Mr. Woods in explaining to the State Department the effect this has on the small independent producer. I would like to take this opportunity to thank you again, and we would be more than happy to answer any questions.

[The prepared statement of Tom Taylor follows:]

PREPARED STATEMENT OF TOM TAYLOR, REGIONAL VICE PRESIDENT, TEXAS  
INDEPENDENT PRODUCER AND ROYALTY OWNERS ASSOCIATION

Mr. Chairman and Members, my name is Tom Taylor from Abilene, Texas. I am an oil producer and serve as a Regional Vice President for the Texas Independent Producers and Royalty Owners Association (TIPRO). TIPRO, which I am representing here today, consists of 1600 members with petroleum interests in the State of Texas, making us the largest statewide group in our industry.

We come to you today with a sense of humility. My association has no magic solution to the difficulties in Iraq, and I am not a foreign policy expert. It is tempting to say that the experts don't have the answers either, but we are not here to make a wholesale indictment of Iraq policy.

Neither are we here to advocate making life even more unbearable for the Iraqi people. It would be unreasonable, as well as unrealistic, for Americans whose jobs depend on the domestic oil and gas industry to expect our economic problems to be solved through a "beggar thy neighbor" policy. In other words, and we want to be quite clear about this, Texas oil producers are not here to ask for elimination of the oil-for-food program or even to suggest that Iraqi oil production levels should return to those that prevailed a year or two ago.

While our knowledge about Iraq is limited, we do know a few things:

- We know that anyone who thinks the world oil market is a free market is kidding themselves. War and threat of war, political instability and intrigue, sanctions and governmental fiat—these are not exactly what one thinks of when one thinks of willing buyers and willing sellers dealing with each other in a properly functioning marketplace.
- We know that U.S. policymakers like to tell themselves that our Iraq policy is neutral in terms of effects on oil prices, but they are kidding themselves once again. The sanctions policy, in particular the oil-for-food program, represents significant government intervention in the world oil market and, as presently structured, has a depressing effect on prices.
- Finally, we know that low oil prices are bad for any program that depends on oil revenues, whether the program is a small drilling venture in West Texas, a major development such as that found in the Caspian Sea, or the oil-for-food program in Iraq. If policymakers want to increase the amount of oil revenue available to ease the suffering of the Iraqi people, the policy focus should be shifted from increasing production to increasing price in order to reach whatever the revenue target may be.

I want to elaborate on the two latter points, that is, how the present design of the oil-for-food program depresses prices and how higher oil prices would further both the Iraq program and domestic energy production.

*(1) The oil-for-food program, as presently structured, depresses world oil prices.*

Certainly, world events other than what is taking place in Iraq have had an impact on oil prices. Reduced Asian energy demand, increased OPEC production and recent warm winters have all contributed to the current price crisis. But, increased Iraqi production must also be recognized as a material influence on prices. Iraq has added at least 1.3 million barrels per day to the market since 1997—1.3 million barrels of new supply compared to a global surplus of approximately one to two million barrels per day.

What kind of impact has this had? A big impact. To put the impact of 1.3 million barrels in perspective, note that oil prices in recent weeks have risen over 20 percent merely upon OPEC's declaration that it will reduce production by a total of about 2 million barrels. Surplus capacity dictates that producers reduce supply. Yet our government is encouraging the United Nations to allow Iraq, a distressed seller if ever there was one, to increase supply.

The sanctions policy, if it is enforced as intended, gives Saddam only one way to raise meaningful revenue—taking whatever is available to him under the oil-for-food program. Since the program is structured only in terms of revenue limits, with no limits on the amount of Iraqi production, Saddam's incentive is to produce whatever it takes to generate permitted revenue. And if the limits on the revenues were simply removed, his incentive would be to produce even more, without regard to the glut in the marketplace that motivates producers who are under less duress to curtail production.

*(2) Low oil prices are bad for both U.S. producers and the oil-for-food program.*

The effect of low oil prices in the U.S. has been staggering. Two charts prepared by the Independent Petroleum Association of America (IPAA), included as appendices to my testimony, illustrate this all too well. Appendix One shows that the

workover rig count, a key indicator of the industry's efforts to maintain production, has declined dramatically; from 1,459 in December 1997 to 766 in January 1999. Appendix Two shows that oil and gas extraction employment has also fallen from 339,000 employees in December 1997 to 288,000 in February 1999. In Texas, I might add, unemployment claims from my industry quadrupled in 1998 and 1999 is even worse.

Low oil prices are also troublesome for the oil-for-food program. Appendix Three outlines different price and production scenarios facing the program. According to the United Nations, since the beginning of Phase V (which runs from November 26, 1998 to May 24, 1999) Iraq has so far exported an average of 1.9 million barrels per day at \$9.31 a barrel. At this price, Iraq will raise \$3.18 billion during Phase V—far short of the \$5.26 billion target. The table also shows that at the current average price, Iraq will need to export 3.1 million barrels of oil per day to raise \$5.2 billion. Department of Energy Secretary Bill Richardson testified last week that Iraq appears unable to increase production to this level, so it appears Iraq will not raise the \$5.26 billion target for the foreseeable future. The oil-for-food program simply does not work in a world of \$10 oil.

#### RECOMMENDATIONS AND CONCLUSION

I will conclude with two suggestions for policymakers, and it should be noted that it is important that these suggestions be pursued in concert.

*(1) Restructure the Oil-for-Food Program so it does not depress world oil prices.*

First, we suggest that the U.S. press the United Nations to restructure the oil-for-food program so that it no longer gives Iraq an incentive to depress world oil prices. TIPRO is concerned that to simply lift the ceiling on oil sales, as the Administration has recently proposed to the United Nations Security Council, would depress oil prices further. In a world of \$10 oil, Iraq would need to produce almost 3 million barrels per day—which is almost half a million barrels per day more than it produces currently—to generate \$5.26 billion every 180 days, as the current ceiling allows. Given that a world oil surplus of perhaps 2 million barrels a day (half of which can be attributed to increased production by Iraq) yields oil prices that are only slightly above historic lows, what will happen if Iraq increases production by a half million barrels per day in the next year?

We submit that production increases measured in hundreds of thousands of barrels per day would cause prices to fall further, and the oil-for-food program would still come up short. Put simply, humanitarian needs in Iraq will not be met in a world of \$10 oil.

We believe that the way to restructure the oil-for-food program so that it no longer serves to depress oil prices is for the United Nations to establish an oil quota for Iraq. The quota would be equal to the number of barrels per day that can be reasonably expected to yield the revenues that are believed necessary.

The production quota could be adjusted every 180 days as revenue targets and oil price forecasts change. A potential quota table is attached as Appendix Four. For example, if the forecast is that Iraq will receive an average of \$12 per barrel during the next United Nations reporting period, and \$5.25 billion is the target revenue for the period, the quota would only need to be 2.43 million barrels per day. If the United Nations determines that more revenue is needed, \$6 billion for example, the quota for the period would be 2.78 million barrels per day. If the price of Iraqi crude should rise to \$16 per barrel, a 2.43 million barrels per day quota would provide \$7 billion of revenue in 180 days, should the United Nations want to provide that much revenue to the program.

This proposal may have some flaws, and I present it only as a potential option. However, by maintaining Iraq's production at a level that bears some relation to market demand, we can eliminate the downward pressure Iraqi increased production has on price.

In summary, if the United Nations wants to increase the amount of oil revenue available to ease the suffering of the Iraqi population, the policy focus should be shifted from increasing production, to increasing price, in order to reach the revenue target.

*(2) Seek to stabilize oil prices at reasonable levels.*

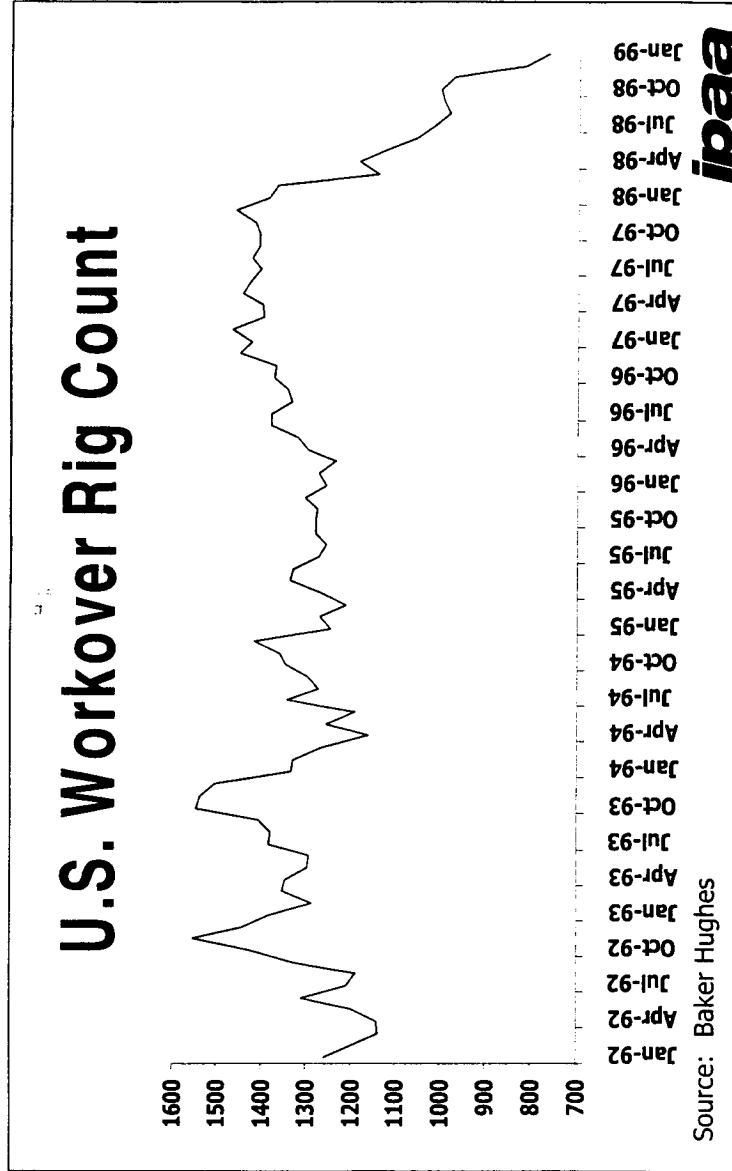
Our second suggestion is to couple the restructuring of the oil-for-food program with meaningful efforts to stabilize the price of oil at levels that reflect its hidden environmental and military costs. The United States can help achieve this through variable import fees, such as fees on tankers that move oil in environmentally sensitive coastal waters, fees designed to recoup some of our nation's enormous military costs devoted to protecting Middle Eastern oil supplies, and/or fees that offset the



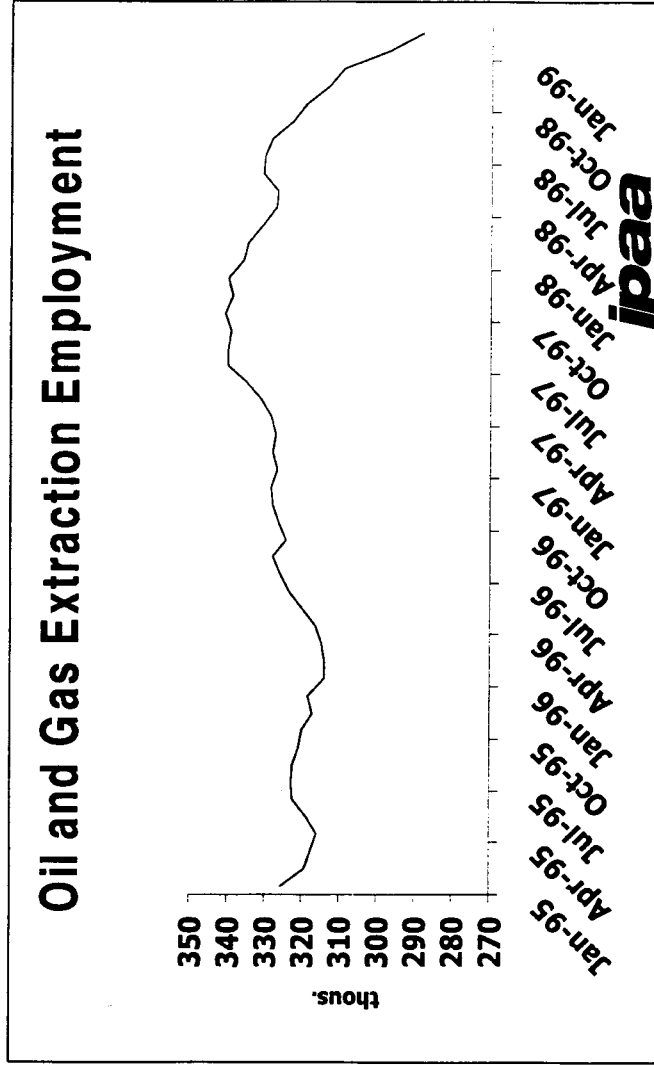
advantage that imported oil currently enjoys over domestic production due to minimal environmental regulation of foreign production practices.

I appreciate the opportunity to be with you today and would be happy to try to answer any questions.

APPENDIX ONE



APPENDIX TWO



## APPENDIX THREE

## Price and Production Scenarios Under Oil-for-Food

Total Revenues Derived from Iraqi Oil Sales  
(Billions of Dollars Every 180 Days)

MMB/D	Dollars per barrel											
	9.31	10	11	12	13	14	15	16	17	18	19	20
5.0 .....	8.38	9.00	9.90	10.80	11.70	12.60	13.50	14.40	15.30	16.20	17.10	18.00
4.5 .....	7.54	8.10	8.91	9.72	10.53	11.34	12.15	12.96	13.77	14.58	15.39	16.20
4.0 .....	6.70	7.20	7.92	8.64	9.36	10.08	10.80	11.52	12.24	12.96	13.68	14.40
3.5 .....	5.87	6.30	6.93	7.56	8.19	8.82	9.45	10.08	10.71	11.34	11.97	12.60
3.1 .....	<sup>1</sup> 5.25	5.63	6.20	6.76	7.32	7.89	8.45	9.01	9.58	10.14	10.70	11.27
2.5 .....	4.19	4.50	4.95	5.40	5.85	6.30	6.75	7.20	7.65	8.10	8.55	9.00
2.0 .....	3.35	3.60	3.96	4.32	4.68	5.04	5.40	5.76	6.12	6.48	6.84	7.20
1.9 .....	<sup>2</sup> 3.18	3.42	3.76	4.10	4.45	4.79	5.13	5.47	5.81	6.16	6.50	6.84

<sup>1</sup> According to the United Nations Office of the Iraq Programme Weekly Update for 13 to 19 March, since the beginning of Phase V, which runs from November 26, 1998 to May 24, 1999, Iraq has exported an average of 1.9 mb/d at \$9.31 a barrel. At this rate Iraq will raise \$3.18 billion during Phase V.

<sup>2</sup> At the current average price, Iraq will need to export 3.13 million barrels of oil per day to raise 5.25 billion.

## APPENDIX FOUR

## Potential Iraq Production Quotas

(Million Barrels Per Day)

Total Revenue (\$billion per 180 days)	Dollars per barrel											
	9.31	10	11	12	13	14	15	16	17	18	19	20
3.25 .....	1.94	1.81	1.64	1.50	1.39	1.29	1.20	1.13	1.06	1.00	0.95	0.90
3.50 .....	2.09	1.94	1.77	1.62	1.50	1.39	1.30	1.22	1.14	1.08	1.02	0.97
3.75 .....	2.24	2.08	1.89	1.74	1.60	1.49	1.39	1.30	1.23	1.16	1.10	1.04
4.00 .....	2.39	2.22	2.02	1.85	1.71	1.59	1.48	1.39	1.31	1.23	1.17	1.11
4.25 .....	2.54	2.36	2.15	1.97	1.82	1.69	1.57	1.48	1.39	1.31	1.24	1.18
4.50 .....	2.69	2.50	2.27	2.08	1.92	1.79	1.67	1.56	1.47	1.39	1.32	1.25
4.75 .....	2.83	2.64	2.40	2.20	2.03	1.88	1.76	1.65	1.55	1.47	1.39	1.32
5.00 .....	2.98	2.78	2.53	2.31	2.14	1.98	1.85	1.74	1.63	1.54	1.46	1.39
5.25 .....	3.13	2.92	2.65	2.43	2.24	2.08	1.94	1.82	1.72	1.62	1.54	1.46
5.50 .....	3.28	3.06	2.78	2.55	2.35	2.18	2.04	1.91	1.80	1.70	1.61	1.53
5.75 .....	3.43	3.19	2.90	2.66	2.46	2.28	2.13	2.00	1.88	1.77	1.68	1.60
6.00 .....	3.58	3.33	3.03	2.78	2.56	2.38	2.22	2.08	1.96	1.85	1.75	1.67
6.25 .....	3.73	3.47	3.16	2.89	2.67	2.48	2.31	2.17	2.04	1.93	1.83	1.74
6.50 .....	3.88	3.61	3.28	3.01	2.78	2.58	2.41	2.26	2.12	2.01	1.90	1.81

This chart reflects the number of barrels that Iraq would need to produce per day to reach a 180 day revenue target at a given price. As the price of oil price or revenue target changes, the amount of oil Iraq would be allowed to produce in subsequent phases would change accordingly.

Mr. BARTON. We want to thank you, Mr. Taylor, for your testimony, and the appendices especially will be used as we pursue this. Our friends in the State Department I don't think have enough personnel to do some of the basic math that you have done.

Mr. TAYLOR. Thank you, sir.

Mr. BARTON. We appreciate that.

Mr. Brown, we appreciate you being here on behalf of Congressman Largent. He recommended that you be asked to testify and we appreciate you coming up. We will put your statement in the record, and give you such time as you may consume to elaborate on it. But try to do it within 5 to 7 minutes.

## STATEMENT OF F.W. "PETE" BROWN

Mr. BROWN. Thank you, Mr. Chairman. Mr. Chairman and Representative Hall and members of the audience, I believe myself to

be a very typical independent oil and gas producer, not only in Oklahoma, but throughout the entire Nation.

In 1998, 32 percent of the wells in which I own an interest lost money due to low oil prices. In the month of December alone, that same year, 57 percent of my wells were losing money for the same reason. I accepted these losses in the hopes that oil prices would rebound.

In the past 17 months, the price of oil has plummeted to levels far below the lifting cost of independent producers throughout the United States. To understand the reason for this drop, we first must understand why exporting countries until recently have not taken the initiative to curtail production.

First of all, it needs to be noted the world's so-called oversupply of crude oil is based on the ability of a country to produce oil versus worldwide consumption. In order to maintain stability in the marketplace, those of us who import oil, like the United States, should also want supply to exceed demand. Excess production capacity is not actually produced. Aside from above ground storage, there is very little ability to store large quantities of oil once it is produced. Saudi Arabia, for example, is estimated to have the capability of producing up to 10 million barrels of oil per day, and yet it actually produces just a little over 8 million barrels of oil per day. This can be misleading in that the ability to produce oil in the field does not necessarily mean that it can be transported to terminals and loaded into tankers at the same rate.

Actually, no one really knows how much surplus production capacity exists in the world today. Some believe the world's ability to produce oil exceeds demand by about 3.5 million barrels a day, but that compares to estimates of 10 million barrels a day of surplus capacity in 1981, the year in which the price of oil reached \$38 a barrel. Today we are actually closer than ever before to a point where demand will exceed the world's ability to produce. Part of the reason for this reduction in surplus production capacity is increased demand, but part of the reason is reduction of production.

Why, then, is the price of crude at such low levels? The price of crude first started to drop when the Saudis began to lose market share as a result of Venezuelan production. Venezuela began increasing exports about the same time that crude oil prices began their downward spiral. As production increased in Venezuela, it began to capture market share from Saudi Arabia. The Saudis had two choices. They could curtail production even further, causing the price to rise, or they could keep production levels the same, allowing the price to drop below Venezuela's cost of production, which was significantly higher than the Saudis.

This strategy discourages drilling in areas that have associated high cost of drilling such as the North Sea, Siberia, deep offshore drilling, the Caspian Sea, which is an area estimated to contain reserves equivalent to the Persian Gulf, and of course U.S. domestic onshore production. In addition, it has had the side benefit to the Saudis, that is, of shutting down much of the stripper production in the United States. It is not the intention of the Saudis to maintain the low prices; rather, they want to create market volatility, which has the affect of discouraging high drilling in high-cost regions.

Saudi Arabia, like many Middle Eastern countries, has social costs associated with their crude production. Crude oil funds social programs set up for the Saudi citizens such as free medical care, no taxes, low-cost housing and many more programs that once established cannot be easily discontinued. In recent months, OPEC has dropped production levels that would ordinarily be sufficient to bolster the price of crude oil to 1997 levels. This has failed to produce the desired results for very important reasons. Iraq has been allowed to produce additional volumes of oil to offset the drop in production, even while men and women of our armed forces are in a shooting war with Iraq. Allowing Iraq to produce this oil has had a devastating effect on U.S. independent producers and threatens to drop U.S. crude production as much as 1 to 2 million barrels per day. The 4-week average of domestic crude oil production is already down 416,000 barrels a day from 1 year ago, according to figures published in the Oil and Gas Journal.

It is argued that it is necessary to allow the Iraqi government to increase production so that they can have sufficient revenue to feed their people. Yet, grain and food purchased with these funds sits in warehouses undistributed. We also might want to consider the fact that the Iraqi government has never provided their citizens with free food, and probably has no intention of doing so now.

By allowing the sale of crude oil for humanitarian reasons, we have, in effect, taken the pressure off the Iraqi government to provide for its own people. In doing so, we provide them the means by which they can fund their continued production of biological and chemical weapons. At the same time, we eliminate a valuable natural resource in this country which will ultimately give countries with surplus oil production such as Iraq an enormous amount of power in the not too distant future. If, in fact, we feel it necessary to reward Iraqi's noncompliance for humanitarian reasons by allowing overproduction of crude oil, steps should and must be taken to protect our domestic producers.

The paramount tragedy here is allowing a viable, important industry to be systematically dismantled, causing the loss of thousands of jobs, as well as causing economic depression in oil producing States. All the while, our government continues to subsidize foreign governments and ignores its own domestic oil and gas producers. By spending billions of dollars to ensure the free flow of oil out of the Persian Gulf, my government and yours, in effect, is subsidizing my foreign competition.

Those of us in the oil and gas industry believe in a free market economy. World crude oil production is far from a free market. When foreign governments control the flow of oil, our own government has not only the right, but the obligation to protect its domestic industry. This can be accomplished by allowing the defense equalization fee to be charged on crude oil from the Middle East. Revenues from such a fee could be used to offset the cost of subsidizing their production and maintaining a military presence in the Persian Gulf.

Another disadvantage we face as domestic producers is our environmental costs. The crude oil purchased from foreign countries is subject to barely a fraction of our environmental regulations protections and the associated environmental costs in terms of dollars.

Thus, an environmental equalization fee would be appropriate to level the playing field for domestic oil and gas producers. This fee should be put in place regardless of price, as long as America continues to allow foreign governments to have a competitive advantage.

At normal prices, the wells in which I own an interest that are daily losing money still have thousands of barrels of recoverable oil. But as anyone, I can only lose money for so long. My wells that are losing money must now be plugged and abandoned. I have no choice. Once these wells are plugged, they will never be brought back on, as the remaining reserves would not justify the additional substantial investment required to do so.

If Congress fails to act, the United States of America stands to lose a substantial portion of a precious national asset, as well as turning over an even greater share of our future energy requirements to foreign governments that don't have America's best interests at heart.

Mr. Chairman, members of the subcommittee, we citizens of the United States face a crisis that will have far-reaching consequences if left unabated. I urge each of you on behalf of our domestic oil and gas industry and our country to take action to curb production from Iraq. The energy future of America now and for generations to come is in your hands. It has been my honor to address you and I thank you for the opportunity to be heard on this issue, and I would be glad to answer any questions.

[The prepared statement of F.W. "Pete" Brown follows:]

PREPARED STATEMENT OF F.W. "PETE" BROWN, INDEPENDENT OIL AND GAS PRODUCER

Mr. Chairman, members of the subcommittee and distinguished guests, thank you for the opportunity to provide testimony on this vital issue. I come before you, as a very typical and average independent oil & gas producer, not only in Oklahoma but throughout the entire nation. In 1998 32% of the wells from which I receive production lost money due to low crude oil prices. By the month of December in 1998, 57% of my wells were losing money. I have continued to accept these losses in the hope that crude oil prices would rebound.

In the past 17 months, the price of domestic crude oil has plummeted to levels far below the average lifting cost for the majority of independent producers in the United States. To understand the reason for this drop, one must first understand why the oil exporting countries have not taken the initiative to curtail production.

First of all it should be noted that the world's "so-called oversupply" of crude oil is based on the ability of countries to produce oil versus worldwide consumption. In order to maintain stability in the market place, those of us who rely on imports should always want supply to exceed demand. Excess production capacity is not actually produced. Aside from above ground storage (782,955,000 bbls crude and refined product or roughly a 42 day supply according to the *Oil & Gas Journal* dated March 22, 1999), there is very little ability to store large quantities of oil once it is produced. Saudi Arabia, for example, is estimated to have the capability of producing up to 10 million barrels of oil per day and yet they actually produce a little over 8 million barrels per day. This can be misleading in that the ability to produce oil in the field does not necessarily mean that it can be transported to terminals and loaded into tankers at the same rate.

Actually, no one really knows how much surplus production capacity exists in the world today. Some believe the world's ability to produce & market oil exceeds demand by about 3.5 million barrels per day compared to estimates of 10 million barrels per day of surplus production capability in 1981, a year in which crude oil prices reached \$38.00 per barrel. Today we are actually coming closer to the point where demand *will* exceed the world's ability to produce. Part of the reason for this reduction in surplus production capacity is increased demand.

Why then is the price of crude at such low levels? The price of crude first started to drop when the Saudis began to lose market share as a result of an increase in

Venezuelan production. Venezuela began increasing exports about the time that crude oil prices began their downward spiral. As production increased in Venezuela, it began to capture market share from Saudi Arabia. The Saudis had two choices; they could curtail production even further, causing the price to rise, or they could keep production levels the same, allowing the price to drop below Venezuela's cost of production, which was significantly higher than the Saudi's. This strategy discourages drilling in areas that have associated high costs such as the North Sea, Siberia, the Caspian Sea (an area estimated to contain reserves equivalent to the Persian Gulf), deep offshore and U.S. domestic onshore. In addition, it has the side benefit (to the Saudis) of shutting down much of the stripper production in the U.S.

It is not the intention of the Saudis to maintain such low prices, rather they want to create market volatility, which has the effect of discouraging drilling in high cost regions. Saudi Arabia, like many Middle East countries, has "social" cost associated with their crude oil production. Crude oil funds these social programs, set up for Saudi citizens, such as free medical care, no taxes, low cost housing and many more programs that, once established, can not be easily discontinued.

In recent months, OPEC has dropped production to levels that would ordinarily be sufficient to bolster the price of crude oil to 1997 levels. This has failed to produce the desired results for one very important reason. Iraq has been allowed to produce additional volumes of oil to offset the drop in prices, even while men and women of our Armed Forces are engaged in a shooting war with Iraq. Allowing Iraq to produce this oil has had a devastating effect on U.S. independent producers and threatens to drop U.S. crude production as much as 1 to 2 million barrels per day. The four-week average of domestic crude oil production is already down 416,000 barrels per day from one year ago according to figures published in the *Oil & Gas Journal* dated March 22, 1999. It is argued that it is necessary to allow the Iraqi government to increase production so that they can have sufficient revenue to feed their people. Yet grain purchased with these funds sits in warehouses undistributed. We might want to consider the fact that the Iraqi government has never provided its citizens with free food, and probably has no intention of doing so now. By allowing the sale of crude oil for humanitarian reasons, we in effect have taken the pressure off the Iraqi government to provide for its own people. In doing so we provide them the means by which they can fund their continued production of biological and chemical weapons.

At the same time we eliminate a valuable natural resource in this country which will ultimately give countries with surplus oil production, such as Iraq, an enormous amount of power in the not too distant future. If in fact we feel it necessary to reward Iraq's non-compliance, for humanitarian reasons, by allowing overproduction of crude oil, steps should *and must* be taken to protect our own domestic producers.

The paramount tragedy here is allowing a viable and important industry to be systematically dismantled causing the loss of thousands of jobs, as well as causing an economic depression in oil producing states. All the while our Government continues to subsidize foreign governments and ignores its own domestic oil and gas producers. By spending billions of dollars to insure the free flow of oil from the Persian Gulf my government and yours, in effect, is subsidizing my foreign competition. Those of us in the oil and gas industry believe in a free market economy. World crude oil production is far from a free market. When foreign governments control the flow of oil, our own government has not only the right, but also the obligation, to protect its domestic industry. This can be accomplished by allowing a defense equalization fee to be charged on crude oil from the Middle East. Revenues from such a fee would be used to offset the cost of subsidizing their production by maintaining a military presence in the Persian Gulf.

Another disadvantage we face as domestic producers is our environmental cost. The crude oil we purchase from foreign countries is subject to barely a fraction of our environmental regulations and protections, and the associated environmental cost in terms of dollars. Thus an environmental equalization fee would be appropriate to level the playing field for domestic producers. This fee should be put in place, regardless of price, as long as America continues to allow foreign governments have a competitive advantage.

At normal prices the wells in which I own an interest, and that are losing money today, still have thousands of barrels of recoverable oil. But I, as anyone, can only lose money for so long. My wells that are losing money must now be plugged and abandoned. I have no choice. Once these wells are plugged they can never be brought back on production, as the remaining reserves would not justify the substantial investment required to do so. If Congress fails to act, the United States of America stands to lose a substantial portion of a precious national asset as well as turning over an even greater share of our future energy requirements to foreign governments that don't have America's best interest at heart.

Mr. Chairman and members of the sub-committee, we, as citizens of the United States, face a crisis that will have far reaching consequences if left unabated. I urge each of you, on behalf of our domestic oil and gas industry and *your* country, to take action to curb excess production from Iraq. The Energy future of America, now and for generations to come, is in your hands.

It has been my honor to address you and I thank you for the opportunity to be heard on this issue.

Mr. BARTON. Thank you. We want to hear from Mr. Bole. Mr. Hall has a plane at 1:45, so Ralph, do you want to ask a question?

Mr. HALL. May I say something here? I am the loser by not getting to stay here and talk to you for another hour, because this is the group I would listen to more than all the others put together, because you are my folks, and your testimony means more to me than any that I have heard or will hear. I think you can gather from the things that the chairman has said and I have said—by the way, you are not just talking to the two of us. This goes into the record and it is read by certainly the committees and by the members. So I thank you for your time. I will have some questions. I have questions built around whether or not the State Department has consulted with any of you or the domestic industry on this food program, and you know, I am pretty sure they haven't listened to you, but I would like to know if they have even made any effort, and that will be part of my questions. But I do have to be on a plane in 34 minutes and I have to clear off my desk and put the fire out and call the dogs and get out.

Mr. BARTON. Actually, he is leaving a little early. I have seen Ralph make it in less than 10 minutes.

Mr. HALL. Well, they close the door on you now. But I thank you very much. And Joe, thank you for holding the hearing.

Mr. BARTON. We appreciate you, Congressman Hall. Congressman Hall has agreed to sign some of the letters that I just talked to the Deputy Assistant Secretary of State about, so we are going to be working on this in a bipartisan way.

Mr. Bole, we are delighted to have you up from Houston. We will put your testimony in the record again in its entirety and give you 5 to 7 minutes to elaborate on it.

#### STATEMENT OF DAVID L. BOLE

Mr. BOLE. Thank you, Mr. Chairman, and also my thanks to Mr. Hall. My name is David Bole. I am Vice President of Corporate Research and Development for Randall and Dewey, Inc., a Houston-based company that facilitates transactions in the upstream part of the petroleum industry for all segments of the industry, major companies, large and small interests, both public and private. In this business we have seen the disruptive effects of the current price crisis not only on the stability of this critical portion of the industry, but in the direct loss of producers' equity value. Today, I am representing the Independent Petroleum Association of America. IPAA submits that the current problems facing domestic producers are related in large part to the abuse of the U.N. Oil-For-Food sanctions program by Saddam Hussein.

The industry has faced low oil prices for more than a year, beginning with a combination of events: the collapse of Asian economies, which we have heard a lot about this morning, a warmer than normal winter in the Northern Hemisphere, and OPEC's decision to



increase production quotas. However, as 1998 progressed, key OPEC countries and other significant non-OPEC countries curtailed production to try to diminish surplus inventories around the world and stabilize oil prices at levels that permit profitable operation. As other countries cut production, the U.N. sanctions program created an opportunity for Iraq's leaders to influence the price of oil in ways that no one would have expected. The U.N. sanctions structure was changed in two significant ways in early 1998. First, the Oil-For-Food Program has always been based on a dollar amount rather than a volume allowance, and we have heard a lot about that this morning. The dollar amount has increased to \$5.3 billion per 6 months, which we have talked about, an amount at current prices that effectively allows Iraq to pump unlimited volumes.

Second, the \$400 million every 6 months allocated to improve Iraq's oil production capacity allows them to increase their production. Thus, as other countries were making economic decisions to reduce production as prices fell, Iraq was given a perverse incentive to increase production.

At the beginning of 1998, Iraq was exporting approximately 700,000 barrels of oil per day. By the beginning of 1999, it was exporting as much as 2.5 million barrels per day. In 1998, Iraq was the only country to increase its oil production. This more than threefold increase, coupled with OPEC's decision to curtail production, has allowed Iraq to become the world's swing producer. That is, the producer that sells the last barrels into the market and thereby defines the price for the entire market.

Let me explain what allows Iraq to become the swing producer. Currently, many industry analysts estimate that worldwide oil productive capacity exceeds demand by only about 4 percent. As forecast demand increases at a rate of 1.5 to 2 percent per year, this excess capacity will rapidly disappear. Current low oil prices have decimated upstream capital development budgets by an estimated 40 percent. My good friend Pete here knows that. There is just not enough money out there to continue drilling.

Simply put, without the expenditure of enormous development funds, current capacity will not be expanded to keep pace with increasing demand. This is the situation we now face. As a result, any country with exports matching the excess productive capacity, has the ability to be the world's swing producer. Iraq now supplies about 3 percent of the world's demand, and has the ability to dramatically influence prices by either cutting or increasing its production. As demand increases and excess capacity drops, the export volume needed to drive prices will decrease. In the not too distant future, if not already, Saddam Hussein will be in the position to drive prices upward and punish consumer countries, perhaps when sanctions are lifted and all the money from Iraqi oil sales goes to him.

We submit that Iraq is using this position for its leader's own political purposes. Saddam's objectives differ from other oil producers. We have heard a lot about that this morning. He wanted higher oil prices when he invaded Kuwait, money he needed to build his military forces. Now, he can't spend money to buy arms. But, he can, by keeping oil prices low, punish his enemies, first by reducing

the income to Saudi Arabia, Kuwait and all the exporting countries; and second, to increase market share by driving down prices and causing critical U.S. production to be shut down and plugged forever, and that hurts the guys sitting right here. Thus, while condemning the U.N. sanctions and thwarting efforts to deliver to his people the humanitarian aid the sanctions purchase, Saddam is effectively manipulating the world oil markets for his own political purposes. This is where we stand today, and that is why we are here.

At issue, then, is what will happen next. Last week, the Secretary of Energy argued that Iraq's ability to increase its production is limited and is not expected to go up measurably this year. As a result, EIA believes that whatever effect Iraqi production has had on prices has already occurred, because Iraq cannot increase oil production much more over the next year or two.

While we agree with the Secretary that Iraqi production has impacted prices, the statement that Iraq cannot increase production is a costly assumption that must be proven. Given that the current sanctions program continues to fund additional improvements to the oil export capabilities of Iraq, there is no certainty that exports will not increase further. Clearly, today's crude market is forcing other major oil exporting nations to develop elaborate plans to limit their production. The success of these efforts is limited by the ability of Iraq to add more oil to the market. If the current Oil-For-Food Program results in further Iraqi oil production increases, it will allow Iraq to continue to hurt the other oil producing countries and the strategically essential domestic production of the United States. If it does, the U.N. sanctions will continue to be fatally flawed at two levels. First, they will have failed in its primary mission to provide humanitarian aid to the Iraqi people. Second, they will have handed Saddam Hussein the victory he lost in the Gulf War.

For the United States these options reflect policies we must change. They make no sense. The world fought a war to prevent Saddam Hussein from controlling world oil prices. Now, we have, however inadvertently, handed him this ability without a fight, and we are handing him control of the future of our domestic resources, an unbelievable policy choice. Current national policy on Iraq is flawed. Today, domestic production is at risk, while tomorrow the U.S. consumer may soon feel the shock of higher energy prices brought on by the actions of a rogue nation, a policy that hurts producers and consumers alike.

Our domestic oil production resource is the true national strategic petroleum reserve. We must value that resource. With respect to Iraq, we must recognize that its role in oil pricing may not have been planned, but it is now significant and it is not benign. If we fail to act in the short term, precious domestic resources will be lost forever. As we have heard this morning, in the last year we have lost nearly 600,000 barrels per day of domestic production, which has reduced the U.S. crude production to a level that has not been seen since 1950. Since 1986, when the last price free-fall crippled the industry, domestic oil production has dropped 2 million barrels per day. We need to act now to prevent a similar consequence from the current price crisis.

We thank you for your interest, we thank you for your time today, and God bless you for being on the side of the producers.  
[The prepared statement of David L. Bole follows:]

PREPARED STATEMENT OF DAVID L. BOLE, VICE PRESIDENT, CORPORATE RESEARCH AND DEVELOPMENT, RANDALL & DEWEY, INC.

Mr. Chairman, my name is David Bole. I am Vice President of Corporate Research and Development for Randall & Dewey, Inc., a Houston-based company that facilitates transactions in the upstream part of the petroleum industry for all segments of the industry—major companies, large and small independents, both public and private. In this business, we have seen the disruptive effects of the current price crisis not only on the stability of this critical portion of the industry but in the direct loss of producers' equity value. Today, I am representing the Independent Petroleum Association of America. IPAA submits that the current problems facing domestic producers, and potentially significant future problems, are related in large part to the abuse of the UN "oil for food" sanctions program by Saddam Hussein.

The industry has faced a low oil price crisis for more than a year, but today's problems are very different. Just over a year ago, the price crisis was started by a combination of events—the collapse of Asian economies, a warmer than normal winter in the Northern Hemisphere, and OPEC's decision to increase production quotas. The production most at risk was marginal oil wells in the United States—wells that produce about 20 percent of America's domestic production, an amount equivalent to our imports from Saudi Arabia.

However, as 1998 progressed, key OPEC countries and other significant non-OPEC countries curtailed production to try to diminish surplus inventories around the world and stabilize oil prices at levels that permit profitable operation. As other countries cut production, the UN sanctions program created an opportunity for Iraq's leaders to influence the price of oil in ways that no one would have expected. The UN sanctions structure was changed in two significant ways in early 1998. First, the "oil-for-food" program has always been based on a dollar amount rather than a volume allowance. The dollar amount was increased to \$5.265 billion per six months—an amount at current prices that effectively allows Iraq to pump unlimited volumes. Second, \$300 million every six months was allocated to improve Iraq's oil production capacity. Thus, as other countries were making the economic decisions to reduce production as prices fell, Iraq was given a perverse incentive to increase production.

And, increase it did. At the beginning of 1998 Iraq was exporting approximately 700,000 barrels of oil per day. *By the beginning of 1999 it was exporting as much as 2.5 million barrels per day.* In 1998 Iraq was the only country to increase its production of oil. This increase has allowed Iraq to become the world's swing producer—the producer that sells the last barrels into the market and thereby defines the price for the entire market.

Let me explain what allows Iraq to become the swing producer. Currently, many industry analysts estimate that worldwide oil productive capacity, that is production that could quickly be added to the world market, exceeds demand by only about 4 percent. As demand increases at a rate of 1.5 to 2 percent per year, this excess capacity is rapidly *disappearing*. Current low oil prices have decimated upstream capital development budgets by an estimated 40 percent. Simply put, without the expenditure of enormous development funds current capacity will not be expanded to keep pace with increasing demand. This is the situation we now face. As a result any country with exports matching the excess productive capacity, has the ability to be the world's swing producer. Iraq now has about three percent of the world's demand and has the ability to dramatically influence prices by either cutting or increasing its production. As demand increases and excess capacity drops, the export volume needed to drive prices will decrease. In the not too distant future—if not already—Saddam Hussein will be in the position to drive prices upward and punish consuming countries—perhaps when sanctions are lifted and all the money from Iraqi oil sales goes to him.

We submit that Iraq is using this position for its leader's own political purposes. Saddam's objectives differ from other oil producers. He wanted higher oil prices when he invaded Kuwait—money he needed to build his military forces. Now, he can't spend money to buy arms. But, he can—by keeping oil prices low—punish his enemies, first by reducing the income to Saudi Arabia, Kuwait, UAE, Iran, and all the exporting countries; second, to increase market share by driving down prices and causing critical U.S. production to be shutdown and plugged forever. Thus, while condemning the UN sanctions and thwarting efforts to deliver to his people

the humanitarian aid the sanctions purchase, Saddam is effectively manipulating the world oil markets for his own political purposes. This is where we stand today. And that is why we are here.

At issue then is what will happen next. Last week, the Secretary of Energy argued that "Iraq's ability to increase its production is limited and is not expected to go up measurably this year. As a result, EIA believes that whatever effect Iraqi production has had on prices has already occurred, because Iraq cannot increase oil production much more over the next year or two." While we agree Iraqi production has impacted prices, the statement that Iraq cannot increase production is a costly assumption that must be proven. Given that the current sanctions program continues to fund additional improvements to the oil export capabilities of Iraq, there is no certainty that exports will not increase further. In the middle of 1998 most experts believed that Iraq could not reach the export levels it is currently sustaining. Clearly, today's crude market is forcing other major oil exporting nations to develop elaborate plans to manage their production, the success of these efforts is limited by the ability of Iraq to add more oil to the market. If the current "oil-for-food" program results in further Iraqi oil production increases, it will allow Iraq to continue to hurt the other oil producing countries—Saudi Arabia, Kuwait, Venezuela, Russia, Indonesia, Mexico, and the strategically essential domestic production of the United States. If it does, the UN sanctions will continue to be fatally flawed at two levels. First, they will have failed in its primary mission to provide humanitarian aid to the Iraqi people. Second, they will have handed Saddam Hussein the victory he lost in the Gulf War.

For the United States these options reflect policies we must change. They make no sense. The world fought a war to prevent Saddam Hussein from controlling world oil prices. Now, we have—however inadvertently—handed him this ability. And, we are handing him control of the future of our domestic resources—an unbelievable policy choice. Current national policy on Iraq is faulty. Today, domestic production is at risk, while tomorrow the U.S. consumer may soon feel the shock of higher energy prices brought on by the actions of a rogue nation—a policy that hurts producers and consumers alike.

Our domestic oil production resource is our true national strategic petroleum reserve. We must value that resource. IPAA has presented an array of options for Congress to address in response to the current price crisis. With respect to Iraq we must recognize that its role in oil pricing may not have been planned, but it is now significant and it is not benign. If we fail to act in the short term, precious domestic resources will be lost forever. Then, in the longer term when Saddam shuts in production, we will not have the production needed to respond. In the past year we have lost nearly 600,000 barrels per day of domestic production, which has reduced the U.S. crude production to a level that has not been seen since 1950. Since 1986, when the last price crisis crippled the industry, domestic oil production has dropped by 2 million barrels per day. We need to act now to prevent a similar consequence from the current price crisis.

Mr. BARTON. Thank you. Seeing no other member present, the Chair is going to recognize himself for questions. And I am not going to use the clock.

I am going to ask Mr. Hall's question since he had to leave. Was anybody at TIPRO or IPAA or any other producer, maybe the API, consulted before this Oil-For-Food Program was put in place last year? Does anybody know?

Mr. TAYLOR. Not that I am aware of.

Mr. BROWN. No.

Mr. BARTON. Mr. Sieminski, do you remember?

Mr. SIEMINSKI. Well, I do talk to people at the State Department and elsewhere, but it seems to me that that program was being driven mainly out of the United Nations and some of the issues there I don't think that that domestic oil consideration has gotten a lot of attention as part of that program.

Mr. BARTON. As far as anybody on this panel knows, there was no formal attempt by the State Department or the Energy Department or the United Nations directorate to contact the production sector of the United States?

Mr. BOLE. Not at all.

Mr. BARTON. That is a fair statement.

Is there anybody on this panel that is opposed to providing in some way food and medicine for the Iraqi people?

Mr. BOLE. No.

Mr. TAYLOR. No.

Mr. BROWN. No.

Mr. SIEMINSKI. Not at all.

Mr. BARTON. So we are not in opposition to at least the publicized purpose of the program, which is to provide for basic food, nutrition and medicine and humanitarian programs.

Is it in the national interest for us not only to allow this production that is currently under way, but to give them spare parts to increase production? Does anybody think that makes sense from a national security standpoint, or even in the interests of the United States standpoint?

Mr. BOLE. Well, it makes absolutely no sense to allow Iraq to increase production, while other OPEC nations are working in concert to lower production so that we have a viable supply of oil at a reasonable price to continue development.

Mr. BARTON. Well, you all heard one of my final questions to the gentleman from the State Department. Congressman Hall and I are going to send a letter next week asking that they not go forward with the spare parts program while we review it. I would assume that you all would support that position that we, at a minimum, while we review the larger program, we at least stop the ability to increase production in Iraq.

Mr. SIEMINSKI. Absolutely.

Mr. TAYLOR. Mr. Barton, I might even go a step further and ask if you could somehow get through to them that a very minuscule amount of that money would help restructure our own industry here, and that they might consider the cost—it is bad enough that Mr. Brown and I have to plug our wells. We lose the production, and we have been taking a loss for quite a time on these. When you decide to finally plug them on top of that, you get a golden ring of about another \$5,000 or \$10,000 hit that you have to pay to plug these wells in accordance with the environmental regulations. So I would like for them to consider our industry here that you know, maybe they would consider, since they are encouraging them to dump all this oil on the market over this, for the humanitarian reasons over there, that they would consider the humanitarian reasons over here in the United States and possibly give us some of that money for our plugging costs. Maybe that will make them realize just how much oil we are losing.

Mr. BARTON. Interestingly enough, we didn't get—at least I didn't understand the State Department's answer on how much money had been collected, but I did understand that a large portion that had been collected had not been spent for food. Its label is oil for food, but in practical effect, they are paying reparations to the Kuwaiti government and they are paying for the cost of the U.N. bureaucracy, and they are paying for the cost of the inspections which are not even going on, and he upped his ante from \$900 million I think to about \$2.5 billion for food, so I would guess about half the money so far collected has gone for food. There are numer-

ous ways to get \$2.5 billion worth of food to the Iraq people without allowing the Iraqi government to produce oil.

Mr. TAYLOR. I have a tip from all the other oil producers. We would like to get on that list of helping Kuwait and the other oil countries that have gotten hurt.

Mr. BARTON. We are going to give you an opportunity, I think, to consult with the State Department, and if you want to divert the spare parts to west Texas, that is fine with me. My daughter is a teacher at South Elementary in Midland, Texas, and she has seen the negative effects of what has happened, so I don't think it would be a burden to reverse some of those parts.

Yes, sir.

Mr. SIEMINSKI. Mr. Barton, as bad as this Oil-For-Food Program seems to you today, there are two ways that it could get worse. The first one is if our policy of getting rid of Saddam Hussein were to be successful and there were a new, let's say, politically friendly regime in Iraq that somehow changed the political course over there that would allow that country to come out from under sanctions, and at that point they would be like every other producer. They would produce whatever they could economically want to do.

Mr. BARTON. Well, they would be within the OPEC cartel.

Mr. SIEMINSKI. Right.

Mr. BARTON. Which although they are now, they are being given a free ride apparently for political considerations within the Arab world. The rest of the cartel is trying to limit production, but they are not requesting even a proportionate cut of Iraqi production.

Mr. SIEMINSKI. I think the Iraqis are making the assumption that their production was held down for so long that they have a lot of catch-up to do before they are going to cooperate with their other cartel members.

Mr. BARTON. Well, they can assume whatever they want. That doesn't mean the U.S. Congress—

Mr. SIEMINSKI. Has to give it to them.

The second way that I think that again is worth more questioning, that where things could get worse is there are proposals that have been advanced on the Security Council to allow foreign investment in the Iraqi industry, even as the full sanctions are still on. There are a number of companies and countries that are eagerly awaiting the opportunity to go in and develop fields in Iraq, and one way perhaps to get at the head of that line would be to assist the Iraqis in rebuilding current facilities.

I think that you might want to look into the issue of how the Oil-For-Food Program could be structured in such a way as to delay that kind of activity, which I think would be detrimental to U.S. foreign policy, certainly as long as that regime in Iraq is in place, that there is a very definite danger that the level of Iraqi production exports could rise fairly dramatically and fairly quickly if companies were allowed to go in and make investments in Iraq, and then again, you would be back to, there wouldn't be any way—I mean if the Oil-For-Food Program were to be revamped to allow for that, it would be a considerably worse situation for domestic production here in the United States than we are looking at now.

Mr. BARTON. I understand that, and I don't advocate this, but I don't buy the argument that you have to allow this program to con-

tinue in order to keep sanctions being enforced. Because—and again I am not an advocate of this, so I don't want this to be the headline coming out of the hearing, but in a worst-case situation, the United States Air Force could bomb the oil terminals. We can enforce the ability not to let Iraq export oil very easily. Again, that is not the purpose of this, but there are ways to prevent the oil from being shipped, and we have the military ability to do that. We don't choose to act unilaterally, and I am not advocating that we should, but I don't buy the argument that we are somehow helpless in the U.N. and the world community while our domestic industry is decimated. Because it was pointed out in a question that I asked, there is no other nation that is losing permanently domestic production because of this program except the United States and perhaps to a smaller extent Canada.

If we can get the State Department's attention and the Energy Department's attention and the United Nations' attention to review this program, I assume that your trade associations would be willing to participate in a dialog about how to revamp it, is that correct?

Mr. BOLE. Yes, sir.

Mr. BARTON. There is not anybody that is opposed to that.

Mr. BOLE. Mr. Chairman, I just have one comment. Tom made a good point here a minute ago about a little financial help to the producers as our stripper and marginal production is made irrelevant by the sales of Iraq crude. A point of comparison is Wes Watkins' marginal well tax credit bill is estimated to cost only \$600 million over 10 years, compared to billions of dollars that we are funneling into Iraq. And I think there are other measures that could benefit the plight of the domestic producers when compared in dollar amounts to others are insignificant, but significant to the producer.

Mr. BARTON. Right. We know that, as a Nation, we are importing more oil than we ever have. We know what the Iraqi oil production is, and we know the number of barrels that they are exporting. We didn't ask the prior panel how much of that Iraqi oil is imported into the United States. Now, I have been told that it is about 700,000 barrels a day of Iraqi oil into the United States. Is that a number that anybody here is familiar with, or if that is the wrong number, are any of you gentlemen able to tell us approximately how much Iraqi oil is coming into the United States?

Mr. TAYLOR. Maybe that is just a sheer coincidence of the 6 to 700,000 barrels we have lost as independent producers. That would be a good number.

Mr. BARTON. I am not putting that on the record that that is a valid number, but I have been told that. Mr. Sieminski, do you know how much Iraqi oil we are importing?

Mr. SIEMINSKI. I don't have that number available right now, but I think you would get that really quick.

Mr. BARTON. Mr. Bole, do you—

Mr. BOLE. Yes. Our staff says that that number has ranged from 500, 600, 700,000 barrels and it varies on a month-to-month basis.

Mr. BARTON. So it is verifiable that not only are we importing more oil than we ever have into this country, but that between 500,000 and 700,000 barrels per day is coming from Iraq.

Mr. BROWN. Mr. Chairman, added to Mr. Smith's testimony are some graphs indicating select imports to the United States which indicates that in August Iraqi oil was in the range of 650,000 barrels, and that, from January, steadily increased upward. If you will look at, I think it is this lower chart here. It is in Mr. Smith's testimony.

Mr. BARTON. I have it right here in front of me.

Mr. BROWN. I will be glad to pass this up to you.

Mr. BARTON. No. We have it. We appreciate your offer to help the chairman do his job, but I think I have it right here in front of me.

We are going to do a number of hearings on the domestic oil and gas industry on this subcommittee this year. We are obviously going to look at this issue very closely and very skeptically based on what testimony we heard from the administration representative today.

Are there any other items? Mr. Bole, you mentioned the Watkins bill. Are there any other items that would be of immediate benefit that we should address in our hearings that you would like to put on the agenda today?

Mr. BOLE. Yes, and it is not a specific item, it is more of a question. In listening to the testimony today and the interests of you and the committee members, I am impressed by the agreement, the majority agreement here that we, as a Nation, our oil and gas-producing States are in trouble, that the Iraqi policies and other things are hurting us. But the question that I would like to have answered, not today but perhaps in the future, is if you are not from a producing oil and gas State, why should you care?

Mr. BARTON. Well, that is a dilemma that we have. If you are from a producing State or a producing region, you see the negative effect of low prices, and again, my daughter is a sixth grade social studies teacher in Midland, Texas. She has lived out there this year and she teaches in a lower-income school, and she has first-hand knowledge of people who have lost their jobs and who have been thrown out of work and children who have had to go on food stamps because their parents do not have a job. So it is a real problem. But the other side of these low oil prices is gasoline, and in my part of Texas, just south of Dallas, for 75 cents a gallon, and people get used to that.

Mr. BOLE. Yes, sir.

Mr. BARTON. Gas prices have gone back up a little bit in the last couple of weeks to about 89 cents a gallon or 85 cents, and people are complaining of price gouging. They get used to 75 cents, and of course up here it is a little bit higher. So we do have to have a very good answer to that.

The question why should Congressman Markey from Massachusetts or Congressman Pallone from New Jersey care as members of the subcommittee what is happening, and the long-term answer is national security and the best interests long term of the people of the United States of America. But we are going to have to do some research to make sure that we give a good short-term answer. I agree with that.

We have had a good hearing today. Most of our members who stayed for the hearing come from regions of the country that see the negative side of this issue. But it is not going to be easy to con-



vince a majority of the Congress and the Senate and the President to make some of these changes that I think need to be made.

Mr. BOLE. Would it be appropriate to suggest a partial answer to why they should care?

Mr. BARTON. You can—my plane doesn't leave until 4:15. I am going to have to take a personal convenience break at some time, but I will listen as long as you want to talk.

Mr. BOLE. You have a great constituency, and I will be uncharacteristically brief.

The oil and gas industry is no longer an oil and gas industry, it is an energy industry. As you know, Congress is deregulating electricity.

Mr. BARTON. We are trying to.

Mr. BOLE. We are trying to.

Mr. BARTON. This same subcommittee.

Mr. BOLE. Absolutely. And so what we are looking at is a domestic energy industry which is made up of electricity, oil, gas and all the other fuels. The utility business, and I have a background of working for the utility companies, estimates that it is going to take Pete and others to invest \$180 billion over the next 10 years in domestic drilling to allow us to grow from a 21.5 TCF market to a 30 TCF market. There are 1,300 independent power projects on the drawing boards; 1,150 are supposed to be powered by natural gas, a 3-year backlog from General Electric and General Electric's turbines to build the cogen plants.

Mr. BARTON. I am aware of them.

Mr. BOLE. The utility industry only has to invest \$40 billion to reconfigure the pipe to get this gas to the markets to fuel the power plants. They are making 15 to 17 percent return on their investment. These guys are making no money on their investment. As an industry, the Oil and Gas Journal 200 gets 6 percent return on total capital.

Now, I don't think it is going to happen that our industry is going to invest \$180 billion for a 6 percent return to get from 21 to 30 TCF.

The second thing that has happened in our business is we do a lot of transactions. We sell to Mobil, Exxon, Amoco and BP. We are seeing the major companies divest properties in the United States.

Mr. BARTON. Right.

Mr. BOLE. We have seen the total amount of sales, property sales in the 1990's go from an average of \$7 billion a year, 2 years ago, \$23 billion, last year, \$82 billion. These properties are being sold to the independents. Where are the independents going to get the money to develop these properties and continue to drill them to keep our production up to satisfy the total energy demands of the U.S. if the price of oil is at \$12 to \$14, and gas is, you know, under \$2.

Mr. BARTON. What is a reasonable price that brings some stability, yet protects consumers against price spikes, if we could somehow come up with a policy that kept oil prices within a certain range, what would that range be, so that we would have reasonable prices at the pump for our motorists, and yet enough revenue so that we could do some of the things that Mr. Bole just talked about?

Mr. BOLE. Well, I would stick my neck out and let the other guys comment, but the number that seems to be most prevalent is oil staying in the range of say \$18 to \$22 a barrel and gas closer to \$3 than \$2.

Mr. BARTON. In MCF.

Mr. BOLE. In MCF, yes, sir.

Mr. BARTON. Do you agree with that, Mr. Brown?

Mr. BROWN. My company just did a study on that to find out what would it take for us to go back out and drill for oil again. I mean right now all we do is drill for gas. But to drill for oil it would take \$22 a barrel plus in a stable market. The problem is the volatility in the market. And you have to understand that when oil prices are low, gas prices are competitive with oil; in other words, home heating oil versus natural gas. So gas gets pushed down at the same time, and it just takes revenue out of our ability to go out and drill for more oil. I am like a grocery store owner. I mean I have to restock my shelves. I am going out of business if I don't drill for oil.

Mr. BARTON. Right. Mr. Taylor.

Mr. TAYLOR. I don't know about Mr. Brown, but in our area, and I am taking in quite a bit of Texas, our lifting costs are anywhere from \$12 to \$15 a barrel, and that is not taking into consideration if you have to pull a down hole pump or your rods part, your maintenance and repairs. One of the big fields in Texas, the Kelly Snyder field, that thing produces a tremendous amount of oil and lifting costs are at \$15 per barrel.

Mr. BARTON. So we need kind of a floor at the \$15 range and it would be nice to go to the \$25, so kind of a \$10 range.

Mr. TAYLOR. Of course we get nervous when the price gets over \$20 a barrel, because this is what happens. I mean all of a sudden we realize that we are basically the stepchildren of this booming economy. Mr. Brown and I, I have four little kids I am trying to raise, and I am trying to make a living, and if I can get \$18 to \$20 a barrel, you know, I think I can do it. But if I am making less than \$15 I am losing money.

Mr. BARTON. Do any of you know what the OPEC model is for, what is their optimal target price that they shoot for in their 5-year program?

Mr. BROWN. I asked Dr. Mankin, who is in charge of the Oklahoma Geological Survey, that very question and he said that OPEC would probably shoot for something around \$17 a barrel.

Mr. BARTON. Okay.

Mr. TAYLOR. It would equate to us to be \$21. I think there is maybe \$3 between tanker charges, et cetera.

Mr. BARTON. How many wells, Mr. Taylor, that you have had an interest in have had to be plugged in the last year? That you had personal financial interest?

Mr. TAYLOR. Personal interest, I would say probably 28 to 32 percent, and then of the remaining wells that I have interest in, we continue to lose money or we shut them in. But as far as wells that have been plugged, I live on a small ranch south of Abilene, and we had 12 wells out there and they all made a barrel or two a day. And the company that was operating those wells turned them over to the pumper. Because he couldn't make any money, the pumper

just recently turned them over to a salvage company. So they pulled the pumping units off of them. They haven't plugged them yet.

Mr. BARTON. Now, if we hadn't had the collapse in prices, how many more years would those wells have produced?

Mr. TAYLOR. They have been out there for approximately 18 years and they would produce for another 10 years. Once they get down to a level of a barrel or 2 to 5 barrels a day, they will maintain that level. You have a low-fluid entry, but when you pump them for a few hours, you turn them off, you nurse those wells, you can pump them for another 10 years.

Mr. BARTON. There were substantial amounts of oil yet to be obtained if, in fact, we could have kept the wells flowing and the fact that, you know, at one time west Texas, the actual price at the well had gotten down to about \$6.50 a barrel.

Mr. TAYLOR. That is correct.

Mr. BARTON. And nobody, I mean God couldn't keep those wells going at \$6.50 a barrel for very long.

Mr. TAYLOR. In the event you have a landowner such as myself that was encouraging that operator to go ahead and continue those wells, I gave them an extension on the lease, they kept the wells shut in, but when you do that for an extended amount of time, your down hole pumps start corroding, your rods start corroding, so the equipment starts rotting and you can't keep them shut in for so long.

Mr. BARTON. Mr. Brown, you said you are principally looking at gas now, but have you had to plug some oil wells that you had an interest in in the last year?

Mr. BROWN. In my testimony I talked about 57 percent of the wells in December lost money, and one of my problems is getting the operators to plug them. They don't want to give them up, and they know they are losing money, but they just think well, the price, it is just around the corner, it is going to go back up and they are going to start making money again, but we keep losing money every month. And as I say, you can only lose money for so long.

So I think a lot of the wells that need to be plugged are yet to be plugged. We have shut a lot of them in, but at some point in time, like you said, your equipment starts to deteriorate and when you try to start it back up, it means a sizable investment, so you are better off plugging the well than spending the money trying to put it back on production.

Mr. BARTON. I am going to conclude the hearing.

I want to thank you all for coming. The issues that we are going to look at, we are going to continue to look at the Iraqi Oil-For-Food Program. We have a possibility to reauthorize the Strategic Petroleum Reserve this year in this subcommittee, we are going to look at that to use the petroleum stripper well production. I have had one suggestion from an independent in Texas that we might relax some of the antitrust rules that would allow small producers to form co-ops in which they could pool their oil for transportation at the refinery. That is not allowed under current antitrust laws. If you have any other suggestions, a number of the tax issues are not before this subcommittee's jurisdiction. They go to the Ways

and Means, but Bill Archer of Texas and Wes Watkins of Oklahoma are very interested.

Did you want to put something else in the record, Mr. Chairman?

Mr. SMITH. Thank you. Mike Smith again. One thing I forgot to mention in my testimony—

Mr. BARTON. We don't normally have witnesses want to come back.

Mr. SMITH. I know of at least one that doesn't want to come back that was on my panel. But there has been a lot of conversation about the cost to produce a barrel of oil, and the Oklahoma Marginal Well Commission, which is a State agency in Oklahoma that is in my cabinet jurisdiction, in concert with Oklahoma State University, spent about a year making an exhaustive study in Oklahoma on the true cost of producing a barrel of oil. And the average well in Oklahoma costs about \$14 a barrel simply in lifting costs. That is electric, pumper, environmental costs. That does not include if you have rods part, or you have a pump problem or any down hole problem. And no rework. It is strictly day-to-day production.

Mr. BARTON. Well, thank you. As I said at the top of the hearing, this is the first, but it is not the last. We are going to be working with the State Department on the specific issue, but we are going to look at a wide range of issues in the domestic oil and gas industry, and your input will be appreciated as we continue these hearings.

This hearing is adjourned.

[Whereupon, at 1:50 p.m., the subcommittee was adjourned.]

[Additional material submitted for the record follows:]

UNITED STATES DEPARTMENT OF STATE  
WASHINGTON, D.C. 20520  
April 16, 1999

The Honorable JOE BARTON, *Chairman,*  
*Subcommittee on Energy and Power,*  
*House of Representatives.*

DEAR MR. CHAIRMAN, thank you for your letter of April 2 concerning the recent testimony before the Subcommittee on Energy and Power by William B. Wood of the Bureau of International Organization Affairs.

Your letter requested information on revenues and disbursements under the UN Oil-for-Food program in Iraq, which is included in the attachments to this letter. As the Oil-for-Food program runs in six month phases, some of the information is presented by program phase. The material attached includes information on:

- actual Oil-for-Food sale revenues by phase;
- approved contracts from phases I-IV (12/96 to 11/98) and projected allocations in phase V (11/98 to 5/99); and
- purchases of spare parts and equipment for the Iraqi oil infrastructure from Phase IV, when the special set-aside of funds for this purpose began, to date.

With respect to these figures, it is worth noting that only two-thirds of the Iraqi oil revenue is available for humanitarian purchases.

Of the remaining funds, thirty percent goes to the United Nations Compensation Commission, which compensates those who suffered economic losses—including U.S. citizens and corporations—as a result of the Iraqi invasion and occupation of Kuwait, and the remainder goes to fund UNSCOM disarmament activities in Iraq and UN Oil-for-Food management expenses.

I hope you find this information useful. We appreciate the Subcommittee's interest in the Oil-for-Food program, which is a critical element of our Iraq policy. The program is crucial to maintaining Security Council and wider international support, including the support of other oil-producing nations, for the UN sanctions which contain Iraq's ability to threaten its neighbors while we continue our efforts for regime change. The Oil-for-Food program helps meet the genuine humanitarian needs

of the Iraqi people and our support for it reinforces the message that the United States is not against the people of Iraq-only the regime that is responsible for their plight.

Sincerely,

BARBARA LARKIN  
Assistant Secretary, Legislative Affairs

Attachments:

Tab 1: Oil-for-Food revenues

Tab 2: Oil-for-Food Contracts by phase

Tab 3: Contracts for oil spare parts and equipment

Oil-for-Food Oil Sale Revenues By Phase

Phase	Approved Oil Contracts	Barrels (million)	\$ Revenue (million)	Ave Price per Barrel
I (12/96-6/97) .....	51	121	\$2150	\$17.99
II (6/97-12/97) .....	34	127.3	\$2125	\$16.74
III (12/97-5/98) .....	52	183.9	\$2092	\$11.49
IV (5/98-11/98) .....	59	308.1	\$3040	\$9.36
V (11/98-5/99) .....	82	274.9	\$983*	
<b>TOTAL</b> .....	<b>278</b>	<b>1015</b>	<b>\$10390**</b>	

\*Sales through mid-April

\*\*One third of this total is used for UNCC and UN Oil-for-Food management operations.

Oil-for-Food Contracts by Phase

[in millions of US dollars]

Sector	Phases I-IV Approved Contracts	Phase V Projected Allocations
Food .....	3797.12	1,026
Medicine & Health .....	744	240
Water & Sanitation .....	152.25	150
Electricity .....	351.54	409
Agriculture .....	273.70	180
Education .....	115.99	100
Settlement Rehabilitation .....	41.10	40
Mines .....	2.99	9
Nutrition .....	23.92	16
Infrastructure Support .....	*	126
Oil .....	114.31	300
<b>Total</b> .....	<b>5616.92</b>	<b>2,596</b>

\*The UN did not report funding for this category

United Nations Office of the Iraq Programme

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
Denmark .....	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$1,043,090
Spain .....	Pipeline Equip & Spares .....	\$630,280
Germany .....	Pipeline Equip & Spares .....	\$189,349
Germany .....	Pipeline Equip & Spares .....	\$8,746,858
Belgium .....	Pipeline Equip & Spares .....	\$287,508
Denmark .....	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$2,270,804
Denmark .....	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$100,580
Denmark .....	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$20,139
Russian Federation .....	Pipeline Equip & Spares .....	\$976,191
Turkey .....	Pipeline Equip & Spares .....	\$8,600,426
France .....	Pipeline Equip & Spares .....	\$1,140,000
France .....	Pipeline Equip & Spares .....	\$1,283,966
France .....	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$5,000,000
France .....	Pipeline Equip & Spares .....	\$177,793
France .....	Pipeline Equip & Spares .....	\$287,622

## United Nations Office of the Iraq Programme—Continued

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
France	Pipeline Equip & Spares	\$158,930
France	Pipeline Equip & Spares	\$148,240
France	Pipeline Equip & Spares	\$98,478
France	Pipeline Equip & Spares	\$260,328
France	Pipeline Equip & Spares	\$276,606
France	Pipeline Equip & Spares	\$23,520
France	Pipeline Equip & Spares	\$72,176
France	Pipeline Equip & Spares	\$82,030
China	Tug Boats	\$9,350,000
Italy	PIPELINE EQUIPMENT & SPARES (OIL)	\$2,885,039
Italy	PIPELINE EQUIPMENT & SPARES (OIL)	\$221,100
Italy	PIPELINE EQUIPMENT & SPARES (OIL)	\$1,036,000
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$4,338,000
The Netherlands	Demulsifier	\$1,750,000
Turkey	Pipeline Equip & Spares	\$580,000
Turkey	N/A	\$226,500
China	Pipeline Equip & Spares	\$456,000
Jordan	Pipeline Equip & Spares	\$914,924
Jordan	Pipeline Equip & Spares	\$914,924
Russian Federation	Pipeline Equip & Spares	\$700,000
Denmark	OIL SPARE PARTS	\$92,298
Denmark	OIL SPARE PARTS	\$84,370
Denmark	N/A	\$193,349
Denmark	N/A	\$374,115
Turkey	OIL SPARE PARTS	\$555,606
Turkey	N/A	\$919,260
France	Pipeline Equip & Spares	\$32,960
Belgium	PIPELINE EQUIPMENT & SPARES (OIL)	\$45,323
France	Pipeline Equip & Spares	\$16,692,147
France	Pipeline Equip & Spares	\$132,288
Russian Federation	Pipeline Equip & Spares	\$383,758
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$454,800
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$1,367,800
Belgium	OIL SPARE PARTS	\$277,500
Russian Federation	STORAGE TANKS/SPARE PARTS	\$3,000,000
France	VALVE/PARTS	\$86,472
France	VALVE/PARTS	\$153,259
France	VALVE/PARTS	\$65,507
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$27,019
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$539,240
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$94,346
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$41,603
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$329,497
China	VALVE/PARTS	\$18,500
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$80,000
China	VALVE/PARTS	\$27,853
France	DEMULSIFIER	\$1,067,500
Singapore	PIPELINE EQUIPMENT & SPARES (OIL)	\$3,270,000
Turkey	PIPELINE EQUIPMENT & SPARES (OIL)	\$91,280
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$185,693
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$28,982
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$165,000
France	FIRE FIGHTING TRUCKS/SPARES	\$954,600
France	VEHICLE	\$488,000
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$95,000
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$62,910
The Netherlands	PIPELINE EQUIPMENT & SPARES (OIL)	\$50,357
Turkey	FIRE FIGHTING TRUCKS/SPARES	\$218,000
Spain	BATTERIES	\$949,980
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$945,800
China	OIL SPARE PARTS	\$133,000
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$322,839

## United Nations Office of the Iraq Programme—Continued

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
Belgium	PIPELINE EQUIPMENT & SPARES (OIL)	\$23,000
Belgium	PIPELINE EQUIPMENT & SPARES (OIL)	\$118,500
UAE	DIESEL ENGINE MOTOR SPARE PARTS	\$7,496
UAE	CABLE	\$26,500
UAE	COMPRESSOR	\$78,696
UAE	COMPRESSOR	\$62,511
Cyprus	BATTERY/ACCESSORIES	\$191,440
UAE	OIL SPARE PARTS	\$173,969
UAE	OIL SPARE PARTS	\$119,670
UAE	OIL SPARE PARTS	\$203,500
Belgium	OIL SPARE PARTS	\$347,605
Jordan	OIL SPARE PARTS	\$1,450,000
Jordan	OIL SPARE PARTS	\$166,491
Turkey	PIPELINE EQUIPMENT & SPARES (OIL)	\$160,000
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$117,765
Jordan	PIPELINE EQUIPMENT & SPARES (OIL)	\$271,585
Turkey	ELECTRICAL SPARE PARTS FOR OIL SECTOR	\$336,951
Egypt	PIPELINE EQUIPMENT & SPARES (OIL)	\$97,834
Egypt	OIL SPARE PARTS	\$186,192
The United Kingdom	PIPELINE EQUIPMENT & SPARES (OIL)	\$413,991
Cyprus	BATTERY/ACCESSORIES	\$270,686
Turkey	PIPELINE EQUIPMENT & SPARES (OIL)	\$650,100
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$158,243
China	DRILL EQUIPMENT/SPARES	\$189,872
Turkey	PIPELINE EQUIPMENT & SPARES (OIL)	\$2,115,000
Turkey	PIPELINE EQUIPMENT & SPARES (OIL)	\$173,000
Turkey	CESSPIT EQUIPMENT	\$95,230
Belgium	ROTATING MACHINE SPARES	\$261,902
Italy	PIPELINE EQUIPMENT & SPARES (OIL)	\$890,000
Jordan	AIR COMPRESSOR PARTS	\$180,000
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$418,806
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$105,190
The United Kingdom	AIR COMPRESSOR PARTS	\$176,940
The United Kingdom	PIPELINE EQUIPMENT & SPARES (OIL)	\$597,593
Jordan	PIPELINE EQUIPMENT & SPARES (OIL)	\$58,148
France	OIL SPARES FOR WASTE WATER TREATMENT	\$18,575
France	PUMP/PARTS	\$41,385
France	VALVES/PUMPS/PARTS FOR UNDERGROUND STORAGE	\$555,340
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$226,477
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$12,024
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$44,480
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$1,441,686
China	FERROCHROME LIGNOSULFONATE	\$25,024
China	OIL SPARE PARTS	\$155,000
France	OIL SPARE PARTS	\$178,132
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$1,200,000
Denmark	PUMP/PARTS	\$676,000
The Netherlands	OIL SPARE PARTS	\$209,032
The Netherlands	PUMP/PARTS	\$177,264
The Netherlands	PUMP/PARTS	\$137,847
UAE	OIL SPARE PARTS	\$73,752
Jordan	PIPELINE EQUIPMENT & SPARES (OIL)	\$10,147
UAE	WASTE WATER EQUIPMENT PARTS	\$74,952
Jordan	PIPELINE EQUIPMENT & SPARES (OIL)	\$120,000
France	OIL SPARE PARTS	\$273,176
France	OIL SPARE PARTS	\$360,473
Turkey	PIPELINE EQUIPMENT & SPARES (OIL)	\$75,558
Switzerland	PIPELINE EQUIPMENT & SPARES (OIL)	\$230,192
China	OIL SPARE PARTS	\$195,093
China	FORKLIFT	\$188,000
China	CEMENT	\$52,137
Russian Federation	PIPELINE EQUIPMENT & SPARES (OIL)	\$24,308

## United Nations Office of the Iraq Programme—Continued

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
France	OIL SPARE PARTS	\$123,625
France	PIPELINE EQUIPMENT & SPARES (OIL)	\$1,479,132
UAE	AIR CONDITIONER	\$44,250
Russian Federation	PASSENGER BOAT	\$2,650,000
France	PUMPS AND SPARE PARTS	\$77,254
France	OIL SPARE PARTS	\$85,758
France	OIL SPARE PARTS	\$119,760
France	OIL SPARE PARTS	\$135,468
France	OIL SPARE PARTS	\$50,159
China	OIL SPARE PARTS	\$25,130
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$80,779
China	OIL SPARE PARTS	\$23,272
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$106,000
China	PIPELINE EQUIPMENT & SPARES (OIL)	\$68,000
Bahrain	ZINC SULPHATE	\$69,000
UAE	PIPELINE EQUIPMENT & SPARES (OIL)	\$145,161
UAE	PIPELINE EQUIPMENT & SPARES (OIL)	\$118,000
UAE	PIPELINE EQUIPMENT & SPARES (OIL)	\$304,510
Jordan	OIL SPARE PARTS	\$103,765
Turkey	PIPELINE EQUIPMENT & SPARES (OIL)	\$212,700
UAE	PIPELINE EQUIPMENT & SPARES (OIL)	\$39,880
Russian Federation	OIL SPARE PARTS	\$162,723
The United Kingdom	OIL SPARE PARTS	\$41,987
France	OIL SPARE PARTS	\$620,000
Italy	OIL SPARE PARTS	\$75,960
Finland	OIL SPARE PARTS	\$123,643
France	MOTOR	\$130,937
Italy	MOTOR	\$376,100
Italy	OIL SPARE PARTS	\$71,731
Italy	OIL SPARE PARTS	\$61,436
Germany	OIL SPARE PARTS	\$750,319
Jordan	OIL SPARE PARTS	\$32,634
Belgium	FIRE FIGHTING CHEMICALS	\$119,150
Russian Federation	TRANSFORMERS	\$195,400
UK	LABORATORY SUPPLIES	\$18,658
Korea	FORKLIFTS	\$206,176
Finland	INSTRUMENTATION SPARES	\$25,884
UAE	GENERATOR SPARE PARTS	\$100,083
Cyprus	CABLE/SPARE PARTS	\$110,000
Belgium	FIRE FIGHTING CHEMICALS	\$313,976
Belgium	SAFETY & FIRE FIGHTING EQUIPMENT	\$29,494
Belgium	SAFETY & FIRE FIGHTING EQUIPMENT	\$11,332
Belgium	SAFETY & FIRE FIGHTING EQUIPMENT	\$60,479
Belgium	SAFETY & FIRE FIGHTING EQUIPMENT	\$45,593
Belgium	SAFETY & FIRE FIGHTING EQUIPMENT	\$150,952
Belgium	SAFETY & FIRE FIGHTING EQUIPMENT	\$90,082
Belgium	FIRE EXTINGUISHER	\$173,938
France	Seals	\$54,506
Sweden	GAS TURBINE SPARE PARTS	\$123,743
Ireland	OIL SPARE PARTS	\$78,580
Ireland	OIL SPARE PARTS	\$251,772
Ireland	OIL SPARE PARTS	\$103,220
Ireland	OIL SPARE PARTS	\$119,729
Ireland	OIL SPARE PARTS	\$393,310
UAE	COMPRESSOR	\$161,000
UAE	GENERATOR SPARE PARTS	\$50,142
China	ELECTRIC MOTORS	\$1,650
France	OIL SPARE PARTS	\$319,719
France	PUMP/PARTS	\$343,640
France	OIL SPARE PARTS	\$71,115
France	OIL SPARE PARTS	\$1,150,382
France	WATER PUMPING STATION PARTS	\$386,795



## United Nations Office of the Iraq Programme—Continued

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
France	PUMPS AND SPARE PARTS	\$412,079
France	OIL SPARE PARTS	\$54,768
France	OIL SPARE PARTS	\$105,324
France	INSTRUMENTATION SPARES	\$130,569
France	VALVE/PARTS	\$325,096
Jordan	OIL SPARE PARTS	\$526,649
Jordan	AIR COMPRESSOR PARTS	\$655,563
UAE	VEHICLE/SPARE PARTS	\$750,000
UAE	VEHICLE	\$1,404,000
UAE	AMBULANCE	\$54,000
UAE	OIL SPARE PARTS	\$619,788
Jordan	OIL SPARE PARTS	\$91,855
Jordan	INSTRUMENTATION SPARES	\$56,949
Jordan	OIL SPARE PARTS	\$66,000
Italy	PUMPS AND SPARE PARTS	\$53,524
Italy	CENTRIFUGE/SPARE PARTS	\$115,989
Italy	ROTATING MACHINES	\$123,343
Italy	INSTRUMENTATION SPARES	\$140,185
Russian Federation	SEALS	\$41,210
Russian Federation	GASKETS	\$281,129
UAE	OIL SPARE PARTS	\$163,000
China	WORK VEHICLES	\$1,179,136
France	VALVE/PARTS	\$42,713
France	PUMPS AND SPARE PARTS	\$40,346
France	AIR COMPRESSOR PARTS	\$24,908
France	MOTOR	\$14,270
Austria	PUMP/PARTS	\$221,459
Italy	FIELD INSTRUMENTATION/SPARE PARTS	\$163,242
China	FORKLIFT	\$140,250
France	OIL SPARE PARTS	\$31,206
Germany	OIL SPARE PARTS	\$508,011
France	OIL SPARE PARTS	\$167,885
UAE	VEHICLE/SPARE PARTS	\$1,180,000
Belgium	OIL SPARE PARTS	\$1,361,475
Cyprus	OIL SPARE PARTS	\$25,000
Italy	OIL SPARE PARTS	\$214,230
Belgium	OIL SPARE PARTS	\$330,000
Belgium	OIL SPARE PARTS	\$427,000
Egypt	BOILER TUBES	\$98,000
Switzerland	MOTOR	\$18,300
France*	PIPELINE EQUIPMENT & SPARES (OIL)	\$331,320
Turkey*	OIL SPARE PARTS	\$7,260
China*	PIPELINE EQUIPMENT & SPARES (OIL)	\$43,716
China*	PIPELINE EQUIPMENT & SPARES (OIL)	\$25,115
Jordan*	PIPELINE EQUIPMENT & SPARES (OIL)	\$61,666
France*	FORKLIFT/SPARES	\$2,000,000
Jordan*	OIL SPARE PARTS	\$74,602
France*	OIL SPARE PARTS	\$53,462
Jordan*	OIL SPARE PARTS	\$664,213
Jordan*	OIL SPARE PARTS	\$68,000
France*	VALVE/PARTS	\$755,650
France*	CHEMICALS	\$78,810
France*	GENERATING SETS AND PARTS	\$79,000
France*	SPARE PARTS FOR COOLING TOWER	\$138,252
Italy*	CHEMICALS	\$122,033
France*	OIL SPARE PARTS	\$112,227
China	OIL SPARE PARTS	\$1,180,000
Jordan*	CONTROL INSTRUMENTATION	\$99,363
UAE	PUMP/PARTS	\$41,152
Italy	OIL SPARE PARTS	\$297,035
UK	OIL SPARE PARTS	\$93,642
UK	OIL SPARE PARTS	\$8,387

## United Nations Office of the Iraq Programme—Continued

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
UK	SPARE PARTS FOR GLYCOL PUMPS	\$184,494
Malaysia	PIPELINE EQUIPMENT & SPARES (OIL)	\$10,299,000
Malaysia	OIL SPARE PARTS	\$5,406,000
France	ELECTRIC MOTORS	\$65,190
Russian Federation*	COMPRESSOR/PARTS	\$383,944
France*	OIL SPARES/PARTS FOR LPG FILLING PLANT	\$191,104
Russian Federation*	OIL SPARE PARTS	\$298,000
Russian Federation*	PIPELINE EQUIPMENT & SPARES (OIL)	\$596,000
France*	PIPELINE EQUIPMENT & SPARES (OIL)	\$245,911
UAE*	PIPELINE EQUIPMENT & SPARES (OIL)	\$74,355
France*	OIL SPARE PARTS	\$626,742
France*	CENTRIFUGAL PUMPING SYSTEM	\$235,460
France*	PIPELINE EQUIPMENT & SPARES (OIL)	\$25,549
Jordan*	PUMPS AND SPARE PARTS	\$605,010
Jordan*	PUMPS AND SPARE PARTS	\$188,782
Jordan*	COMPRESSOR/ACCESSORIES	\$253,516
Egypt*	TRANSFORMERS	\$42,500
Jordan*	OIL SPARE PARTS	\$212,105
Belgium*	BEARING UNITS	\$58,463
Italy*	OIL SPARE PARTS	\$8,845
France*	PIPELINE EQUIPMENT & SPARES (OIL)	\$284,200
France*	PUMP/PARTS	\$128,420
Italy*	OIL SPARE PARTS	\$312,500
Italy*	ROTATING MACHINES	\$41,877
Belgium*	BEARINGS	\$56,633
France*	PUMP/PARTS	\$252,868
France*	COMPRESSOR/PARTS; TURBINE SPARE PARTS	\$1,295,895
France*	CENTRIFUGAL PUMPING SYSTEM	\$138,850
France*	EXCAVATORS & SPARE PARTS	\$408,160
France*	OIL SPARE PARTS	\$29,419
Turkey*	OIL SPARE PARTS	\$223,150
Italy*	OIL SPARE PARTS	\$457,485
France*	PIPELINE EQUIPMENT & SPARES (OIL)	\$561,127
Turkey*	PIPELINE EQUIPMENT & SPARES (OIL)	\$110,640
Turkey*	VEHICLE/SPARE PARTS	\$65,983
UAE*	VALVE/PARTS	\$88,400
France*	ROTATING MACHINE SPARES	\$69,345
France*	PUMP/PARTS	\$111,600
France	ELECTRIC MOTORS	\$65,190
Italy	PIPELINE EQUIPMENT & SPARES (OIL)	\$49,792
France	OIL SPARE PARTS	\$146,560
France	OIL SPARE PARTS	\$228,760
France	ROTATING MACHINES	\$109,431
France	VALVES & PIPE FITTINGS	\$65,087
France	VALVE/PARTS	\$357,138
Italy	CHEMICALS	\$656,370
France	FLOW CONTROL VALVES	\$654,301
France	OIL SPARE PARTS	\$350,065
Italy	CHEMICALS	\$24,000
Russian Federation	GAS TURBINE SPARE PARTS	\$2,909,000
France*	CENTRIFUGAL PUMPING SYSTEM	\$1,454,600
Italy*	OIL SPARE PARTS	\$2,492,260
France*	CABLE	\$18,000
Italy*	GAS TURBINE SPARE PARTS	\$165,932
Italy*	ROTATING MACHINES	\$210,059
UAE*	VALVE/PARTS	\$31,580
Russian Federation*	OIL SPARE PARTS	\$1,368,712
Italy*	PUMP/PARTS	\$304,500
Italy*	OIL SPARE PARTS	\$98,660
Korea*	EXCAVATORS & SPARE PARTS	\$294,000
France*	OIL SPARE PARTS	\$568,578
UAE*	DRILL EQUIPMENT/SPARES	\$867,082

## United Nations Office of the Iraq Programme—Continued

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
France*	OIL SPARE PARTS .....	\$284,372
UAE*	VEHICLE/SPARE PARTS\$ .....	\$880,112
France*	OIL SPARE PARTS .....	\$6,725,937
Turkey*	REHABILITATION SPARE PARTS FOR IT .....	\$2118,000
China	CHEMICALS .....	\$16,618
Austria	OIL SPARE PARTS .....	\$52,122
Austria	OIL SPARE PARTS .....	\$53,510
Austria	PUMP/PARTS .....	\$11,562
Austria	OIL SPARE PARTS .....	\$14,499
Jordan	BATTERY CHARGER .....	\$10,824
Jordan	UPS .....	\$42,509
Jordan	ELECTRICAL EQUIPMENT .....	\$223,968
Italy	ELECTRICAL EQUIPMENT .....	\$166,682
Lebanon	TURBINE .....	\$1,353,767
Italy*	OIL SPARE PARTS .....	\$253,000
Italy*	PUMP/PARTS .....	\$818,900
Italy*	OIL SPARE PARTS .....	\$238,298
Italy*	SWITCH GEAR .....	\$66,060
Italy*	OIL SPARE PARTS .....	\$38,770
Jordan*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$139,425
Turkey*	REHABILITATION SPARE PARTS FOR IT2 .....	\$5,880,656
Italy*	OIL SPARE PARTS .....	\$122,400
Italy*	SPARES FOR FUEL PUMP DISPENSERS .....	\$21,155
France*	VEHICLE/SPARE PARTS .....	\$576,278
France*	VEHICLES/CREW-CAB .....	\$257,244
France*	PICK-UP TRUCKS & PARTS .....	\$153,915
France*	PICK-UP TRUCKS & PARTS .....	\$407,518
China*	TRANSFORMERS .....	\$25,000
France*	FORKLIFT/SPARES .....	\$227,748
Korea*	STREET LIGHTING BULBS .....	\$364,400
The Netherlands*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$55,126
The Netherlands*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$46,300
France*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$303,361
France	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$3,645,424
Italy*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$3,800,999
Greece*	OIL SPARES/NOZZLES FOR FUEL DISPENSERS .....	\$16,446
France*	OIL SPARES/LIGHTING FIXTURES .....	\$12,315
Turkey*	OIL SPARE PARTS .....	\$50,050
Italy*	OIL SPARE PARTS .....	\$694,300
France	PIPE FITTINGS .....	\$514,115
France	PARTS FOR LOADING ARMS .....	\$422,966
Germany	OIL SPARE PARTS .....	\$309,393
France	VEHICLE/SPARE PARTS .....	\$839,183
France	SAFETY RELIEF VALVES .....	\$58,761
Ireland	OIL SPARE PARTS .....	\$362,981
Jordan	MAINTENANCE .....	\$130,119
France	CHEMICALS .....	\$437,210
France	PIPE, CARBON STEEL .....	\$521,693
Sweden	GAS TURBINE SPARE PARTS .....	\$25,163
France	COMPLETE PUMPS WITH MOTORS .....	\$198,748
Turkey*	OIL SPARE PARTS .....	\$54,940
Russian Federation*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$330,900
Belgium*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$38,000
Jordan*	SPARE PARTS FOR DRILLING EQUIPMENT .....	\$737,671
Austria*	SAFETY & FIRE FIGHTING EQUIPMENT .....	\$118,779
France*	GAS TURBINE SPARE PARTS .....	\$15,083,472
France*	PUMP/PARTS .....	230,511.52
UK	OIL SPARE PARTS .....	\$38,613
Germany	GENERATING SETS AND PARTS .....	\$1,343,042
France*	PIPELINE EQUIPMENT & SPARES (OIL) .....	\$68,850
France*	WATER TREATMENT/SPARE PARTS .....	\$68,952
France	EQUIPMENT & MATERIALS-WET CRUDE PRODUCTION .....	\$6,105,691

## United Nations Office of the Iraq Programme—Continued

All Oil Spare Parts Contracts Approved as at 16 April 1999 under the terms of resolutions 1175 and 1210—funded under Phases IV and V of the oil for food programme

Country	Nature of Spares	Contract Value
UK	PIPELINE EQUIPMENT & SPARES (OIL)	\$45,961
UK	OIL SPARE PARTS	\$90,323
Italy	OIL SPARE PARTS	\$163,204
India*	CHEMICALS	\$119,017
Germany	STEAM BOILER/PARTS	\$582,840
Jordan	SPARE PARTS FOR ENGINES	\$198,054
Italy	MEASURING & CONTROL INSTALLATION & SPARE PARTS	\$107,345
UK	PUMPS AND SPARE PARTS	\$359,616
China*	PUMPS AND SPARE PARTS	\$83,678
Finland*	OIL SPARE PARTS	\$60,075
France	PUMP/PARTS	\$277,575
Jordan	SPARE PARTS FOR AIR COMPRESSOR	\$22,422
France	ELECTRIC MOTOR	\$57,621
France	ELECTRIC MOTOR	\$33,508
Portugal	DESLUDING EQUIPMENT	\$329,664
France	VALVE/PARTS	\$143,199
Russian Federation	OIL SPARE PARTS	\$23,005
Jordan	CRANE	\$594,000
Russian Federation	PIPE FITTINGS	\$125,173
Turkey*	TRANSFORMERS	\$104,000
Turkey	FIRE FIGHTING TRUCKS/SPARES	\$356,705
Belgium	SOLAR GAS TURBINE	\$926,852
Russian Federation*	SPARE PARTS FOR EXCITER	\$500,020
France	OIL SPARE PARTS	\$181,750
Cyprus	BATTERY CHARGER	\$47,000
Russian Federation	INSTRUMENTATION	\$217,298
Russian Federation	OIL SPARE PARTS	\$432,000
Jordan	PUMPS,COMPRESSORS AND ROTARY MACHINES	\$297,598
Turkey	AIR COMPRESSORS	\$301,148
China*	FILTERS	\$44,748
Turkey	OIL SPARE PARTS	\$27,075
France	COMPRESSOR/PARTS	\$559,386
Russian Federation	FIRE FIGHTING EQUIPMENT	\$66,500
Italy	HEAT EXCHANGERS AND PARTS	\$2,270,780
Turkey	CABLE TERMINATIONS	\$195,000
Syria	CABLE	\$312,700
France	ELECTRIC MOTORS	\$15,803
Cyprus	OIL SPARE PARTS	\$383,825
France	PUMP/PARTS	\$92,065
France	ELECTRICAL AND CONTROL INSTRUMENTS	\$62,821
France	ROTORK ACTUATORS & SPARES	\$215,323
France	OIL SPARE PARTS	\$293,280
Jordan	PUMPS AND SPARE PARTS	\$889,681
Cyprus	BATTERIES	\$302,475
Portugal	OIL	\$223,750

\*Released from hold